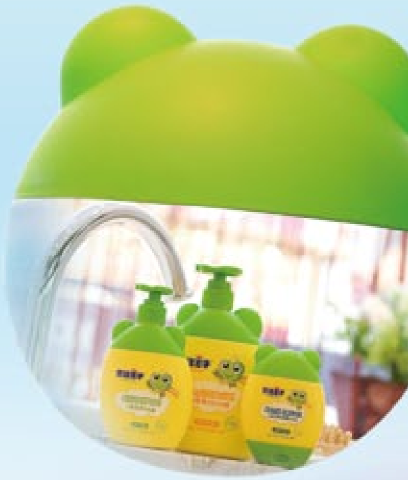
Prince Frog International Holdings Limited

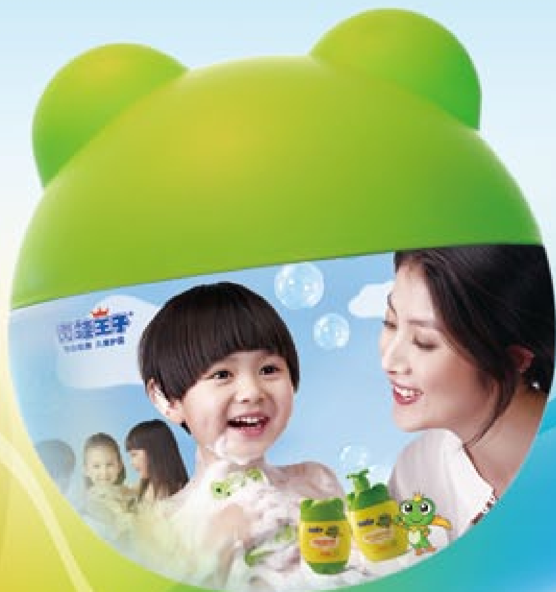
青蛙王子國際控股有限公司

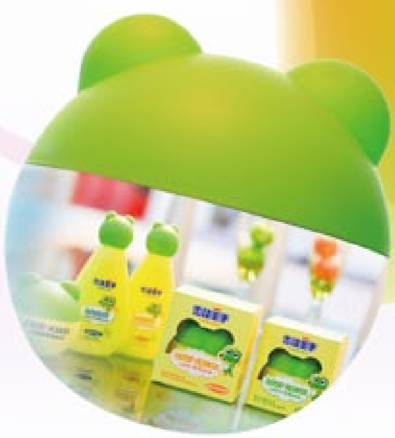
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1259

Annual Report 2011







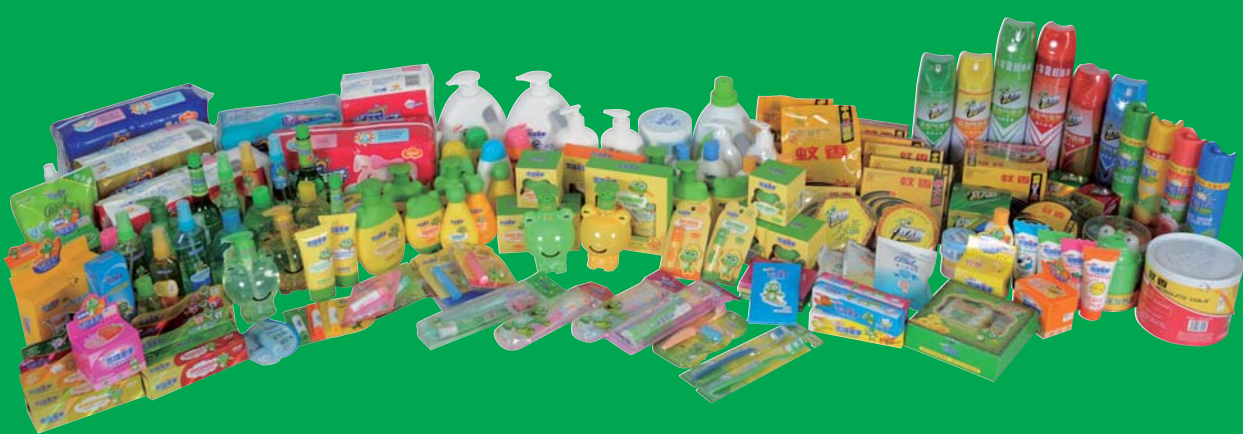
Corporate Introduction

Prince Frog International Holdings Limited (the "Company" or "Prince Frog") is a leading manufacturer and distributor of children's personal care products in Mainland China. The Frog Prince brand is well received by children with its image of health, energy and vibrancy, and is also recognized by parents for its high quality. The brand has become one of the leading domestic brands of children's personal care products in China. Leveraging on the success of the first season of the Company's Frog Prince animation series, the second season was launched and among the first batch of animations recommended by the State Administration of Radio, Film and Television.

As the economy is growing, Chinese consumers are more concerned about children's personal care products. Dedicated to producing this kind of products, the Company keeps improving its products and developing new ones that meet customers' requirements and market demand; increasing funds for research and development; strengthening collaborations with universities and research centres; stepping up advertisements on television, especially children channels, and other media such as newspapers, magazines and books; adopting unique, innovative marketing strategies and taking care of the development of Chinese children.

In addition to enhancing children's personal care products portfolio, the Company also provides baby care products, household hygiene products and adult's personal care products under its own brand names and manufacture OEM products.

Looking ahead, the Company will continue to leverage its leading position, brand recognition, established sales network, strong product development capability, high quality and increasing production capacity to capture the enormous opportunity in the emerging children care industry, developing itself into a top brand in China.

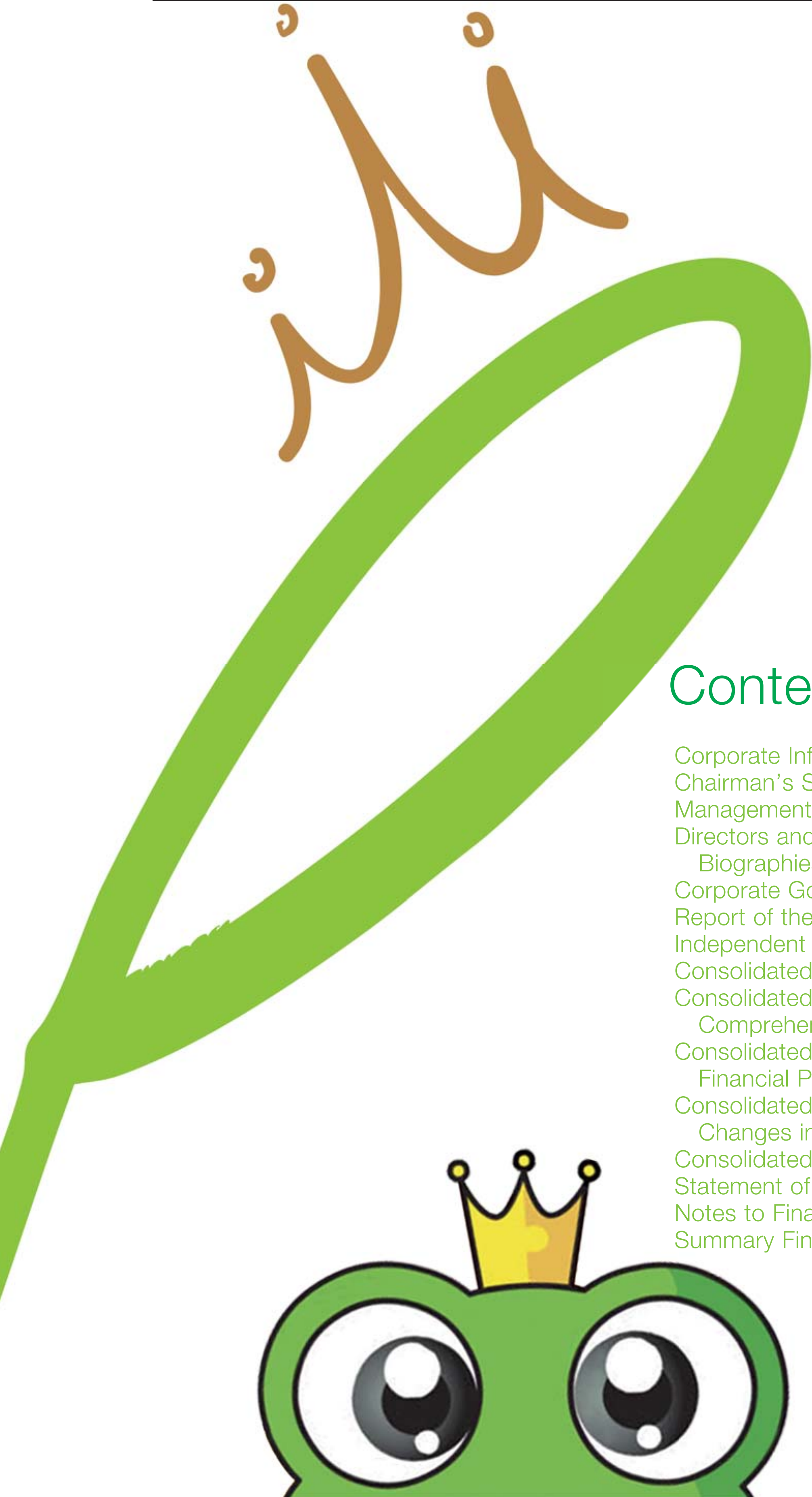


This Annual Report, in both English and Chinese versions, is available on the Company's website at www.princefrog.com.cn.

Shareholders may at any time change their choice of language(s) (either English only or Chinese only or both languages) of the corporate communications of the Company (the "Corporate Communications").

Shareholders may send their request to change their choice of language(s) of Corporate Communications by notice in writing to the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Shareholders who have chosen to receive the Corporate Communications in either English or Chinese version will receive both English and Chinese versions of this Annual Report since both languages are bound together into one booklet.



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Corporate Information

Board of Directors

Executive Directors

Mr. Li Zhenhui *(Chairman & Chief Executive Officer)*
Mr. Xie Jinling
Mr. Ge Xiaohua
Mr. Huang Xinwen
Ms. Hong Fang

Non-executive Director

Mr. Yang Feng

Independent Non-executive Directors

Mr. Chen Shaojun
Mr. Ren Yunan
Mr. Wong Wai Ming

Joint Company Secretaries

Ms. Hong Fang
Ms. So Ka Man

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in the People's Republic of China

No. 8, North Huancheng Road
Longwen Industrial Development Zone
Zhangzhou, Fujian
The People's Republic of China

Principal Place of Business in Hong Kong

Suite 602A-3, 6/F, Ocean Centre
Harbour City, 5 Canton Road
Tsimshatsui
Kowloon, Hong Kong

Board Committees

Audit Committee

Mr. Wong Wai Ming *(Chairman)*
Mr. Chen Shaojun
Mr. Ren Yunan

Nomination Committee

Mr. Ren Yunan *(Chairman)*
Mr. Chen Shaojun
Mr. Wong Wai Ming

Remuneration Committee

Mr. Ren Yunan *(Chairman)*
Mr. Li Zhenhui
Mr. Wong Wai Ming

Principal Banker

Agricultural Bank of China Limited
Zhangzhou Branch

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Compliance Adviser

CIMB Securities (HK) Limited
Units 7706–08, Level 77
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Auditors

Ernst & Young

Stock Code

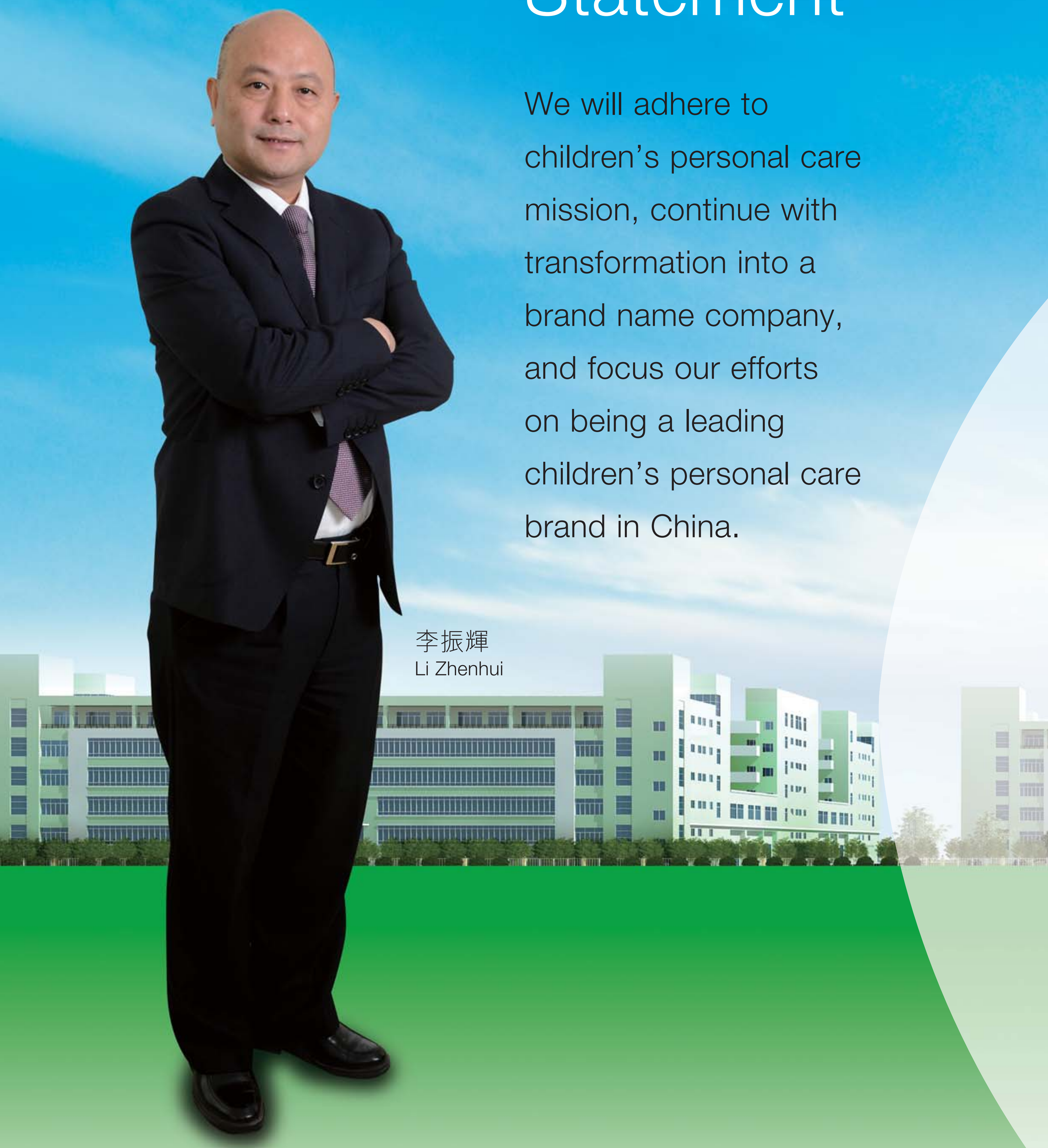
1259

Company Website

www.princefrog.com.cn

Chairman's Statement

We will adhere to children's personal care mission, continue with transformation into a brand name company, and focus our efforts on being a leading children's personal care brand in China.



李振輝
Li Zhenhui

Chairman's Statement

On behalf of the board of directors (the "Board") of Prince Frog International Holdings Limited ("Prince Frog" or the "Company" and, together with its subsidiaries, the "Group"), I would like to present the financial results and operating performance of the Group for the year ended 31 December 2011.

2011 results and achievements in line with expectations

For the year ended 31 December 2011, the Group's operating revenue amounted to RMB1,269.2 million, representing an increase of 51.5% from the corresponding period in 2010. Gross profit rose by 66.5% year-on-year to RMB537.7 million. Profit attributable to the equity holders of the Company totaled RMB183.9 million, representing an increase of 27.3% from the corresponding period in 2010. Basic earnings per share were RMB21.2 cents. The proposed dividend payout was HK4.5 cents (approximately RMB3.6 cents) per share.

Time flies and Prince Frog has gone through 17 years of growth from a tadpole to a frog. Our efforts during all these years have finally paid off. 2011 was a year of leaps and bounds for the Company. On 15 July 2011, the Company completed a successful listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), raising a total of HK$646.0 million. Since then the stock has received positive response from the market, which shows that Prince Frog's dedication to the children's personal care industry over a decade is widely recognized by investors.

Adopting a transformational strategy and striving to become a leading children's personal care brand

Since its establishment, Prince Frog has adhered to its belief in children's personal care and strived to provide the highest quality and the most thoughtful products for Chinese children. It's aim is to become a leading children's personal care brand in China. Currently, the Group offers skin care, shampoo and bath products, oral care products, diapers and other products that meet the needs of all babies and children. The first two seasons of the Frog Prince animation series, in which the Company had heavily invested, successfully projected the image of the Frog Prince among children. In the second half of the year, the Company stepped up its promotion efforts in various respects, including placing TV commercials on seven satellite channels and provincial channels during prime airtime. In December 2011, Prince Frog engaged Asian celebrity Kelly Chen as its spokesperson, giving a boost to its brand development. Frog Prince not only wins children's hearts with its healthy, energetic and lively cartoon characters, but also impresses people with its natural, mild and good quality brand image, gaining the trust and recognition of mothers. The third season of the Frog Prince animation series is on its way. We will hire a top-notch production team to design new stories and new characters for this season, which is expected to spark off a new round of Frog Prince rage when it is launched in early 2013.

Further expanding sales channels and integrating old and new channels

Looking ahead, we will aim higher, striving to establish our presence all over the country and to become a renowned, high-quality brand. In our successful expansion of sales channels, we entered hypermarkets in first-tier cities in 2011 to enhance our influence, and strengthened our hold on markets in second, third and fourth-tier cities to consolidate our market position. We also further diversified our channels to include small shops in both urban and rural areas. We plan to optimize the capabilities and structure of the existing 185 distributors in the coming year. With extensive sales channels in the second and third-tier cities coupled with strong promotion of our brand in the first-tier cities, our future prospects will be most promising.

Acknowledgements and outlook

Prince Frog would not have become so successful today without the support of the government, distributors, employees and the community. We will remain thankful for each of the coming years ahead and spare no effort in growing our business. We look forward to attaining more accomplishments, in conjunction with you all. 2012 will be another year of new achievements for Prince Frog. We will adhere to our children's personal care mission, continue with our transformation into a brand name company, and focus our efforts on being a leading children's personal care brand in China.

Chairman

Mr. Li Zhenhui

28 March 2012


青蛙王子®
Care For Children
Prince Frog Children Body and Hair Care Series


Spokesperson: Kelly Chen
青蛙王子
SHAMPOO
青蛙王子
HAIR & BODY WASH
儿童营养洗发沐浴露
青蛙王子
LOTION
LOTION
BABY CREAM
青蛙王子
中国驰名商标
BABY CREAM
儿童维C营养润肤霜
Nourishing &
Mild Hypoallergenic
青蛙王子
中国驰名商标
BABY CREAM
儿童补水柔嫩润肤霜
Nourishing &
Mild Hypoallergenic

Management Discussion and Analysis

The Company's listing in Hong Kong in July 2011 marked an important milestone in its 17 years of development and turned a new page in the Company's history. In 2011, the Company leapfrogged into a new cycle of high growth and received a number of awards:

- Prince Frog received the "2011 Jingzheng Golden Service Award in the Pregnancy, Babies and Children Product Category";
- The Company's children's personal care products were selected as the official gift in the 2011 China Light Industry Gifts Show;
- The Company's children's personal care products received the "Most Popular Products Award" in the 2011 China Light Industry Gifts Show;
- The Company's children's personal care products received the "Innovative Technology Award" in the 2011 China Light Industry Gifts Show;
- The Frog Prince brand of products passed the tests of an authoritative inspection institute in China and were displayed at the "Well-known Brands of Products with stable quality in Compliance with National Supervision and Inspection Standards" exhibitions;

- The Frog Prince brand was named one of the 2011–2013 Prioritized International Brands for Cultivation and Development in Fujian Province; and

- The animation of "Frog Prince — Croaking Expedition" was named one of the Outstanding Domestic Animation Series in 2010 by The State Administration of Radio, Film and Television.

Business Review

For the year ended 31 December 2011, the Group recorded a revenue of approximately RMB1,269.2 million, representing a growth of 51.5% over the RMB838.0 million for the corresponding period in 2010. Gross profit margin increased by 3.9 percentage points to 42.4% as compared to the 38.5% in 2010. Profit attributable to the equity holders of the Company grew by 27.3% to approximately RMB183.9 million (RMB144.5 million for the year ended 31 December 2010). Revenue of children's personal care products under the Frog Prince brand recorded speedy growth of 71.3% over the same period in 2010, mainly attributable to our profound understanding of consumers' needs, our wide variety of children's personal care products, penetration into new markets and introduction of new products. As development of China's economy accelerated, domestic consumption had obviously become an important driving force of economic growth. The Company benefited from the further increase in people's disposable income, as well as the change in the spending patterns of Chinese families, the implementation of the one-child policy and the latest baby boom. Moreover, the first phase of the Group's new industrial park commenced operations in May 2011, increasing the production capacity of moisturizing lotion, and bath and shampoo products by three and six times respectively. The released production capacity will further promote the growth of the Frog Prince brand of products. As set out in the prospectus of the Company dated 30 June 2011 (the "Prospectus"), Phase II of the new industrial park will be used as an office building and a production base for oral care products. The initial geological exploration of Phase II has been completed with the construction plan pending approval. The Phase II construction project is expected to commence in the third quarter of 2012 and to be completed for production in the third quarter of 2013. To meet production and operation needs, Phase III of the new industrial park, which was planned for the manufacturing of baby diapers, training pants and wet wipes, will instead be developed into a warehousing and logistics centre as well as a staff accommodation building. The production base for baby diapers, training pants and wet wipes will be established on another site of the Company with an expected annual capacity of 500 million pieces each in 2013. The total capital expenditure for Phase II, Phase III and the new plant for paper products will remain unchanged.

Sales Network

Through distributors, the Group sells its products at points of sale such as supermarkets and convenience stores in different provinces, autonomous regions and municipalities across China. In response to the shifting landscape of the end markets in the retail industry, the Group leveraged its leading market position and strong brand image in second, third and fourth-tier markets to actively expand into first-tier markets. The Frog Prince brand of personal care products are now sold in major supermarket chains in Beijing, Shanghai and Shenzhen. The Group believes that revenue contribution from major supermarket chains as a percentage of the total revenue will continue to grow.

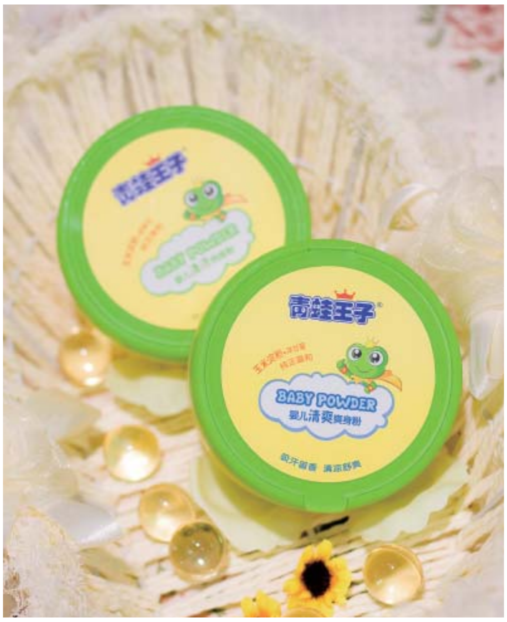
During the year of 2011, the Group continued to enlarge and enhance its distribution network. The number of distributors increased from 160 in 2010 to 185 as of 31 December 2011. The Group continued to (i) optimize distributor effectiveness and replace those that are unable to cope with the Group's sales and distribution strategies; (ii) provide distributors with human resources support and training to enable their development of secondary distribution networks and points of sale; (iii) provide marketing and sales skills training and assist distributors in organizing marketing and promotion campaigns to boost revenue. The Group believes that expanding and strengthening the sales network in China will not only raise the brand awareness of the Group but also drive up its revenue and profit.

Brand Building

Building on a leading brand, the Group continued to strengthen the brand image of the Frog Prince brand in 2011.

The Group signed up one of Asia's most popular artists, Kelly Chen, as the spokesperson for the Company in December 2011 to lead the Frog Prince brand into a new era of development. Kelly is well-known for her commitment to charitable causes and her love of children, which matches well Frog Prince's brand positioning with its focus on specialized children's personal care products. Looking ahead, Prince Frog will leverage the advantage of Kelly as its spokesperson to launch a new advertising campaign through print, TV, billboard, the metro, automobile wraps, points of sale display and online media, as well as a series of marketing initiatives. We believe collaboration with such an influential artist will enable a big leap in Frog Prince's brand development.

In 2011, the Group also used the Frog Prince animation series and TV advertisements as promotion strategy. Following the successful launch of the second season of "The Frog Prince — Croaking Expedition" on CCTV Children's Channel and Jiangsu Satellite TV Animation Channel in 2010, the series was broadcast on 28 satellite TV channels all over the country during the summer holiday of 2011 and was very popular with children. Given the importance of the animation series as a means of brand promotion, the Group has commenced the production of the third season of The Frog Prince. It has engaged renowned animation production crews to produce the series and famous TV hosts to do the voice acting.



2012 is the Year of the Dragon and the Company will promote online sales to tap into the Dragon baby boom. Coupled with the existing physical sales network, the Group will further strengthen brand penetration and expand its sales channel. Meanwhile, the Group also plans to step up marketing efforts for its products on TV and online by placing advertisements on TV and in magazines targeting parents and making use of online sales platforms and parent and children exchange platforms. In addition, the Group will continue to launch in-store promotion and sales to increase the visibility of the brand.

The Group believes that increasing its brand awareness effectively and efficiently in China will help promote and distribute the Group's existing and new products.

Quality Control and Research and Development ("R&D")

The Group places great emphasis on product quality and safety. During the year, the entire portfolio of the Group's babies' and children's personal care products and household hygiene products not only complied with relevant national standards in China but also passed safety and compliance tests under the Cosmetics Directive in the European Union for cosmetics products. The Group has formed a dedicated team to carry out stringent quality control in procurement of raw materials and packaging materials. The Company has also imposed stringent internal control measures to strengthen communications between qualified supervisors and the production and sales departments to ensure that products are in compliance with the latest industrial standards.

To strengthen its R&D capability, the Group set up a new R&D centre in Shanghai equipped with top-notch testing facilities. Technical experts were also recruited to enhance the R&D capability for babies' and children's personal care products. The centre commenced operations in October 2011. Moreover, the Group will continue to increase investment in R&D and cultivate closer collaboration with universities in China. The Group has signed a product development agreement with South China University of Technology to optimize the preservatives formula which in turn will enhance product safety.

Social Responsibility

The Company proactively participates in charitable activities and carries out its corporate social responsibility. It sponsored a number of charity events such as art performances and singing contests. The "Frog Prince" fairy tale musical went on a charitable tour in Zhangzhou. The Company is well aware of the very close ties between enterprise and community forming as an integral whole. The macro-environment has direct impact on the development of the enterprise. For long term development, the Company will continue to carry out its social responsibility and provide care for the community. With the support of the local CPC Committee and City Government, the Company founded the "Frog Prince Youth Academy of Performing Arts" — the only youth arts training organization in Zhangzhou that has an affiliated media promotion platform to provide a stage to perform for children and young people with talent in the arts and a dream.

In 2011, the Company exclusively sponsored the charitable fairy tale musical, "Moon Fairy and the Duludidu Farm", performed by "Sister YueLiang" who is most liked by kids in China. The musical was staged in the National Centre for the Performing Arts in Beijing on 16 and 17 March 2012. The musical releases the imagination of children and tells about an adventure to the moon and the realization of dreams from the perspective of children. The musical applies stage settings and techniques such as large movable backdrops, exaggerated dolls, well-designed and humourous special effects and smooth interaction with the audience to create fascinating scenes and feature the theme "Hard work makes dreams come true". Free tickets were offered to various underprivileged groups — schools for migrant workers' children, representatives of prisoners' and migrant workers' children, children in welfare organizations, children suffering from burns and representatives of the orphans from earthquake stricken Yushu — so that they could experience the love and the power of dreams through the musical, sowing seeds of dream and hope in their disadvantaged life.

Use of Net Proceeds From the Company's Initial Public Offering

The Company was listed on the Main Board of the Stock Exchange on 15 July 2011. The net proceeds from the Company's issue of new shares after deducting underwriting commissions and related expenses amounted to approximately HK$646 million (approximately RMB536 million).

	Planned amount per Prospectus HK$ million	Actual net IPO proceeds HK$ million	Amount utilised up to 31 December 2011 HK$ million	Balance as at 31 December 2011 HK$ million
Strengthening the marketing and promotion, expanding and strengthening management of sales networks and channels	285.5	258.4	107.7	150.7
Expanding and enhancing production facilities and capacities	214.1	193.8	49.4	144.4
Expanding products offerings	107.1	96.9	0.4	96.5
Enhancing research and development capabilities	35.7	32.3	2.7	29.6
Working capital and other general corporate purposes	71.3	64.6	24.4	40.2
Total	713.7	646.0	184.6	461.4

Financial Review

For the year ended 31 December 2011, revenue of the Group significantly increased to approximately RMB1,269.2 million, representing a 51.5% increase from approximately RMB838.0 million for the year ended 31 December 2010. Revenue of children's personal care products for the year ended 31 December 2011 significantly increased by 71.3% to approximately RMB917.6 million (31 December 2010: RMB535.7 million). Revenue of household hygiene products for the year ended 31 December 2011 increased by 1.7% to approximately RMB183.0 million (31 December 2010: RMB180.0 million). Revenue of sales of other goods including OEM products increased by 37.8% to approximately RMB168.5 million this year (31 December 2010: RMB122.3 million). The growth was mainly due to (i) the expansion of the Group's distribution network, with the number of distributors increased to 185 as of 31 December 2011; and (ii) the increased brand recognition through animation series, commercials and in-store activities and new products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year ended 31 December 2011 increased by 66.5% to RMB537.7 million (31 December 2010: RMB322.9 million). During the year under review, gross profit margin increased 3.9 percentage points to 42.4% compared to the previous year (31 December 2010: 38.5%).

Selling and Distribution Costs

Selling and distribution costs primarily represented advertising expenses, marketing and promotion expenses, transportation costs, sales staff costs and other selling and distribution expenses. Selling and distribution costs increased by 83.7% from RMB130.8 million for the year ended 31 December 2010 to approximately RMB240.3 million for the year ended 31 December 2011, which was primarily due to the Group's continuous efforts in enhancing brand awareness through marketing activities including television commercials and other promotional activities as well as increased investments in effecting talents. As a percentage of sales, selling and distribution costs accounted for 18.9% of the Group's revenue for the year ended 31 December 2011, a 3.3 percentage points increase as compared to 15.6% for the year ended 31 December 2010.

Administrative Expenses

Administrative expenses primarily consisted of salaries and wages to our administrative staff, depreciation, other taxes and surcharges and other administrative expenses. For the year ended 31 December 2011, administrative expenses amounted to approximately RMB79.4 million (31 December 2010: RMB23.6 million). The increase in administrative expenses was mainly due to the professional expenses related to the listing of the Company's shares and the increase in salaries and staff welfare expenses. As a percentage of revenue, administrative expenses accounted for 6.3% of the Group's revenue for the year under review (31 December 2010: 2.8%).

Finance Costs

For the year ended 31 December 2011, finance costs increased to approximately RMB4.4 million from RMB1.6 million in 2010. This was mainly due to the increase in interest-bearing bank loan throughout the year and the increase in bank interest rate in China.

Net Profit and Net Profit Margin

For the year ended 31 December 2011, profit attributable to equity holders of the Company amounted to RMB183.9 million, representing an increase of 27.3% as compared to last year (31 December 2010: RMB144.5 million). During the year under review, net profit margin decreased by 2.7 percentage points to 14.5% (31 December 2010: 17.2%) with basic earnings per share being RMB21.2 cents (31 December 2010: RMB19.3 cents).

Capital Expenditure

For the year ended 31 December 2011, major capital expenditure of the Group amounted to RMB66.4 million, including that incurred in the construction of the first phase of the new plant at the new industrial park in Longwen Industrial Development Zone, Zhangzhou, Fujian Province.

Financial Resources and Liquidity

As at 31 December 2011, cash and cash equivalents as well as deposit of the Group amounted to RMB735.6 million (31 December 2010: RMB72.3 million). Current ratio was 6.5 (31 December 2010: 1.3) while gearing ratio (interest-bearing bank borrowings to equity) was 3.2% (31 December 2010: 10.8%).

Trade and Bills Receivables Turnover Days

During the year under review, trade and bills receivables turnover days came to 21.9 days, calculated as the average of the beginning and ending trade and bills receivables balances for the year divided by revenue for the year and multiplied by 365 days.

Trade and Bills Payable Turnover Days

During the year under review, trade and bills payable turnover days came to 28.6 days, calculated as the average of the beginning and ending trade and bills payable balances for the year divided by cost of sales for the year and multiplied by 365 days.

Inventory Turnover Days

During the year under review, inventory turnover days came to 27.3 days, calculated as the average of the beginning and ending inventories for the year divided by cost of sales for the year and multiplied by 365 days.

Bank Borrowings

As at 31 December 2011, short-term bank loans of the Group amounted to RMB30 million (31 December 2010: Nil). As at 31 December 2011, the Group had no long-term bank loans (31 December 2010: RMB15.8 million).

Risks of Foreign Exchange

As at 31 December 2011, the Group was not exposed to any major risks of foreign exchange fluctuations and new foreign exchange forward contracts have been signed to hedge against foreign exchange fluctuations.

Contingent Liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities (31 December 2010: Nil).

Pledge of Assets

As at 31 December 2011, the Group's building and leasehold land with net carrying amounts of approximately RMB62.0 million (2010: Nil) and RMB15.4 million (2010: Nil), respective were pledged to secure certain banking facilities granted to the Group.

Significant Investments Held and Material Acquisition

Save for the undertaking of the reorganization in preparation for the listing of the Company's shares on the Stock Exchange as more particularly described in the Prospectus, the Group did not have any significant investments, material acquisition or disposal of subsidiaries or associations for the year ended 31 December 2011.

Future Prospects

The Group will continue to leverage its branding to further expand its distributors' sales network. It will penetrate deeper into second, third and fourth-tier cities while setting its foothold in first-tier markets in order to strengthen its presence and promote its brand.

In response to the changing needs and spending patterns of consumers, the Group will expand its product portfolio and diversify its product strategy to enhance customer loyalty. The Group plans to launch a high quality and high end product line that targets international and major domestic supermarket chain customers. The Group will also step up the promotion of oral care products and widen the range of babies' personal care products. It will also strengthen marketing and sales of such products.

The Phases II & III of the Group's production plant will commence construction and are expected to come into operation in 2013. The Group believes that the expanded production area, the installation of advanced equipment and the establishment of new production lines will significantly increase the production capacity of skin care, bath and shampoo, and oral care products to meet the market demand.

2012 will be a year when Prince Frog sets off from a fresh starting point in the Company's history to achieve new heights. As a leading company in China in children's personal care product manufacturing, we are presented with enormous opportunities brought about by the fast expansion of China's domestic market. Also, the Group is looking for acquisition opportunities, which help the Company consolidate the advanced resources in child-care industry. We are committed to aiming higher, creating the best results and good returns for our shareholders with our mission and passion of being a leading manufacturer focused on children's personal care products.

Directors and Senior Management Biographies

DIRECTORS

Executive Directors

Mr. Li Zhenhui (李振輝), aged 52, a founder of the Group, is the Chairman, Chief Executive Officer and an executive director of the Company. He is also a member of the Remuneration Committee of the Company. Mr. Li is mainly responsible for the overall management, strategic planning and business development of the Group. Mr. Li has over 16 years of experience in personal care products industry of China gained from his work in the Group. Mr. Li founded the children's personal care products brand of "青蛙王子 (Frog Prince)" in 1999 and has focused his efforts on developing children's personal care products since then. Mr. Li was the vice president of "Brand Alliances" of the 14th and 15th China Beauty Expo (Shanghai CBE) (第14、15屆中國美容博覽會(上海CBE)「品牌聯盟」副主席). Mr. Li was appointed as the president of Fujian Daily Chemicals Import and Export Association (福建省日用化學品進出口商會) in June 2010. Mr. Li has also been recognized with several awards and recognitions, including "Exceptional Entrepreneur" (功勳企業家) of China beauty chemicals in 2004 and "Ten New Economic Hero of West-Straits" (十大海西新經濟英雄) by Straits City Daily (海峽都市報) in January 2010. Mr. Li attended the EMBA program of the Finance and Securities Research Institute of the Central University of Finance and Economic (中央財大金融證券研究所EMBA), a long distance training course, and received a diploma in 2004. He also received a senior economist certificate as approved by Fujian provincial Personnel Department (福建省人事廳) in 2007. Mr. Li is the sole shareholder and director of Zhenfei Investment Company Limited (a substantial shareholder of the Company) and the director of Prince Frog International Company Limited (a wholly-owned subsidiary of Zhenfei Investment Company Limited and a substantial shareholder of the Company).

Mr. Xie Jinling (謝金玲), aged 53, a founder of the Group, is an executive director and a vice general manager of the Company. Mr. Xie has over 16 years of experience in personal care products industry of China gained from his work in the Group. He is mainly responsible for production management of the Group, including procurement and production. He received a high school diploma in 1976. Mr. Xie is the sole shareholder and director of Jinlin Investment Company Limited (a substantial shareholder of the Company) and the director of Prince Frog International Company Limited (a substantial shareholder of the Company).

Mr. Ge Xiaohua (葛曉華), aged 42, is an executive director and a vice general manager of the Company. Mr. Ge has over 10 years of experience in the domestic sales and marketing and has played a key role in the marketing and brand development of the Company. He joined the Group in January 2002 and is responsible for the Group's domestic marketing and sales. Prior to joining the Group, he worked for Nanjing Phosphate Fertilizer Factory (南靖磷肥廠) from March 1991 to August 1997, for Fujian Fulong Biological Products Co., Ltd. (福建福龍生物製品有限公司) from September 1997 to February 1999 and for Zhangzhou Ge Laiya Cosmetics Co., Ltd. (漳州格萊雅化妝品有限公司) as a manager from March 1999 to December 2001. He received a diploma in chemical technology from Fujian Chemical School (福建化工學校) in 1988 and a diploma in economic management from the Correspondence School of Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in 1997. He also received an assistant engineer certificate approved by Zhangzhou Bureau of Personnel (漳州市人事局) in 1994.

Mr. Huang Xinwen (黃新文), aged 45, is an executive director and a vice general manager of the Company. Mr. Huang has about 7 years of experience in the international sales and marketing and has played a crucial role in the strategic development and international brand marketing of the Company. He joined the Group in May 1995 as a part time manager of the equipment division and formally joined the Group as a full-time manager of the international division in March 2003. In August 2004, he was appointed as the manager of the international trade department of the Group, and was appointed as the vice general manager of the Group in October 2006 responsible for the Group's international trade. Prior to joining the Group, he once served at the production department of an aluminum container company in Zhangzhou City, Fujian Province. He received a diploma in light industry machinery from Longxi Area Technical School (龍溪地區工業學校) in 1986.

Ms. Hong Fang (洪芳), aged 35, is an executive director, the Chief Financial Officer, one of the joint company secretaries and a vice general manager of the Company. Ms. Hong has over 11 years of experience in auditing, accounting, financial control and financial management. She joined the Company in March 2010 and is responsible for the overall financial, accounting and secretarial affairs of the Group. Prior to joining the Company, she served as an accountant and an assistant manager with KPMG in Beijing from August 1999 to March 2004. From March 2004 to March 2007, she worked at Yunnan Phosphate Fertilizer Plant Company Limited as chief financial officer. From October 2007 to December 2009, she was a manager with KPMG Consulting (China) Co. Ltd., and she was recognized as "2009 KPMG People Management Leader". She graduated from Beijing University of Chemical Technology with a bachelor degree in accounting in 1999.

Non-executive Director

Mr. Yang Feng (楊鋒), aged 35, was appointed as a non-executive director of the Company on 18 February 2011. Mr. Yang has over 12 years of experience in investment and finance. From 1999 to 2001, he worked at the Shenzhen Customs. From 2001 through 2006, he worked at the International M & A department of Xiangcai Securities Co., Ltd. and was responsible for the provision of financial advisory services. He also worked at TPG Growth Capital (Asia) Ltd. from May 2007 to August 2007. From 2008 to June 2010, he held the position as the managing director of PPF Hong Kong Limited, a subsidiary of PPF Financial Group mainly engaged in the group's strategic investment in China. He currently serves as a director at CCB International Asset Management Limited responsible for the direct investment activities. Mr. Yang is also a director of Prince Frog International Company Limited (a substantial shareholder of the Company). He received a bachelor degree in accounting from Zhongnan University of Economics and Law in 1999 and a master degree in finance from Shanghai University of Finance and Economics in 2005. Then he received a master degree in business administration (MBA) from the business school of Hong Kong University of Science and Technology in 2008, with an exchange study at Columbia Business School in New York.

Independent Non-executive Directors

Mr. Chen Shaojun (陳少軍), aged 60, was appointed as an independent non-executive director of the Company on 18 February 2011. He is also a member of both the Audit Committee and the Nomination Committee of the Company. He once worked as the chief of the Industry Guidance Department Office at the former Ministry of Light Industry and the senior vice manager and the chief of the administration division at China Everbright (Group). He is currently the president of China Association of Fragrance Flavour and Cosmetics Industry. He studied at Mianyang Branch School of Tsinghua University (清華大學綿陽分校) from March 1975 to September 1978, and then attended the postgraduate economic management program for leaders of the Correspondence School of Party School of the Central Committee of C.P.C. (中共中央黨校函授學院領導幹部在職經濟管理研究生班) from September 1996 to July 1999.

Mr. Ren Yunan (任煜男), aged 36, was appointed as an independent non-executive director of the Company on 18 February 2011. He is also the chairman of both the Nomination Committee and the Remuneration Committee and a member of the Audit Committee of the Company. From 2004 to 2007, he served as a senior lawyer at Clifford Chance and Skadden, Arps, Slate, Meagher & Flom LLP. From 2007 to 2008, he worked at Lehman Brothers Asia Limited as a vice president in China investment banking team. From 2008 to 2010, he worked at UBS Investment Bank in Hong Kong as an executive director. From 2010 to March 2012, he served as the president of Bicon International (HK) Limited, an investment holding company investing in PRC pharmaceutical business. He was appointed as an independent director and the chairman of audit committee of SearchMedia Holdings Limited (a company listed on New York Stock Exchange AMEX; stock code: IDI) in February 2012. He graduated from Peking University with a bachelor degree in law in 1997 and received a master degree in law from Harvard Law School in 1999. He is also qualified with the New York State Bar and the Hong Kong SAR Bar.

Mr. Wong Wai Ming (黃偉明), aged 39, was appointed as an independent non-executive director of the Company on 18 February 2011. He is also the chairman of the Audit Committee and a member of both the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong has over 15 years of experience in accounting and finance. From 1994 to 1996, he served as a staff accountant at Moores Rowland. From 1996 to 2001, he served as staff accountant and audit manager at Ernst & Young. Then he joined Kin Yat Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 638) in September 2001 and worked as an executive director and a finance director from 2007 to 2010, during which he was primarily responsible for the management of the finance and accounting department and monitoring and maintaining compliance with relevant rules, regulations and ordinances applicable to the group companies. Currently, he is chief financial officer of Baofeng Modern International Holdings Company Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1121). He studied professional accountancy in The Chinese University of Hong Kong from 1990 to 1994, and received a bachelor degree in business administration with honours in 1994. He is a fellow of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants.

JOINT COMPANY SECRETARIES

Ms. Hong Fang (洪芳). Please refer to the paragraph headed "Executive Directors" above for Ms. Hong Fang's biography.

Ms. So Ka Man (蘇嘉敏), aged 38, was appointed as one of the joint company secretaries of the Company on 18 February 2011 and an alternate authorized representative of the Company on 22 June 2011. She is a manager of corporate services at Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. Ms. So does not work for the Company on full-time basis. Ms. So is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many listed companies for about 11 years.

SENIOR MANAGEMENT

Mr. Liu Longping (劉龍平), aged 33, is the sales manager of the children care products division of the Company. Mr. Liu has more than 10 years of experience in sales and marketing. He joined the Group in February 2001 and is responsible for marketing of the children's personal care products of the Group. He received a diploma in foreign economy and financial accounting from Fujian Quanzhou Cishan Finance School (福建泉州慈山財經學校) in 1998 and received a diploma in human resource management from Fujian Agriculture and Forestry University (福建農林大學) in 2007.

Ms. Han Xinbin (韓新彬), aged 33, is the production manager of the Company. Ms. Han has nearly 10 years of experience in the children's daily chemicals industry of China. She joined the Group in October 2001 and is primarily responsible for management of the production and logistics of the Group. Prior to joining the Group, she worked for Fujian Longxi Instrument Meter Factory (福建龍溪儀錶廠) from 1996 to 1998. Ms. Han received a diploma in accounting from Xiamen University in 2000.

Mr. Wen Wenzhong (溫文忠), aged 44, is the manager of the research and development department of the Company. Mr. Wen has over 21 years of experience in the research and development of children care products. He joined the Group in May 2005 and is responsible for research and development of our children's personal care products and the management of quality control. Prior to joining the Group, he served as a project engineer in the Research Laboratory of Zhangzhou Chemicals Factory (漳州市化學品廠研究所) for 15 years. He received a master degree in organic chemical science from Dalian University of Technology in 1990.

Corporate Governance Report

Corporate Governance Practices

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business. The Board is committed to strengthening the Group's corporate governance practices and ensuring transparency and accountability of the Company's operations.

The "Code on Corporate Governance Practices" (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") will be revised and renamed as the "Corporate Governance Code and Corporate Governance Report" with effect from 1 April 2012. As this Corporate Governance Report covers the period from the listing date of the Company (which is 15 July 2011) to 31 December 2011 (the "Report Period"), all the corporate governance principles and code provisions mentioned herein refer to those stated in the CG Code, not the revised Corporate Governance Code.

The Board considers that during the Report Period, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the code provision A.2.1. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation is summarized below.

A. The Board

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Company and enhancing value to investors. All the directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the above-mentioned officers. The Board has the full support of the senior management to discharge its responsibilities.

A2. Board Composition

The composition of the Board during the Report Period is as follow:

Executive directors:

Mr. Li Zhenhui	*(Chairman of the Board, Chief Executive Officer and Chairman of the Remuneration Committee)*
Mr. Xie Jinling	
Mr. Ge Xiaohua	
Mr. Huang Xinwen	
Ms. Hong Fang	

Non-executive director:

Mr. Yang Feng

Independent non-executive directors:

Mr. Chen Shaojun	*(Member of the Audit Committee and Member of the Nomination Committee)*
Mr. Ren Yunan	*(Chairman of the Nomination Committee, Member of the Audit Committee and Member of the Remuneration Committee)*
Mr. Wong Wai Ming	*(Chairman of the Audit Committee, Member of the Nomination Committee and Member of the Remuneration Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications of the Company.

The Board has met the requirements of the Listing Rules for having a minimum of three independent non-executive directors, with at least one of them possessing appropriate professional qualifications and accounting and related financial management expertise as required under the Listing Rules. The three independent non-executive directors represent one-third of the Board.

The members of the Board have experience and skills appropriate for the business requirements and objectives of the Group. Each executive director is responsible for different business and functional divisions of the Group in accordance with his/her areas of expertise. The non-executive directors bring different business and financial expertise, experiences and independent judgment to the Board and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests, the independent non-executive directors had made contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

The biographical details of the directors of the Company are set out under "Directors and Senior Management Biographies" in this annual report. None of the members of the Board is related to one another.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Li Zhenhui currently holds the offices of Chairman and Chief Executive Officer of the Company. Mr. Li is the founder of the Group and has over 16 years of experience in personal care products industry. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Li provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

A4. Appointment and Re-election of Directors

Each director is engaged for a term of three years and is subject to re-election in accordance with the Company's Articles of Association.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The above provision complies with the code provision A.4.2 of the CG Code, which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

At the forthcoming annual general meeting of the Company to be held on 23 May 2012 (the "2012 AGM"), Mr. Li Zhenhui, Mr. Xie Jinling and Mr. Ge Xiaohua shall retire by rotation pursuant to the Company's Articles of Association. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2012 AGM. The Board recommended their re-appointment. The Company's circular, sent together with this annual report, contains detailed information of the above three directors as required by the Listing Rules.

In addition, the Company's Articles of Association also contain provisions on the procedures and process of appointment and removal of directors.

A5. Training and Continuing Development for Directors

Each newly appointed director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors will be arranged whenever necessary.

A6. Board Meeting

A6.1 Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with directors in advance to facilitate attendance. In addition, notice of at least 14 days is given of a regular Board meeting. For other Board meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice of meeting in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer, Company Secretary and senior management normally attend regular Board meetings and when necessary, other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The Company's Articles of Association contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

A6.2 Directors' Attendance Records in Board Meetings

The Board meets regularly and holds at least four regular meetings at approximately quarterly intervals in a year, for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved. During the Report Period, the Board held 9 meetings. Details of individual attendance of each director at the meetings are set out below:

Name of Director	**Attendance/Number of Board Meetings**
Executive directors	
Mr. Li Zhenhui	9/9
Mr. Xie Jinling	9/9
Mr. Ge Xiaohua	8/9
Mr. Huang Xinwen	8/9
Ms. Hong Fang	8/9
Non-executive director	
Mr. Yang Feng	7/9
Independent non-executive directors	
Mr. Chen Shaojun	8/9
Mr. Ren Yunan	7/9
Mr. Wong Wai Ming	8/9

A7. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Each director has been given a copy of the Model Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Model Code for the Report Period.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

B. Board Committee

In June 2011, the Board established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website. All the Board committees should report to the Board on their decisions or recommendations made.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B1. Remuneration Committee

During the Report Period, the Remuneration Committee comprises a total of three members, with Mr. Li Zhenhui, an executive director, acting as the chairman and Mr. Ren Yunan and Mr. Wong Wai Ming, both are independent non-executive directors, acting as the other members.

To comply with the new Listing Rule requirement on having an independent non-executive director to act as the chairman of a listed issuer's remuneration committee (which will become effective on 1 April 2012), the Board approved the change of the chairman of the Company's Remuneration Committee from Mr. Li Zhenhui to Mr. Ren Yunan on 28 March 2012.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and the remuneration packages of directors and members of senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Group as well as market practice and conditions.

During the Report Period, the Remuneration Committee met once, with the presence of all the Committee members, to consider the Company's grant of share options in October 2011.

Details of the remuneration of each of the directors of the Company for the year ended 31 December 2011 are set out in note 8 to the financial statements contained in this annual report.

B2. Nomination Committee

During the Report Period, the Nomination Committee comprises a total of three members, being the three existing independent non-executive directors, namely, Mr. Ren Yunan, Mr. Chen Shaojun and Mr. Wong Wai Ming. The chairman of the Nomination Committee is Mr. Ren Yunan.

The principal responsibilities of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee did not hold any meeting during the Report Period.

A meeting of the Nomination Committee was held in March 2012 for, among others, reviewing the Board composition and structure, considering and recommending the re-election of the retiring directors at the 2012 AGM, and assessing the independence of the three independent non-executive directors of the Company.

B3. Audit Committee

During the Report Period, the Audit Committee comprises a total of three members, being the three existing independent non-executive directors, namely Mr. Wong Wai Ming, Mr. Chen Shaojun and Mr. Ren Yunan. The chairman of the Audit Committee is Mr. Wong Wai Ming, who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditors and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control system and risk management system.

During the Report Period, the Audit Committee met once, with the presence of all the Committee members, to review and discuss the interim financial statements, results announcement and report for the six months ended 30 June 2011, the related accounting principles and practices adopted by the Group and the relevant audit findings.

The external auditors were invited to attend the said meeting to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the appointment of external auditors.

C. Directors' Responsibilities for Financial Reporting in Respect of the Financial Statements

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. Internal Controls

The Board is responsible for maintaining an adequate internal control system to safeguard the interests of shareholders and the Group's assets and for reviewing the effectiveness of such system on an annual basis. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

E. External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2011 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to Ernst & Young for the year ended 31 December 2011 are analyzed below:

		Fees paid/payable
Audit services		
— Annual audit for the year ended 31 December 2011		HK$1,850,000
— Interim audit for the six months ended 30 June 2011		HK$1,766,000
Initial public offering		HK$4,828,000
	TOTAL:	HK$8,444,000

F. Communications with Shareholders and Investors

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables shareholders and investors to make the best investment decision.

The Company maintains a website at www.princefrog.com.cn, as a communication platform with shareholders and investors, where extensive information and updates on the Company's business developments and operations, financial information and other information are available for public access. Investors may write directly to the Company's principal place of business in Hong Kong for any inquiries. Inquiries are dealt with in an informative and timely manner.

Shareholders' meetings provide an opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available at the meeting to answer any questions raised by shareholders.

G. Shareholder Rights

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, the rights of shareholders for proposing resolutions are contained in the Company's Articles of Association.

All resolutions put forward at shareholders' meetings of listed issuers shall be voted by poll pursuant to the Listing Rules. The poll voting results shall be posted on the websites of the Stock Exchange and the Company after a shareholders' meeting.

Report of the Directors

The directors of the Company are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

Initial Public Offering

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 January 2011. Pursuant to a group reorganization to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 22 February 2011. Details of the reorganization are set out in the Prospectus.

The Company's shares have been listed on the Main Board of the Stock Exchange since 15 July 2011 (the "Listing Date").

Principal Activities

The Company and its subsidiaries are principally engaged in the design and provision of a broad range of children's personal care products, including skin care products, body and hair care products, oral care products and diaper products under our own brands in the PRC. Leveraging on the sales network established by our 青蛙王子 (Frog Prince) brand, we also distribute our other products, such as household hygiene products under 雙飛劍 (Shuangfeijian) brand and 深呼吸 (Shenhuxi) brand.

Financial Statements

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 51 to 123 of this annual report.

Share Capital and Share Options

Details of movements in the Company's share capital during the year are set out in notes 25 and 26 to the financial statements.

Final Dividend

The directors of the Company recommended a final dividend of HK4.5 cents (approximately RMB3.6 cents) per ordinary share, representing a total of HK$45,371,000 (approximately RMB36,782,000), for the year ended 31 December 2011 subject to the approval of the shareholders at the 2012 AGM to be held on 23 May 2012. The proposed final dividend is expected to be paid on 21 June 2012 to the Company's shareholders whose names appear on the Company's register of members on 1 June 2012.

Summary financial information

A summary of the financial information of the Group for the last four financial years is set out on page 124 of this annual report. This summary does not form part of the audited financial statements.

Closure of Register of Members

The register of members of the Company will be closed from 21 May 2012 to 23 May 2012 (both days inclusive) for the purpose of determining the right to attend and vote at the 2012 AGM. In order to be entitled to attend and vote at the 2012 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office (i.e. Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) for registration no later than 4:30 p.m. on 18 May 2012.

Besides, the register of members of the Company will also be closed from 30 May 2012 to 1 June 2012 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2011 (subject to the approval of the shareholders at the 2012 AGM). In order to be qualified for the proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office for registration not later than 4:30 p.m. on 29 May 2012.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB568,026,000. In addition, the Company's share premium account, in the amount of RMB608,412,000, of which RMB36,782,000 has been proposed as a final dividend for the year, may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Charitable Contributions

During the year, the Group made charitable contributions totalling RMB200,000.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 16.0% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 28.4% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year and as at the date of this report were:

Executive Directors

Mr. Li Zhenhui (Chairman and Chief Executive Officer) (appointed as a director on 11 January 2011)
Mr. Xie Jinling (appointed as a director on 11 January 2011)
Mr. Ge Xiaohua (appointed on 18 February 2011)
Mr. Huang Xinwen (appointed on 18 February 2011)
Ms. Hong Fang (appointed on 18 February 2011)

Non-executive Director

Mr. Yang Feng (appointed on 18 February 2011)

Independent Non-executive Directors

Mr. Chen Shaojun (appointed on 18 February 2011)
Mr. Wong Wai Ming (appointed on 18 February 2011)
Mr. Ren Yunan (appointed on 18 February 2011)

Theresa L. Thomas, who was the first director upon incorporation of the Company, resigned on 11 January 2011.

Pursuant to Article 84 of the Company's Articles of Association, Mr. Li Zhenhui, Mr. Xie Jinling and Mr. Ge Xiaohua will retire from office as directors of the Company by rotation at the 2012 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2012 AGM.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 19 to 22 of the annual report.

Service Contracts of Directors

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive directors (including the independent non-executive directors) has entered into a service contract with the Company for a term of three years from the Listing Date, which may be terminated by not less than one month's notice in writing served by either party on the other.

There was no service contract entered into between the Company and any directors to be re-elected in the 2012 AGM which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

Directors' Interest in Contracts

Other than those transactions disclosed in note 31(i) to the financial statements and in the section "Continuing connected transactions" below, there was no other significant contracts with any member of the Group as the contracting party and in which the directors possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Details of the Scheme are disclosed in note 26 to the financial statements.

As set out in the Prospectus, the Board is authorized to grant options up to 100,000,000 shares of the Company, representing 10% of the issued share capital of the Company as at the Listing Date. Since options to subscribe for a total of 12,966,000 shares of the Company were granted by the Company on 14 October 2011, the Board may further grant 87,034,000 shares, representing approximately 8.63% of the issued share capital of the Company as at the date of this annual report.

The following table discloses movements of the Company's share options granted under the Scheme during the year:

Name or Category of participants	Date of grant (Note 1)	Number of options: Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2011	Exercise period (Note 2)	Exercise price per share (HK$)
Executive Directors									
Mr. Li Zhenhui	14 October 2011	–	800,000	–	–	–	800,000	A	1.92
(also a substantial		–	600,000	–	–	–	600,000	B	
shareholder)		–	600,000	–	–	–	600,000	C	
		–	2,000,000	–	–	–	2,000,000		
Mr. Xie Jinling	14 October 2011	–	400,000	–	–	–	400,000	A	1.92
(also a substantial		–	300,000	–	–	–	300,000	B	
shareholder)		–	300,000	–	–	–	300,000	C	
		–	1,000,000	–	–	–	1,000,000		
Mr. Ge Xiaohua	14 October 2011	–	400,000	–	–	–	400,000	A	1.92
		–	300,000	–	–	–	300,000	B	
		–	300,000	–	–	–	300,000	C	
		–	1,000,000	–	–	–	1,000,000		
Mr. Huang Xinwen	14 October 2011	–	400,000	–	–	–	400,000	A	1.92
		–	300,000	–	–	–	300,000	B	
		–	300,000	–	–	–	300,000	C	
		–	1,000,000	–	–	–	1,000,000		
Ms. Hong Fang	14 October 2011	–	400,000	–	–	–	400,000	A	1.92
		–	300,000	–	–	–	300,000	B	
		–	300,000	–	–	–	300,000	C	
		–	1,000,000	–	–	–	1,000,000		
Non-executive Director									
Mr. Yang Feng	14 October 2011	–	40,000	–	–	–	40,000	A	1.92
		–	30,000	–	–	–	30,000	B	
		–	30,000	–	–	–	30,000	C	
		–	100,000	–	–	–	100,000		

Name or Category of participants	Date of grant (Note 1)	Number of options: Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2011	Exercise period (Note 2)	Exercise price per share (HK$)
Independent Non-executive Directors									
Mr. Chen Shaojun	14 October 2011	–	40,000	–	–	–	40,000	A	1.92
		–	30,000	–	–	–	30,000	B	
		–	30,000	–	–	–	30,000	C	
		–	100,000	–	–	–	100,000		
Mr. Ren Yunan	14 October 2011	–	40,000	–	–	–	40,000	A	1.92
		–	30,000	–	–	–	30,000	B	
		–	30,000	–	–	–	30,000	C	
		–	100,000	–	–	–	100,000		
Mr. Wong Wai Ming	14 October 2011	–	40,000	–	–	–	40,000	A	1.92
		–	30,000	–	–	–	30,000	B	
		–	30,000	–	–	–	30,000	C	
		–	100,000	–	–	–	100,000		
Sub-total		–	6,400,000	–	–	–	6,400,000		
Employees of the Group									
In aggregate	14 October 2011	–	2,626,400	–	–	–	2,626,400	A	1.92
		–	1,969,800	–	–	–	1,969,800	B	
		–	1,969,800	–	–	–	1,969,800	C	
Sub-total		–	6,566,000	–	–	–	6,566,000		
Total		–	12,966,000	–	–	–	12,966,000		

Notes:

1. The closing price of the Company's shares immediately before the date of grant on 14 October 2011 was HK$1.98.

2. The respective exercise periods of the share options granted are as follows:

   A: From 14 October 2012 to 13 October 2021
   B: From 14 October 2013 to 13 October 2021
   C: From 14 October 2014 to 13 October 2021

   The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. The number and/or exercise price of the options may be subject to adjustments in the case of rights or bonus issues, or other changes in the Company's share capital.

The directors have estimated the values of the share options granted during the year, calculated using trinomial option pricing model as at the date of grant of the options.

The trinomial option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were the risk-free interest rate, expected life, expected volatility and expected dividend. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the trinomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2011, the interests of the Company's directors in the shares and underlying shares of the Company, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

A. Long positions in the ordinary shares of the Company

Name of director	Nature of interests	Number of ordinary shares interested	Percentage+ of the Company's issued share capital
Mr. Li Zhenhui	Interest of controlled corporations (Note 1)	307,544,500	30.50%
Mr. Xie Jinling	Interest of controlled corporation (Note 2)	295,483,500	29.31%

Notes:

1. These shares were held by Prince Frog International Company Limited, a wholly-owned subsidiary of Zhenfei Investment Company Limited, which in turn was a controlled corporation of Mr. Li Zhenhui. Accordingly, Mr. Li Zhenhui was deemed to be interested in these shares pursuant to Part XV of the SFO.

2. These shares were held by Jinlin Investment Company Limited, a controlled corporation of Mr. Xie Jinling. Accordingly, Mr. Xie Jinling was deemed to be interested in these shares pursuant to Part XV of the SFO.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2011.

B. Long positions in the underlying shares of the Company — physically settled unlisted equity derivatives

Name of director	Nature of interests	Number of underlying shares interested	Percentage+ of underlying shares over the Company's issued share capital
Mr. Li Zhenhui	Beneficial owner	2,000,000	0.20%
Mr. Xie Jinling	Beneficial owner	1,000,000	0.10%
Mr. Ge Xiaohua	Beneficial owner	1,000,000	0.10%
Mr. Huang Xinwen	Beneficial owner	1,000,000	0.10%
Ms. Hong Fang	Beneficial owner	1,000,000	0.10%
Mr. Yang Feng	Beneficial owner	100,000	0.01%
Mr. Chen Shaojun	Beneficial owner	100,000	0.01%
Mr. Ren Yunan	Beneficial owner	100,000	0.01%
Mr. Wong Wai Ming	Beneficial owner	100,000	0.01%

Note: Details of the above share options granted by the Company as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share Option Scheme" above.

\+ The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2011.

Save as disclosed above and in the above section headed "Share Option Scheme", as at 31 December 2011, none of the directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 31 December 2011, the following parties had interests of 5% or more of the issued share capital of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the ordinary shares of the Company

Name of substantial shareholder	Nature of interests	Number of ordinary shares interested	Percentage+ of the Company's issued share capital
Prince Frog International Company Limited	Beneficial owner (Note 1)	307,544,500	30.50%
Zhenfei Investment Company Limited	Interest of controlled corporation (Note 1)	307,544,500	30.50%
Jinlin Investment Company Limited	Beneficial owner (Note 2)	295,483,500	29.31%
CCB International Asset Management Limited	Beneficial owner (Note 3)	70,609,000	7.00%
CCB International Assets Management (Cayman) Limited	Interest of controlled corporation (Note 3)	70,609,000	7.00%
CCB International (Holdings) Limited	Interest of controlled corporations (Note 3)	70,609,000	7.00%
CCB Financial Holdings Limited	Interest of controlled corporations (Note 3)	70,609,000	7.00%
CCB International Group Holdings Limited	Interest of controlled corporations (Note 3)	70,609,000	7.00%
China Construction Bank Corporation	Interest of controlled corporations (Note 3)	70,609,000	7.00%
Central Huijin Investment Limited	Interest of controlled corporations (Note 3)	70,609,000	7.00%

Notes:

1. These shares were held by Prince Frog International Company Limited, a wholly-owned subsidiary of Zhenfei Investment Company Limited, which in turn was a controlled corporation of Mr. Li Zhenhui. The above interest of Zhenfei Investment Company Limited and Prince Frog International Company Limited was also disclosed as the interest of Mr. Li Zhenhui in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

2. The above interest of Jinlin Investment Company Limited was also disclosed as the interest of Mr. Xie Jinling in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

3. These shares were held by CCB International Asset Management Limited, a wholly owned subsidiary of CCB International Assets Management (Cayman) Limited, which in turn was a wholly-owned subsidiary of CCB International (Holdings) Limited. CCB International (Holdings) Limited was a wholly-owned subsidiary of CCB Financial Holdings Limited, which in turn was a wholly-owned subsidiary of CCB International Group Holdings Limited. CCB International Group Holdings Limited was a wholly-owned subsidiary of China Construction Bank Corporation, which in turn was owned as to 57.1% by Central Huijin Investment Limited.

   Accordingly, CCB International Assets Management (Cayman) Limited, CCB International (Holdings) Limited, CCB Financial Holdings Limited, CCB International Group Holdings Limited, China Construction Bank Corporation and Central Huijin Investment Limited were deemed to be interested in these shares pursuant to the SFO.

+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, no person, other than the directors of the Company whose interests are set out in section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Continuing Connected Transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out below, which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules, and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transactions disclosed below by the Group in accordance with relevant clauses of Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Details of non-exempt continuing connected transactions

1. Fujian Shuangfei Lease Agreement and Mingxin Lease Agreement

Pursuant to the agreement dated 1 January 2010 and a supplemental agreement dated 26 January 2011, both entered into by Fujian Shuangfei Daily Chemicals Co., Ltd. ("Fujian Shuangfei", a company owned as to 51% and 49% by Mr. Li Zhenhui and Mr. Xie Jinling respectively) and Prince Frog (China) Daily Chemicals Co., Ltd. ("Prince Frog (China)", an indirect wholly-owned subsidiary of the Company) (such agreements are referred to as "Fujian Shuangfei Lease Agreement"), Fujian Shuangfei agreed to lease to Prince Frog (China) the office premises and factory buildings located at No. 8, North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou, Fujian, PRC (the "Land"), with a total area of approximately 9,251 square meters, for a term of 3 years from 1 January 2010 to 31 December 2012. The monthly rental payable by Prince Frog (China) is approximately RMB53,400.

Pursuant to (i) the agreement dated 31 December 2009 and a supplemental agreement date 14 February 2011 entered into among Prince Frog (China), Fujian Shuangfei and Zhangzhou Mingxin Infrastructure Projects Company Limited ("Mingxin", an independent third party), and (ii) the Fujian Shuangfei Lease Agreement (collectively, the "Mingxin Lease Agreement"), all the rights and obligations under the lease agreement dated 24 November 2004 (the "Original Lease Agreement") are assigned to Prince Frog (China) by Fujian Shuangfei for a term of 10 years from 1 December 2004 to 1 December 2014. Pursuant to the Original Lease Agreement, Mingxin agreed to lease the Land, with a total area of approximately 12,255 square meters, to Fujian Shuangfei. Fujian Shuangfei can use the office premises and warehouse located on the Land with a gross floor area of approximately 700 square meters owned by Mingxin free of charge. Fujian Shuangfei constructed certain buildings with a gross floor area of approximately 4,846 square meters on such Land and has not obtained property titles for such buildings. Pursuant to the Mingxin Lease Agreement, the monthly rentals payable by Prince Frog (China) to Fujian Shuangfei and Mingxin are RMB26,743 and RMB22,059, respectively.

During the year under review, the total amount paid to Fujian Shuangfei and Mingxin under the above-mentioned lease agreements was approximately RMB961,000 and the annual cap for the year ended 31 December 2011 as set out in the Prospectus is RMB961,800.

2. Equipment and Vehicles Lease Agreement

Pursuant to the agreement dated 1 January 2010 entered into between Prince Frog (China) and Fujia Shuangfei (the "Equipment and Vehicles Lease Agreement"), Fujian Shuangfei agreed to lease certain production facilities and vehicles to Prince Frog (China) for a term of 3 years from 1 January 2010 to 31 December 2012. Such production facilities were originally used by Fujian Shuangfei for the business of the children's personal care products and OEM products other than sunscreen, air freshener and insecticide products. The monthly rental payable by Prince Frog (China) is approximately RMB204,000.

During the year under review, the total amount paid to Fujian Shuangfei under the Equipment and Vehicles Lease Agreement was approximately RMB2,448,000 and the annual cap for the year ended 31 December 2011 as set out in the Prospectus is RMB2,448,000.

3. Process Outsourcing Agreement

Pursuant to the agreement dated 31 December 2009 and a supplemental agreement dated 22 June 2011, both entered into between Prince Frog (China) and Fujian Shuangfei (collectively, the "Process Outsourcing Agreement"), Fujian Shuangfei agreed to produce the sunscreen, air freshener and insecticide products according to the purchase orders issued by Prince Frog (China) for a term from 1 January 2010 to the earlier of (i) 31 December 2012, or (ii) the date on which the Group obtains all the necessary production licences from the relevant PRC governmental authorities. Prince Frog (China) provides relevant raw materials and packaging materials to Fujian Shuangfei for such production. The fees for such process outsourcing shall be determined after arm's length negotiations between relevant parties and with reference to the processing costs incurred by Fujian Shuangfei in relation thereafter.

During the year under review, the total amount paid to Fujian Shuangfei under the Process Outsourcing Agreement was approximately RMB9,613,000 and the annual cap for the year ended 31 December 2011 as set out in the Prospectus is RMB10,000,000.

4. Sale of Goods Agreement

Pursuant to the agreement dated 13 June 2011 entered into between Shuangfei Daily Chemicals (USA) Inc. ("Shuangfei (USA)", a company owned as to 51% and 48% by Mr. Li Zhenhui and Mr. Xie Jinling respectively) and Prince Frog (China) (the "Sale of Goods Agreement"), Prince Frog (China) agreed to sell and Shuangfei (USA) agreed to buy bath and skin care products produced by the Group for a term of 3 years from 13 June 2011 to 12 June 2014. The prices of such bath and skin care products will be determined in accordance with the purchase orders on the basis of arm's length negotiations and with reference to fair market price.

During the year under review, the total amount paid by Shuangfei (USA) under the Sale of Goods Agreement was approximately RMB34,789,000 and the annual cap for the year ended 31 December 2011 as set out in the Prospectus is RMB39,420,000.

Employees and Remuneration

As at 31 December 2011, the Group employed 1,314 employees (as at 31 December 2010: 1,123). In addition to the basic salaries, year-end bonuses may be offered to those staff members with outstanding performance. Members of the Group established in the PRC were also subject to social insurance contribution plans required by the PRC government. In accordance with the relevant national and local labour and social welfare laws and regulations, members of the Group established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance.

Moreover, a share option scheme was adopted in June 2011 to retain staff member who make contribution to the success of the Group. The directors believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

In addition, the Group provided trainings to its employees to help them master relevant skills.

Directors' Remuneration

The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by the Company to its directors. The remuneration of all directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of directors' remuneration are set out in note 8 to the financial statements.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date to 31 December 2011.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

Directors' Interests in Competing Business

During the year, none of the directors is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Deed of Non-Competition

The controlling shareholders (i.e. Mr. Li Zhenhui, Zhenfei Investment Company Limited and Prince Frog International Company Limited), Mr. Xie Jinling, Jinlin Investment Company Limited and Fujian Shuangfei have made an annual declaration on compliance with their undertakings under the Deed of Non-Competition (as defined in the Prospectus). The independent non-executive directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the above-mentioned parties.

Audit Committee

The Audit Committee of the Company, comprising the Company's three independent non-executive directors, has reviewed the consolidated financial statements of the Company for the year ended 31 December 2011, including accounting principles and practices adopted by the Group, and discussed financial reporting matters.

Auditors

Ernst & Young were appointed by the directors as the first auditors of the Company. Ernst & Young will retire and, being eligible, offer themselves for re-appointment at the 2012 AGM. A resolution for their re-appointment as auditors of the Company will be proposed at the 2012 AGM.

ON BEHALF OF THE BOARD

Li Zhenhui
Chairman

Zhangzhou, PRC
28 March 2012

Independent Auditors' Report

To the shareholders of Prince Frog International Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Prince Frog International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 123, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
28 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**1,269,167**	837,991
Cost of sales		**(731,465)**	(515,052)
Gross profit		**537,702**	322,939
Other income and gains	5	**5,046**	992
Selling and distribution costs		**(240,259)**	(130,786)
Administrative expenses		**(79,353)**	(23,586)
Other operating expenses		**(272)**	(21)
Finance costs	6	**(4,398)**	(1,638)
PROFIT BEFORE TAX	7	**218,466**	167,900
Income tax expense	10	**(34,521)**	(23,431)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR	11	**183,945**	144,469
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	13		
Basic		**RMB21.2 cents**	RMB19.3 cents
Diluted		**RMB21.2 cents**	RMB19.3 cents

Details of the dividend payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 **RMB'000**	2010 RMB'000
PROFIT FOR THE YEAR	**183,945**	144,469
Other comprehensive income:		
Exchange differences on translating foreign operations	**889**	2,191
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR	**184,834**	146,660

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**142,517**	82,067
Prepaid land lease payments	15	**20,032**	20,466
Intangible assets	16	**5,943**	144
Prepayments and deposits	20	**2,839**	8,387
Total non-current assets		**171,331**	111,064
CURRENT ASSETS			
Inventories	18	**74,518**	34,737
Trade and bills receivables	19	**92,999**	59,149
Amounts due from related parties	31(ii)	**7,691**	26,144
Prepayments, deposits and other receivables	20	**7,233**	3,731
Pledged deposits	21	**1,096**	2,350
Cash and cash equivalents	21	**735,597**	72,299
Total current assets		**919,134**	198,410
CURRENT LIABILITIES			
Trade and bills payables	22	**80,595**	33,894
Other payables and accruals	23	**24,570**	17,211
Interest-bearing bank borrowings	24	**30,000**	—
Amounts due to related parties	31(ii)	**—**	89,565
Tax payable		**6,948**	7,349
Total current liabilities		**142,113**	148,019
NET CURRENT ASSETS		**777,021**	50,391
TOTAL ASSETS LESS CURRENT LIABILITIES		**948,352**	161,455
NON-CURRENT LIABILITY			
Interest-bearing bank borrowing	24	**—**	15,800
Total non-current liability		**—**	15,800
Net assets		**948,352**	145,655

Consolidated Statement of Financial Position (continued)

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	25	**8,368**	11
Reserves	27(a)	**939,984**	145,644
Total equity		**948,352**	145,655

Li Zhenhui
Director

Hong Fang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to ordinary equity holders of the Company							
	Notes	Issued capital RMB'000 (Note 25)	Share premium RMB'000 (Note 27(a))	Share option reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (Note 27(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011		11	–	–	–	14,690	2,299	128,655	145,655
Exchange differences on translation of foreign operations		–	–	–	–	–	889	–	889
Profit for the year		–	–	–	–	–	–	183,945	183,945
Total comprehensive income for the year		–	–	–	–	–	889	183,945	184,834
Transfer to capital reserve upon reorganisation		(11)	–	–	11	–	–	–	–
Incorporation of the Company		8	–	–	–	–	–	–	8
Capitalisation of an amount due to Prince Frog International Company Limited ("Prince Frog International")	27(a)(i)	–	86,958	–	–	–	–	–	86,958
Capitalisation issue	25(g)	6,217	(6,217)	–	–	–	–	–	–
Issue of shares	25(h),25(i)	2,143	535,475	–	–	–	–	–	537,618
Share issue expenses		–	(7,804)	–		–	–	–	(7,804)
Equity-settled share option arrangements	26	–	–	1,083	–	–	–	–	1,083
Transfer to statutory reserve		–	–	–	–	20,728	–	(20,728)	–
At 31 December 2011		8,368	608,412*	1,083*	11*	35,418*	3,188*	291,872*	948,352

Year ended 31 December 2011

	Attributable to ordinary equity holders of the Company					
	Issued capital RMB'000 (Note 25)	Merger reserve RMB'000 (Note 27(a))	Statutory reserve fund RMB'000 (Note 27(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 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

* These reserve accounts comprise the consolidated reserves of RMB939,984,000 (2010: RMB145,644,000) in the consolidated statement of financial position.

** As part of a group reorganisation (the "Reorganisation") more fully explained in the section "History and Reorganisation" and Appendix VI "Statutory and General Information" to the prospectus of the Company dated 30 June 2011 (the "Prospectus"), 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 ("Mr. Li") and Mr. Xie Jinling ("Mr. Xie"). 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., Mr. Li and Mr. Xie) in the consolidated statement 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
Amount 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

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**218,466**	167,900
Adjustments for:			
Finance costs	6	**4,398**	1,638
Bank interest income	5	**(3,265)**	(119)
Dividend income from available-for-sale investments	5	**—**	(98)
Loss on disposal of items of property, plant and equipment	7	**17**	—
Gain on disposal of intangible assets	5	**—**	(343)
Loss on disposal of available-for-sale investments	7	**—**	88
Depreciation	7	**5,953**	1,516
Amortisation of prepaid land lease payments	7	**434**	795
Amortisation of intangible assets	7	**1,321**	359
Equity-settled share option expense	7	**1,083**	—
		228,407	171,736
Increase in inventories		**(39,781)**	(414)
Decrease/(increase) in trade and bills receivables		**(33,850)**	15,410
Increase in prepayments, deposits and other receivables		**(3,502)**	(1,608)
Increase in trade and bills payables		**46,701**	2,286
Increase in other payables and accruals		**7,359**	22,996
Movements in balances with related parties		**18,023**	(68,385)
Exchange realignment		**(689)**	2,516
Cash generated from operations		**222,668**	144,537
Interest received		**3,265**	119
Interest paid		**(4,398)**	(1,638)
PRC tax paid		**(34,922)**	(16,082)
Net cash flows from operating activities		**186,613**	126,936

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(58,133)	(51,807)
Purchase of intangible assets	16	(7,120)	—
Dividend income from available-for-sale investment		—	98
Deposits for purchase of items of property, plant and equipment	20	(2,739)	(8,287)
Decrease/(increase) in pledged deposits		1,254	(2,350)
Purchase of available-for-sale investments		—	(6,755)
Proceeds from disposal of available-for-sale investments		—	6,667
Net cash flows used in investing activities		(66,738)	(62,434)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash distributed to equity holders upon Reorganisation	21	—	(108,392)
New bank loans		207,352	58,800
Repayment of bank loans		(193,152)	(56,728)
Net proceeds from issue of ordinary shares		529,814	—
Net cash flows from/(used in) financing activities		544,014	(106,320)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		663,889	(41,818)
Cash and cash equivalents at beginning of year		72,299	114,442
Effect of foreign exchange rate changes, net		(591)	(325)
CASH AND CASH EQUIVALENTS AT END OF YEAR		735,597	72,299
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances and cash and cash equivalents	21	735,597	72,299

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	17	**82,348**
Total non-current assets		**82,348**
CURRENT ASSETS		
Amount due from a subsidiary	17	**250,772**
Prepayments	20	**4,168**
Cash and cash equivalents	21	**245,419**
Total current assets		**500,359**
CURRENT LIABILITIES		
Accruals	23	**2,100**
Amount due to a subsidiary	17	**3,130**
Total current liabilities		**5,230**
NET CURRENT ASSETS		**495,129**
TOTAL ASSETS LESS CURRENT LIABILITIES		**577,477**
Net assets		**577,477**
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	25	**8,368**
Reserves	27(b)	**569,109**
Total equity		**577,477**

Li Zhenhui
Director

Hong Fang
Director

1. CORPORATE INFORMATION AND GROUP REORGANISATION

Prince Frog International Holdings Limited 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 No. 8 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC.

Pursuant to the Reorganisation to rationalise the structure of the Company and its subsidiaries in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 22 February 2011. The shares of the Company were listed on the Main Board of the Stock Exchange on 15 July 2011. Details of the Reorganisation were set out in the Prospectus.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sale of personal care and household hygiene products. There were no significant changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The consolidated financial statements have been prepared on a basis by applying the principles of merger accounting as the Reorganisation involved business combination of entities under common control and the Group is regarded and accounted for as a continuing group. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition. Accordingly, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the years ended 31 December 2010 and 2011 include the financial information of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation, whichever is shorter. The consolidated statement of financial position of the Group as at 31 December 2010 has been prepared to present the state of affairs of the Group as if the current group structure had been in existence at that date or since the respective dates of acquisition or incorporation/establishment, whichever is the shorter period, of the subsidiaries of the Company. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

Comparative amounts have not been presented for the Company's statement of financial position and the notes thereto because the Company was not in existence as at 31 December 2010.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IAS 1 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*
IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 31 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 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 these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[4]
IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

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

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

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

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

5 Effective for annual periods beginning on or after 1 January 2014

6 Effective for annual periods beginning on or after 1 January 2015

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Further information about those changes that are expected to be applicable to the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group, or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies: (continued)

(iv) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(v) the entity is controlled or jointly controlled by a person identified in (a); and

(vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

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:

Buildings	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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

Copyrights

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

Research and development costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 and bills receivables, other receivables, amounts due from related parties, cash and cash equivalents and pledged deposits.

Subsequent measurement

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 are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consistently 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement 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:

- when 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 when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a trinomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

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 Group's financial statements 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 statements:

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 described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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;

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

(d) the other products segment comprises, principally, the manufacture 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 property, plant and equipment except for plant and machinery, prepaid land lease payments, prepayments, deposits and other receivbles, 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 borrowings, amounts due to related parties and tax payable as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

	Children's personal care products RMB'000	Household hygiene products RMB'000	Adults' personal care products RMB'000	Other products RMB'000	Total RMB'000
Year ended 31 December 2011					
Segment revenue:					
Sales to external customers	917,597	183,045	50,195	118,330	1,269,167
Segment results	358,360	46,432	8,121	21,211	434,124
Interest income					3,265
Other unallocated gains					1,781
Corporate and other unallocated expenses					(216,306)
Finance costs					(4,398)
Profit before tax					218,466
Segment assets	155,601	30,899	6,237	13,653	206,390
Reconciliation:					
Corporate and other unallocated assets					884,075
Total assets					1,090,465
Segment liabilities	49,632	17,079	2,235	11,649	80,595
Reconciliation:					
Corporate and other unallocated liabilities					61,518
Total liabilities					142,113
Other segment information:					
Depreciation and amortisation*	2,478	97	82	58	2,715
Capital expenditure**	36,104	1,814	806	1,270	39,994

4. OPERATING SEGMENT INFORMATION (continued)

	Children's personal care products RMB'000	Household hygiene products RMB'000	Adults' personal care products RMB'000	Other products RMB'000	Total 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
Other unallocated gains					873
Corporate and other unallocated expenses					(114,471)
Finance costs					(1,638)
Profit before tax					167,900
Segments 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

* Depreciation and amortisation consists of depreciation of plant and machinery and amortisation of intangible assets.

** Capital expenditure consists of additions to plant and machinery and intangible assets.

4. OPERATING SEGMENT INFORMATION (continued)

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 years ended 31 December 2011 and 2010, 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:

	Group	
	2011	2010
	RMB'000	RMB'000
Revenue		
Sales of goods	**1,269,167**	837,991
Other income and gains		
Bank interest income	**3,265**	119
Government subsidies*	**203**	67
Dividend income from available-for-sale investments	**—**	98
Net fair value gains on foreign exchange derivative financial instruments		
— transactions not qualified as hedges	**1,246**	—
Gain on disposal of intangible assets	**—**	343
Others	**332**	365
	5,046	992
	1,274,213	838,983

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

6. FINANCE COSTS

	Group	
	2011	2010
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**4,398**	1,638

7. PROFIT BEFORE TAX

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

		Group	
		2011	2010
	Notes	**RMB'000**	RMB'000
Cost of inventories sold		**731,465**	515,052
Depreciation*	14	**5,953**	1,516
Amortisation of prepaid land lease payments	15	**434**	795
Amortisation of intangible assets	16	**1,321**	359
Minimum lease payments under operating leases on land and buildings*		**5,042**	4,759
Loss on disposal of items of property, plant and equipment#		**17**	—
Loss on disposal of available-for-sale investments#		**—**	88
Employee benefit expenses*			
(including directors' remuneration (note 8)):			
Wages and salaries		**57,029**	35,715
Equity-settled share option expense		**1,083**	—
Retirement benefit scheme contributions		**1,714**	591
		59,826	36,306
Auditors' remuneration		**2,939**	11
Dividend income from available-for-sale investments		**—**	(98)
Research and development costs#		**2,534**	1,592
Net foreign exchange loss, excluding net fair value gains on foreign exchange derivative financial instruments		**5,640**	1,952
Write-off of trade receivables#		**—**	141

These amounts are included in "Administrative expenses" in the consolidated income statement.

7. PROFIT BEFORE TAX (continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Depreciation	**3,841**	208
Minimum lease payments under operating leases on land and buildings	**2,826**	3,338
Employee benefit expenses	**28,989**	16,937
	35,656	20,483

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Fees:		
Executive directors	**1,744**	—
Non-executive director	**73**	—
Independent non-executive directors	**219**	—
Other emoluments:		
Salaries and bonuses	**—**	285
Equity-settled share option expense	**535**	—
Retirement benefit scheme contributions	**10**	6
	2,581	291

8. DIRECTORS' REMUNERATION (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 26 to the financial statements and the report of the directors. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

During the year, 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.

	Fees RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2011			
Mr. Chen Shaojun	73	8	81
Mr. Ren Yunan	73	8	81
Mr. Wong Wai Ming	73	8	81
	219	24	243

There were no other emoluments payable to the independent non-executive directors during the year.

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

During the year, Mr. Ge Xiaohua, Mr. Huang Xinwen and Ms. Hong Fang were appointed as executive directors of the Company, and Mr. Yang Feng was appointed as a non-executive director of the Company on 18 February 2011.

	Fees RMB'000	Salaries and bonuses RMB'000	Equity-settled share option expense RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2011					
Executive directors:					
Mr. Li	550	—	167	2	719
Mr. Xie	231	—	84	2	317
Mr. Ge Xiaohua	275	—	84	2	361
Mr. Huang Xinwen	275	—	84	2	361
Ms. Hong Fang	413	—	84	2	499
	1,744	—	503	10	2,257
Non-executive director:					
Mr. Yang Feng	73	—	8	—	81
	1,817	—	511	10	2,338
2010					
Executive directors:					
Mr. Li	—	170	—	3	173
Mr. Xie	—	115	—	3	118
	—	285	—	6	291

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2010: Nil) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five non-director, highest paid employees for the year ended 31 December 2010 were as follows:

	Group **2010** **RMB'000**
Salaries and bonuses	**889**
Retirement benefit scheme contributions	**9**
	898

During the year ended 31 December 2010, the remuneration of the non-director, highest paid employees fell within the band of Nil to RMB1,000,000.

During the year, no remuneration was paid by the Group to the directors, who are the five highest paid employees, as an inducement to join or upon joining the Group or as compensation for loss of office. No remuneration was paid by the Group to the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2010.

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil). 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.

	Group	
	2011 **RMB'000**	2010 RMB'000
Current — Mainland China		
Charge for the year	**34,521**	23,431

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%.

10. INCOME TAX EXPENSE (continued)

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) Daily Chemicals Co., Ltd. ("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 a 50% reduction of the prevailing tax rate from 1 January 2010 to 31 December 2012 (the "Tax Holiday"). With effect from 1 January 2013, the applicable tax rate will be 25%.

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:

	Group	
	2011	2010
	RMB'000	RMB'000
Profit before tax	**218,466**	167,900
Tax at the applicable tax rates	**57,244**	42,282
Lower tax rate due to Tax Holiday	**(31,173)**	(21,419)
Expenses not deductible for tax	**9,946**	2,921
Others	**(1,496)**	(353)
Tax charge at the Group's effective tax rates	**34,521**	23,431

Pursuant to the income tax law of the PRC, 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 there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future.

The Company has no significant unprovided deferred tax in respect of the reporting period and as at the end of the reporting period.

11. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2011 includes a loss of RMB35,773,000 which has been dealt with in the financial statements of the Company (note 27(b)).

12. DIVIDEND

	2011	2010
	RMB'000	RMB'000
Proposed final – HK4.5 cents (approximately RMB3.6 cents) (2010: Nil) per ordinary share	**36.782**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to the equity holders of the Company of RMB183,945,000 (2010: RMB144,469,000) and the weighted average number of ordinary shares of 869,670,548 (2010: 750,000,000) deemed to have been in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the year ended 31 December 2010 includes the pro forma issued share capital of the Company of 750,000,000 shares as further detailed in note 25.

The weighted average number of ordinary shares of 869,670,548 used to calculate the basic earnings per share amounts for the year ended 31 December 2011 includes the weighted average of:

(i) the 250,000,000 ordinary shares issued upon the listing of the Company's ordinary shares on the Stock Exchange on 15 July 2011 (note 25(h));

(ii) the 8,250,000 ordinary shares issued upon the exercise of the Over-allotment Option (as defined in note 25(i)) on 11 August 2011 (note 25(i)); and

(iii) the aforementioned pro-forma issued share capital of the Company of 750,000,000 shares.

13. EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY (continued)

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2011 as the share options in issue during the year has no dilutive effect.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2010 as the Group has no potentially diluted ordinary shares in issue and therefore no diluting events existed throughout that year.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
Cost:						
At 1 January 2011	7,408	1,605	348	2,979	71,243	83,583
Additions	—	32,874	3,423	1,211	28,912	66,420
Disposals	—	(21)	(3)	—	—	(24)
Transfers	93,065	—	—	—	(93,065)	—
At 31 December 2011	100,473	34,458	3,768	4,190	7,090	149,979
Accumulated depreciation:						
At 1 January 2011	323	140	54	999	—	1,516
Charge for the year	3,745	1,394	169	645	—	5,953
Disposals	—	(6)	(1)	—	—	(7)
At 31 December 2011	4,068	1,528	222	1,644	—	7,462
Net book value:						
At 31 December 2011	96,405	32,930	3,546	2,546	7,090	142,517
At 31 December 2010	7,085	1,465	294	1,980	71,243	82,067

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total 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 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. Pursuant to the Reorganisation as detailed in the consolidated statement of changes in equity, 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 building with a carrying value of approximately RMB62,036,000 as at 31 December 2011 was pledged to secure the banking facilities granted to the Group (note 24).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**20,900**	25,807
Deemed appropriations to equity holders*	**–**	(4,112)
Recognised during the year	**(434)**	(795)
Carrying amount at 31 December	**20,466**	20,900
Current portion included in prepayments, deposits and other receivables	**(434)**	(434)
Non-current portion	**20,032**	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 and deposits) at 1 January 2010, 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.

The Group's leasehold land with a carrying value of approximately RMB15,387,000 as at 31 December 2011 was pledged to secure the banking facilities granted to the Group (note 24).

16. INTANGIBLE ASSETS

Group	Trademarks RMB'000	Copyrights RMB'000	Total RMB'000
Cost:			
At 1 January 2010	3,588	—	3,588
Disposals*	(3,428)	—	(3,428)
At 31 December 2010 and 1 January 2011	160	—	160
Additions	—	7,120	7,120
At 31 December 2011	160	7,120	7,280
Accumulated amortisation:			
At 1 January 2010	213	—	213
Retained by Fujian Shuangfei	(213)	—	(213)
Provided during the year	359	—	359
Disposals*	(343)	—	(343)
At 31 December 2010 and 1 January 2011	16	—	16
Provided during the year	16	1,305	1,321
At 31 December 2011	32	1,305	1,337
Net carrying amount:			
At 31 December 2011	128	5,815	5,943
At 31 December 2010	144	—	144

* 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.

17. INVESTMENTS IN SUBSIDIARIES

	Company 2011 RMB'000
Unlisted shares, at cost	**82,348**

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Prince Frog Investment Limited ("Prince Frog Investment") *(note 1)*	British Virgin Islands ("BVI")	US$30 (2010: US$10)	100	–	Investment holding
Prince Frog (HK) Daily Chemicals Company Limited ("Prince Frog (HK)") *(note 1)*	Hong Kong	HK$10,100 (2010: HK$10,000)	–	100	Investment holding
青蛙王子(中國)日化有限公司 Frog Prince (China) *(notes 1 and 2)*	PRC/Mainland China	US$40,000,000	–	100	Manufacture and sale of personal care and household hygiene products

17. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

1. Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

2. Frog Prince (China), a wholly-foreign-owned enterprise under the law of the PRC, increased its registered capital from US$10,000,000 to US$55,000,000 during the year ended 31 December 2011, of which US$40,000,000 was paid up as at 31 December 2011. A commitment of US$15,000,000 (equivalent to approximately RMB94,514,000) (2010: Nil) is disclosed in note 30 to the financial statements.

18. INVENTORIES

	Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**19,879**	7,645
Work in progress	**4,116**	830
Finished goods	**50,523**	26,262
	74,518	34,737

19. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**92,999**	58,949
Bills receivable	**—**	200
	92,999	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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

19. TRADE AND BILLS RECEIVABLES (continued)

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 30 days	**74,682**	48,836
31 to 60 days	**17,233**	10,052
61 to 90 days	**767**	61
91 to 180 days	**317**	200
	92,999	59,149

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

		Neither past due nor	Past due but not impaired	
	Total	impaired	1 to 30 days	31 to 60 days
	RMB'000	RMB'000	RMB'000	RMB'000
2011	**92,999**	**74,833**	**17,849**	**317**
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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000
Prepayments	**6,761**	3,325
Deposits for purchase of items of property, plant and equipment	**2,739**	8,287
Deposits and other receivables	**492**	506
Other taxes recoverable	**80**	—
	10,072	12,118
Less: non-current portion	**(2,839)**	(8,387)
	7,233	3,731

Company

	2011 RMB'000
Prepayments	**4,168**

Pursuant to the Reorganisation, prepayments 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.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2011	2010
	RMB'000	RMB'000
Cash and bank balances	**474,884**	72,299
Time deposits	**261,809**	2,350
	736,693	74,649
Less: Pledged time deposits:		
Pledged for bills payables	**(421)**	(1,780)
Pledged for banking facilities on letter of credit	**(127)**	—
Pledged for banking facilities on foreign exchange derivative financial instruments	**(548)**	(570)
Cash and cash equivalents	**735,597**	72,299

Company

	2011
	RMB'000
Cash and bank balances	**5,608**
Time deposits	**239,811**
Cash and cash equivalents	**245,419**

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.

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.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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 three 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.

22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 1 month	**75,273**	28,111
1 to 3 months	**4,901**	4,575
3 to 6 months	**421**	1,170
Over 6 months	**—**	38
	80,595	33,894

Pursuant to the Reorganisation, bills payable 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 payable were secured by the pledge of certain of the Group's time deposits amounting to RMB421,000 and RMB1,780,000 (note 21) as at 31 December 2011 and 2010, respectively.

23. OTHER PAYABLES AND ACCRUALS

Group

	2011 **RMB'000**	2010 RMB'000
Other payables	**1,694**	40
Other tax payables	**3,716**	5,732
Deposits received from customers	**—**	1,487
Accruals	**19,160**	9,952
	24,570	17,211

Company

	2011 **RMB'000**
Accruals	**2,100**

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.

24. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2011 RMB'000	Group 2010 RMB'000
Current				
Bank loans — secured	6.4	May 2012	**20,000**	—
Bank loans — unsecured	6.1	May 2012	**10,000**	—
			30,000	—
Non-current				
Bank loan — unsecured	5.4–6.4	April 2013	**—**	15,800
			—	15,800
			30,000	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.

	Group 2011 RMB'000	Group 2010 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**30,000**	—
In the second year	**—**	—
In the third to fifth years, inclusive	**—**	15,800
	30,000	15,800

24. INTEREST-BEARING BANK BORROWINGS (continued)

(a) Certain of the Group's bank loans are secured by:

(i) the pledge of the Group's building with a net carrying amount of approximately RMB62,036,000 (2010: Nil); and

(ii) the pledge of the Group's leasehold land with a net carrying amount of approximately RMB15,387,000 (2010: Nil).

(b) All bank loans bear interest rates announced by the People's Bank of China per annum and are denominated in RMB.

(c) Bank loans of RMB20,000,000 and RMB25,000,000 utilised during the years ended 31 December 2011 and 2010, respectively, were guaranteed by 漳州新藝彩印有限公司 (Zhangzhou Xinyi Colour Printing Co., Ltd.) ("Xinyi Colour Printing"), Mr. Xie Fenqiang (謝奮強), Mr. Gan Jianhui (甘建輝), independent third parties, and Mr. Li and Mr. Xie, and had been repaid during the years ended 31 December 2011 and 2010, respectively. Mr. Xie Fenqiang and Mr. Gan Jianhui are shareholders of Xinyi Colour Printing. The guarantees provided by Mr. Li and Mr. Xie had been released during the year ended 31 December 2011.

Bank loans of RMB50,000,000 and RMB18,000,000 utilised during the years ended 31 December 2011 and 2010, respectively, were guaranteed by Fujian Shuangfei, Mr. Li and Mr. Xie, and had been repaid during the years ended 31 December 2011 and 2010, respectively. The guarantees provided by Mr. Li and Mr. Xie had been released during the year ended 31 December 2011.

25. ISSUED CAPITAL

The issued capital as at 31 December 2010 represented the combined issued share capital of Prince Frog (HK) and Prince Frog Investment, which are now subsidiaries of the Company.

	2011 RMB'000
Authorised:	
5,000,000,000 ordinary shares of HK$0.01 each	**41,524**
Issued and fully paid:	
1,008,250,000 ordinary shares of HK$0.01 each	**8,368**

25. ISSUED CAPITAL (continued)

The following changes in the Company's authorised and issued share capital took place during the period from 11 January 2011 (date of incorporation) to 31 December 2011:

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	RMB'000
Authorised:				
On incorporation	(a)	**5,000,000**	**50**	**43**
Increase in authorised share capital on 22 June 2011	(b)	**4,995,000,000**	**49,950**	**41,481**
As at 31 December 2011		**5,000,000,000**	**50,000**	**41,524**
Issued:				
Allotted and issued for cash on incorporation	(c)	**100**	**–**	**–**
Issuance of new shares pursuant to the acquisition of Prince Frog Investment	(d)	**445,100**	**4**	**3**
Issuance of new shares pursuant to share swap	(e)	**554,800**	**6**	**5**
Issuance of new share pursuant to the Capitalisation of Pre-IPO Investors Fund as defined in note 27(a)	(f)	**1**	**–**	**–**
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	(g)	**748,999,999**	**7,490**	**6,217**
Pro forma issued capital at 31 December 2010		**750,000,000**	**7,500**	**6,225**
Issuance of new shares on 15 July 2011	(h)	**250,000,000**	**2,500**	**2,075**
Issuance of new shares on 11 August 2011	(i)	**8,250,000**	**83**	**68**
As at 31 December 2011		**1,008,250,000**	**10,083**	**8,368**

25. ISSUED CAPITAL (continued)

Notes:

(a) On incorporation of the Company 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.

(b) Pursuant to an ordinary resolution passed on 22 June 2011, the authorised share capital of the Company was increased from HK$50,000 to HK$50,000,000 by the creation of 4,995,000,000 additional shares of HK$0.01 each, ranking pari passu in all respect with the existing shares of the Company.

(c) On incorporation of the Company on 11 January 2011, one share of HK$0.01 each was allotted and issued, at nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to Prince Frog International on the same date. In addition, 99 shares of HK$0.01 each were allotted and issued, at nil paid, to Prince Frog International on the same date.

(d) On 22 February 2011, the Company acquired from Prince Frog International an aggregate of 200 shares of US$0.1 each in the share capital of Prince Frog Investment, being its entire issued share capital, in consideration of and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 445,100 shares to Prince Frog International and (ii) credited as fully paid at par the 100 nil paid share then held by Prince Frog International (note (c)).

(e) Pursuant to an ordinary resolution passed on 13 June 2011, 427,700 shares, 94,200 shares, 14,100 shares and 18,800 shares were allotted and issued, credited as fully paid, to Jinlin Investment Company Limited ("Jinlin Investment"), CCB International Asset Management Limited ("CCBIAM"), Joyful Business Holdings Limited ("Joyful") and PARAMOUNT STAGE LIMITED ("PARAMOUNT"), respectively, in exchange for the same number of shares in Prince Frog International held by each of Jinlin Investment, CCBIAM, Joyful and PARAMOUNT to Zhenfei Investment Company Limited ("Zhenfei Investment").

(f) On 20 June 2011, one share of HK$0.01 was issued, credited as fully paid, to Prince Frog International at a consideration of approximately HK$104,750,000 for Capitalisation of Pre-IPO Investors Fund (as defined in note 27(a)).

(g) Pursuant to a resolution passed on 22 June 2011, 748,999,999 shares of HK$0.1 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appear on the register of members of the Company at 8:00 a.m. on 14 July 2011 in proportion to their respective shareholdings. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (h) below.

(h) In connection with the Company's initial public offering, 250,000,000 shares of HK$0.01 each were issued at a price of HK$2.60 per share for a total cash consideration, before expenses, of approximately HK$650,000,000. Dealings in these shares on the Stock Exchange commenced on 15 July 2011.

25. ISSUED CAPITAL (continued)

Notes: (continued)

(i) Pursuant to the international underwriting agreement dated 29 June 2011, the Company granted an option (the "Over-allotment Option") to the international underwriters, exercisable by CCB International Capital Limited on behalf of the international underwriters. On 5 August 2011, the Over-allotment Option was partially exercised, whereby an aggregate of 9,900,000 shares which comprise of 8,250,000 new shares and 1,650,000 sale shares, comprising 841,500 shares offered for sale by Prince Frog International and 808,500 shares offered for sale by Jinlin Investment, to cover over-allocations in the international offering. The exercise price per share for the Over-allotment Option is HK$2.60. Dealings in these shares on the Stock Exchange commenced on 11 August 2011.

(j) During the year ended 31 December 2002, 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 1 January 2010 and 31 December 2010. During the year ended 31 December 2010, 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 1 January 2011, the share capital represented the combined share capital of Prince Frog (HK) of HK$10,000 and Prince Frog Investment of US$10.

26. SHARE OPTION SCHEME

On 22 June 2011, the Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include, among others, the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the Company's shareholders. The Scheme was conditionally approved on 22 June 2011, and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective on 15 July 2011 upon the listing of the Company's shares on the Stock Exchange.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding the independent non-executive director who or whose associate is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

26. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2011	–	–
Granted during the year	**1.92**	**12,966**
At 31 December 2011	**1.92**	**12,966**

No share options were exercised during year ended 31 December 2011.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011 Number of options'000	Exercise price HK$ per share	Exercise period
12,966	**1.92**	**14-10-12 to 13-10-21**

26. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was RMB7,817,000 (RMB0.60 each) of which the Group recognised a share option expense of RMB1,083,000 during the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a trinomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	**1.75**
Expected volatility (%)	**38.17**
Risk-free interest rate (%)	**1.33**
Expected life of options (year)	**8–10**
Price of the Company's shares at date of grant (HK$ per share)	**1.92**

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had 12,966,000 share options outstanding under the Scheme, which represented approximately 1.29% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,966,000 additional ordinary shares of the Company and additional share capital of approximately HK$130,000 (equivalent to approximately RMB105,000) and share premium of approximately HK$24,765,000 (equivalent to approximately RMB20,077,000), before issue expenses.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(i) Share premium

As at 31 December 2011, share premium of RMB608,412,000 represented (i) the excess of the consideration of HK$104,750,000 (i.e. RMB86,958,000) pursuant to the Capitalisation of Pre-IPO Investors Fund (defined below) over the nominal value of the Company's share capital issued in exchange therefor and (ii) the excess of cash consideration paid over the nominal value of the Company's share capital issued pursuant to the Company's initial public offering as mentioned in note 25(h) and 25(i), after capitalisation issue as mentioned in note 25(g) and share issue expenses.

On 29 July 2010, Prince Frog (HK), Frog Prince (China), Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment and Prince Frog International entered into share purchase agreements (the "SPAs") with CCBIAM, Joyful and PARAMOUNT. Pursuant to the SPAs, Prince Frog International allotted and issued new ordinary shares of 10,785 shares, 1,618 shares and 2,157 shares to CCBIAM, Joyful and PARAMOUNT at cash considerations of US$10,000,000, US$1,500,000 and US$2,000,000 (amounted to a total of US$13,500,000 (i.e. HK$104,750,000 equivalent) in aggregate, the "Pre-IPO Investors Fund"), respectively. Prince Frog International advanced the fund to the Group and an amount due to Prince Frog International of HK$104,750,000 (approximately RMB89,135,000) was recorded in the consolidated statement of financial position as at 31 December 2010.

On 20 June 2011, the Company entered into share subscription agreements (the "Share Subscription Agreements") with Prince Frog International, Prince Frog Investment and Prince Frog (HK). Pursuant to the Share Subscription Agreements, the Company allotted and issued one new ordinary share of HK$0.01 to Prince Frog International at a consideration of HK$104,750,000. Upon completion of these share subscriptions, the amount due to Prince Frog International by the Group was then settled in full. The difference between the par value of the one ordinary share issued and the capitalised Pre-IPO Investors Fund ("Capitalisation of Pre-IPO Investors Fund") was accounted for as a credit to the Group's share premium during the year.

The share capital movements of the Company are set out in note 25 to the financial statements.

27. RESERVES (continued)

(a) Group (continued)

(ii) Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as detailed in the consolidated statement of changes in equity.

(iii) Statutory reserve fund

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is 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 the 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.

(b) Company

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At 11 January 2011	–	–	–	–	–
Loss for the year	–	–	–	(35,773)	(35,773)
Total comprehensive expense for the year	–	–	–	(35,773)	(35,773)
Acquisition of subsidiaries	–	(4,613)	–	–	(4,613)
Capitalisation of an amount due to Prince Frog International	86,958	–	–	–	86,958
Capitalisation issue	(6,217)	–	–	–	(6,217)
Issue of shares	535,475	–	–	–	535,475
Share issue expenses	(7,804)	–	–	–	(7,804)
Equity-settled share option arrangements	–	–	1,083	–	1,083
At 31 December 2011	608,412	(4,613)	1,083	(35,773)	569,109

27. RESERVES (continued)

(b) Company (continued)

The debit balance of capital reserve represented the excess of the nominal value of the Company's shares issued in exchange therefor and the then net asset value of the subsidiaries acquired.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) On 1 January 2010, Retained Assets of Fujian Shuangfei with aggregate carrying values of approximately RMB57,317,000 were not transferred to the Group but were retained by Fujian Shuangfei. They were reflected as deemed appropriations to the equity holders in the consolidated statement of changes in equity.

(b) On 20 June 2011, the amount due to Prince Frog International of RMB89,135,000 (equivalent to HK$104,750,000) was settled via the Capitalisation of Pre-IPO Investors Fund.

(c) During the year ended 31 December 2011, prepayments for purchase of items of property, plant and equipment of RMB8,287,000 as at 31 December 2010 was transferred to property, plant and equipment.

29. 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 month to five years with an option for renewal after that date, at which times all terms will be renegotiated.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**4,894**	4,118
In the second to fifth years, inclusive	**2,673**	4,323
	7,567	8,441

30. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Construction of buildings	**67,370**	77,362
Purchase of items of plant and machinery	**2,782**	6,790
	70,152	84,152
Contracted for commitment in respect of investment in a wholly-foreign-owned subsidiary in the PRC	**94,514**	—
	164,666	84,152

31. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2011 RMB'000**	2010 RMB'000
Related companies:			
Sales of products	(a)	**35,007**	32,646
Rental expenses	(b)	**3,409**	3,578
Subcontracting fees	(c)	**9,613**	8,682
Purchases of raw materials	(d)	**—**	159
Purchase of intangible asset	(e)	**7,120**	—
Purchase of plant and machinery	(f)	**627**	—

Notes:

(a) Sales to related companies, Shuangfei Daily Chemicals (USA) Inc. ("Shuangfei (USA)") and Fujian Shuangfei, which are controlled by Mr. Li and Mr. Xie, of RMB34,789,000 (2010: RMB32,646,000) and RMB218,000 (2010: Nil), respectively, were made on mutually agreed terms.

(b) Frog Prince (China) and Fujian Shuangfei, which are controlled by Mr. Li and Mr. Xie, entered into buildings, equipment and vehicles lease agreements on 1 January 2010 and two supplementary lease agreements on 26 January 2011 and 14 February 2011. Pursuant to these agreements, Frog Prince (China) leased from Fujian Shuangfei the production premises and office building with a total floor area of 14,097 square metres and certain machinery, furniture, fixtures, office equipment and motor vehicles. Except for a lease agreement for buildings with a total floor area of 4,846 square metres which is for a fifty-nine months lease period ending 1 December 2014 with a fixed monthly rental payable of approximately RMB27,000, the terms of the lease under the agreements are three years with a fixed monthly rental payable of approximately RMB53,000 for the production premises and office building and approximately RMB204,000 for the machinery, furniture, fixtures, office equipment and motor vehicles. 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.

(e) Frog Prince (China) and Fujian Shuangfei entered into copyrights assignment agreement on 28 February 2011 for the acquisition of copyrights related to 青蛙王子 (Frog Prince) animation series. The directors confirmed that purchase was made on mutually agreed terms.

(f) The directors confirmed that the purchases from Fujian Shuangfei were made according to mutually agreed terms.

31. RELATED PARTY TRANSACTIONS (continued)

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

Group

Due from related parties:

	2011 RMB'000	2010 RMB'000
Directors	–	2,573
Related companies	7,691	23,571
	7,691	26,144

Due to related parties:

	2011 RMB'000	2010 RMB'000
Directors	–	430
Prince Frog International	–	89,135
	–	89,565

31. RELATED PARTY TRANSACTIONS (continued)

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

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

Group

Year ended 31 December 2011

Name	31 December 2011 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2011 RMB'000
Directors			
Mr. Li	—	1,312	1,312
Mr. Xie	—	1,261	1,261
Related companies			
Shuangfei USA	7,691	16,537	11,594
Fujian Shuangfei	—	11,977	11,977
	7,691	31,087	26,144

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 companies			
Shuangfei USA	11,594	22,842	3,591
Fujian Shuangfei	11,977	11,977	—
	26,144	42,319	11,091

31. RELATED PARTY TRANSACTIONS (continued)

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

Pursuant to the Reorganisation, amounts due from related parties of RMB54,014,000 to Fujian Shuangfei at 1 January 2010 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.

(iii) Commitments with related parties

On 1 January 2010 and 26 January 2011, Frog Prince (China) entered into three-year agreements ending 31 December 2012 and a supplementary agreement with Fujian Shuangfei, a company controlled by Mr. Li and Mr. Xie, to lease the production premises, office building and certain machinery, furniture, fixtures, office equipment and motor vehicles for the Group's production. On 14 February 2011, Frog Prince (China) and Fujian Shuangfei entered into a supplementary agreement with lease period ending 1 December 2014 for the lease of a production premise for the Group's production. The amount of total rental expenses incurred for the year is included in note 31(i)(b) to the financial statements. The Group expects total rental expenses payable to Fujian Shuangfei in 2012, 2013 and 2014 to be approximately RMB3,410,000, RMB321,000 and RMB294,000, respectively.

(iv) Compensation of key management personnel of the Group

Further details of directors' remuneration and five highest paid employees are included in notes 8 and 9 to these financial statements.

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

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

Loans and receivables

	Group	
	2011	2010
	RMB'000	RMB'000
Trade and bills receivables	**92,999**	59,149
Amounts due from related parties	**7,691**	26,144
Financial assets included in prepayments, deposits and other receivables	**492**	506
Pledged deposits	**1,096**	2,350
Cash and cash equivalents	**735,597**	72,299
	837,875	160,448

Financial liabilities

Financial liabilities at amortised cost

	Group	
	2011	2010
	RMB'000	RMB'000
Trade and bills payables	**80,595**	33,894
Financial liabilities included in other payables and accruals	**13,116**	5,064
Interest-bearing bank borrowings	**30,000**	15,800
Amounts due to related parties	**—**	89,565
	123,711	144,323

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the year are as follows: (continued)

Financial assets

Loans and receivables

	Company 2011 RMB'000
Amount due from a subsidiary	250,772
Cash and cash equivalents	245,419
	496,191

Financial liabilities

Financial liabilities at amortised cost

	Company 2011 RMB'000
Financial liabilities included in accruals	2,100
Amount due to a subsidiary	3,130
	5,230

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise pledged deposits, cash and cash equivalents and interest-bearing bank 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, amounts due from related parties, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals and amounts due to related parties, which arise directly from its operations.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 year 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 bank borrowings with floating interest rates.

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing bank borrowings, 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
2011	**100**	**25**
2010	100	—

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales transactions and financing denominated in US$ and HK$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in US$/HK$ rate	Increase/(decrease) in profit before tax	
		2011	2010
	%	**RMB'000**	RMB'000
If RMB weakens against US$	5	**5,276**	1,417
If RMB strengthens against US$	(5)	**(5,276)**	(1,417)
If RMB weakens against HK$	5	**2,697**	313
If RMB strengthens against HK$	(5)	**(2,697)**	(313)

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 and amounts due from related companies 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 19 to the financial statements.

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.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Group

	2011			
	On demand RMB'000	**Less than 1 year RMB'000**	**Over 1 year RMB'000**	**Total RMB'000**
Trade and bills payables	**—**	**80,595**	**—**	**80,595**
Financial liabilities included in other payables and accruals	**—**	**13,116**	**—**	**13,116**
Interest-bearing bank borrowings		**30,672**	**—**	**30,672**
	—	**124,383**	**—**	**124,383**

Group

	2010			
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total 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 borrowings	—	853	16,920	17,773
Amounts due to related parties	89,565	—	—	89,565
	89,565	39,811	16,920	146,296

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, was less than one year.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 years ended 31 December 2011 and 2010.

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.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012.

Summary Financial Information

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years prepared on the basis set out in the notes below.

Results

	Year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,269,167**	837,991	624,396	473,966
Profit before tax	**218,466**	167,900	126,266	99,416
Income tax expense	**34,521**	23,431	34,467	27,192
Profit attributable to the equity holders of the Company for the year	**183,945**	144,469	91,799	72,224

Assets and liabilities

	As at 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,090,465**	309,474	315,859	176,260
Total liabilities	**142,113**	163,819	169,261	71,477
	948,352	145,655	146,598	104,783

Notes:

(i) The summary of the consolidated results of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and of the assets and liabilities as at 31 December 2008, 2009 and 2010 have been extracted from the Prospectus. Such summary is presented on the basis as set out in the Prospectus.

(ii) The consolidated results of the Group for the year ended 31 December 2011 and the consolidated assets and liabilities of the Group as at 31 December 2011 are those set out on pages 51 to 54 of this annual report. Such summary was prepared as if the current structure of the Group had been in existence throughout this financial year.

The financial information for the year ended 31 December 2007 was not disclosed as consolidated financial statements for the Group have not been prepared for that year.

The summary above does not form part of the audited financial statements.