Prince Frog International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1259

2012 Prince Frog Annual Report

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 and second seasons of the Company's Frog Prince animation series, the third season will be launched in 2013 summer.

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 and maternal products under its own brand name, -'ein.b' and manufactures 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, and develop 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

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. 162, 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

STOCK CODE

1259

COMPANY WEBSITE

www.princefrog.com.cn

BOARD COMMITTEES

Audit Committee Members

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

Nomination Committee Members

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

Remuneration Committee Members

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

PRINCIPAL BANKER

Agricultural Bank of China Limited
Zhangzhou Branch

Corporate Information (continued)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

AUDITORS

Ernst & Young

COMPLIANCE ADVISER

CIMB Securities Limited
Units 7706-08, Level 77
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Chairman's Statement

On behalf of the board of directors (the "Board") of the Company (together with its subsidiaries, the "Group", stock code: 1259.HK), I would like to present the financial results and operating performance of the Group for the year ended 31 December 2012 to the shareholders.

Since its establishment, Prince Frog has adhered to its belief in children's personal care and strived to provide the highest quality and most thoughtful personal care products for Chinese children. It aims 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.

Looking back to 2012, the Group's revenue and profit attributable to shareholders had maintained rapid growth. For the year ended 31 December 2012, the Group's operating revenue amounted to RMB1,572.1 million, representing an increase of 23.9% from the corresponding period in 2011. Profit attributable to equity holders of the Company totalled RMB241.1 million, representing an increase of 31.1% from the corresponding period in 2011. Basic earnings per share were RMB23.9 cents. The proposed dividend was HK6.0 cents (approximately RMB4.8 cents) per share.

The Group's achievements in 2012 are attributable to its unswerving efforts to expand sales channels by leveraging its branding. The Company increased investments in marketing and launched a series of advertisements featuring Ms. Kelly Chen, the spokesperson of the Group, on TV and in print media. These, together with the community care events sponsored by the Company, enabled the Frog Prince brand to be more widely recognized and appreciated among consumers. Meanwhile, the year of 2012 witnessed the Company's first step in implementing its multi-brand strategy. The launch of 'ein. b', a brand of high-end personal care products for expecting mothers and babies, diversified the Group's product mix. The Company also achieved great progress in expanding sales channels. In 2012, we speeded up the entry into hypermarkets such as Walmart and Carrefour which are international supermarket chains, enabling the brand to penetrate the market further. At the same time, the Company sought to consolidate its market position in smaller cities, further splitting up its sales channels by moving into local supermarket chains in smaller cities and towns. In addition, the Group moved into the e-commerce channel in 2012, successfully selling its products on Tmall, Jingdong and other mainstream e-commerce platforms in the People's Republic of China (the "PRC"). Currently, the Group has 197 distributors. In the coming year, the Group intends to further optimize the capabilities and structure of its distributors. With extensive sales channels in second and third-tier cities, coupled with strong brand promotions in first-tier cities, we will look further ahead into the future and strive to make Frog Prince a household name, a high-quality brand for families all over the country.

I would like to take this opportunity to express my gratitude to all our employees for their unremitting efforts in the past year. Moreover, Prince Frog would not have become so successful today without the support of the government, the distributors and the community. I would also like to extend my appreciation to all our shareholders for their support and recognition of the Group's mission and strategies for the future. 2013 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. Each and every one of us in Prince Frog will go all out to bring high returns to our shareholders.

Prince Frog International Holdings Limited
Chairman
Mr. Li Zhenhui

26 March 2013

Management Discussion and Analysis

During 2012, the Company continued to put into practice its 'Branding comes first' philosophy. Leveraging its leading market position in second, third and fourth-tier cities and its solid brand image, the Company actively opened up sales channels in first-tier cities and international chain supermarkets ("K/A") nationwide. In 2012, the Group achieved rapid growth in its operating results and was honoured with a number of industry awards and professional certifications:

- On 15 March 2012, the Company became a group member of China Quality Inspection Association.

- On 15 March 2012, the Company was awarded the title of "Excellent Model Enterprise for Trustworthy Quality in China" (全國質量誠信承諾優秀示範企業) by China Quality Inspection Association.

- On 19 April 2012, the Company passed the certification audit of "Cosmetics – Guidelines on Good Manufacturing Practices (2008)" of the United States Food and Drug Administration.

- On 19 April 2012, the Company passed the certification audit of "ISO22716: 2007(e) Cosmetics – Good Manufacturing Practices (GMP)".

- On 24 April 2012, the Company was awarded the "2012 Jingzheng Outstanding Contribution Award in the Pregnancy, Babies and Children Product Category" (2012京正•中國孕嬰童行業突出貢獻獎).

- On 4 May 2012, the Company's Chairman, Mr. Li Zhenhui, was elected vice president of the 17th China Beauty Expo.

- On 25 May 2012, the Company was awarded the title of "Top Ten Exemplary Brands in China's Mother and Child Care Products Industry" (中國母嬰用品護理行業十大標誌性品牌), jointly presented by China Association for Small & Medium Commercial Enterprises, China Economic and Cultural Development Association, Green Economy Research Institute of China Academy of Management Science, The Man In The Century Magazine and Organizing Committee of Promotion Activities for Enterprises with Industry-leading Brands in China.

- In June 2012, the Company became a vice-chair member of the Fujian Association of Health Care Products and Cosmetics.

- In August 2012, the Company was awarded the title of "Advanced Enterprise 2011 for Quality Management" (2011年度質量管理先進企業) by the Quality Supervision Bureau in Fujian.

- In September 2012, the Company was awarded the title of "Grade-A Enterprise for Entry-Exit Inspection and Quarantine Credit Management" (出入境檢驗檢疫信用管理A級企業) by the Xiamen Entry-Exit Inspection and Quarantine Bureau.

- On 11 December 2012, the Company was awarded the title of "World-renowned Brand to be Specially Fostered and Developed in Fujian 2011-2013" (2011-2013年度福建省重點培育和發展的國際知名品牌) by the Department of Foreign Trade & Economic Cooperation of Fujian.

- On 15 December 2012, the Company was awarded the title of "Best Dissemination and Innovation of Social Responsibility Ideas" (最佳社會責任理念傳播創新獎) at the 10th Anniversary of China Marketing Forum (中國營銷盛典) & Award Ceremony for Chinese Enterprise Marketing Innovation sponsored by the magazine Sales & Markets (《銷售與市場》).

- On 31 December 2012, the Frog Prince trademark was certified as a "Famous Trademark of China" (中國馳名商標) by the Trademark Office of the State Administration for Industry and Commerce of the PRC.

Management Discussion and Analysis (continued)

BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB1,572.1 million, representing a growth of about 23.9% over the corresponding period in 2011 (31 December 2011: approximately RMB1,269.2 million), of which, revenue from children's personal care products amounted to approximately RMB1,277.6 million, representing an increase of about 39.2% over the corresponding period in 2011 (31 December 2011: approximately RMB917.6 million). For the year ended 31 December 2012, gross profit margin of the Group increased to about 45.9%, representing an increase of around 3.5 percentage points over the corresponding period in 2011 (31 December 2011: about 42.4%). Gross profit margin of children's personal care products was about 50.6%, representing an increase of around 1.6 percentage points over the corresponding period in 2011 (31 December 2011: about 49.0%). For the year ended 31 December 2012, the Group recorded a net profit of approximately RMB241.1 million, representing an increase of about 31.1% over the corresponding period in 2011 (31 December 2011: approximately RMB183.9 million).

The rapid growth in the Group's results for 2012 was mainly attributable to the following reasons:

1. More efforts in brand promotion by way of spokesperson and animation marketing

Ms. Kelly Chen, one of Asia's most popular artists, has been the spokesperson of the Group since December 2011, ushering in a new era for brand promotion of Frog Prince. Frog Prince leveraged the fame of Ms. Kelly Chen as its spokesperson to launch a new advertising campaign through print, TV, lamp boxes, billboards, the metro, vehicle wraps on public transport, retail outlet display and online media, accompanied by a series of ground marketing initiatives.

In May 2012, the Group held a press conference in Beijing for its third season of the animation series 'Frog Prince — Croaking School of Witchcraft and Wizardry' and finalized its main crew. The success of the first and second seasons of the animation series has led to the launch of the third season, which is jointly produced by the Group and the School of Animation of Beijing Film Academy. The series is expected to premiere in China during the summer vacation of 2013. To support the launch of this series, on 21 September 2012, the Group held a grand opening for a talent competition via the Internet under the theme of 'A Future Nurtured in Dreams', and the ten winner babies together with Ms. Kelly Chen shot the music video of the theme song of 'Frog Prince — Croaking School of Witchcraft and Wizardry' in Shanghai on 7 March 2013. Meanwhile, Ms. Kelly Chen would also include the theme song 'Seven-coloured Dreams' of this series into her latest 2013 Cantonese music album. We believe that the collaboration with such an influential artist will enable Frog Prince to take a big leap forward in developing its branding.

2. Vigorous expansion of sales channels

In 2012, while tapping further into conventional sales channels, the Group also actively opened up new markets, continuously distributing products to supermarkets and convenience stores via distributors. Distributors of the Group increased to 197 from 185 as at the end of 2011, spreading across the country. The e-commerce channel was also covered. During 2012, the Group introduced its products into over 8,700 large and small supermarket stores in China, including international supermarket chains such as all Walmart stores nationwide, Carrefour, RT-MART, and CR Vanguard, which greatly enhanced the market share of the Frog Prince products. The Group believes that sales contributions from large supermarket chains will account for an increasing share of our total sales. In addition, the Group actively expanded the e-commerce sales channel, and launched the Wheat Germ Series of care products, available online only, in October 2012. As at the date of this report, products of the Group have been available for sale at Tmall (www.tmall.com), Jingdong annual (www.360buy.com), China dangdang Inc. (www.dangdang.com), Amazon, Yihaodian, which are mainstream e-commerce platforms in the PRC, and a variety of online marketing activities have been conducted.

3. Continuous launch of diverse promotion campaigns

During the year under review, the Group actively held diverse offline promotion campaigns and continuously staged different varieties of promotional events across the country, such as the large-scale offline promotion activities staged on 'June 1' International Children's Day in 59 cities nationwide under the theme of 'Children's hearts lighting up the city' (童心'慧'全城), and a series of in-store promotion activities launched during the 'Labour Day' holidays and the 'National Day' golden week including producing diverse stacking patterns of products, distribution of giveaways, promotional items and special offers. These promotions were held in different districts on an ongoing basis, effectively increasing the visibility of the Group's brand.

4. Internet marketing

In 2012, the Group started all-round online marketing and promotion via Internet communication platforms in seven modes, including weibo marketing, article marketing, knowledge marketing, Q&A marketing, search engine marketing, Internet media cooperation and information detection. Through online competition for 'Caring Mommy', large-scale online voting for 'A Future Nurtured in Dreams', test reports for trial use of products on the mother & baby vertical platform, and registration of three official weibos, we have set up two major online promotion platforms — a social networking service communication platform and a news communication platform in the form of news portal for mother & baby communities, thus starting up communication via social media conducting one-way communication with millions of Internet users as well as two-way interactive communication.

5. **Launch of new maternal and baby brand 'ein.b'**

In 2012, the Group continued to focus on personal care products for babies and children in its business and launch new products and product portfolios for babies and children into new markets in line with consumer demands. In July 2012, the Group launched a new brand 'ein.b' of high-end personal care products for pre-conception, in-pregnancy and postpartum mothers and 0-3-year-old babies. The launch of the 'ein.b' brand is the first step in implementing the Group's diversified business strategy of offering multi-brand personal care products for babies and children, which will enable the Group to feature a more complete brand mix and a more comprehensive product line.

EXCELLENCE IN QUALITY CONTROL

Product quality and safety control has always been our management focus. On 19 April 2012, the Group passed the certification audit of "Cosmetics – Guidelines on Good Manufacturing Practices (2008)" of the United States Food and Drug Administration and the "ISO22716:2007(e) Cosmetics – Good Manufacturing Practices (GMP)".

On 11 January 2013, the Group joined forces with China National Institute of Standardization to set up China's first "Standardization Research Base for Cosmetic Products for Chinese Children" in the new industrial park of Prince Frog. In future, the Group will aggressively carry out various standardization research with focus on promoting the standardization research of children's cosmetics and develop talents for standardization to strengthen our core competitiveness.

SOCIAL RESPONSIBILITY

In mid-March 2012, the Company sponsored three charitable shows of the fairy tale musical, 'Moon Fairy and the Dulududu Farm', staged in the National Centre for the Performing Arts in Beijing, and invited students from schools for migrant workers' children and children of the Sun Village to watch for free. The musical was written, directed and performed by hosts of famous CCTV children's channels of China, aptly guiding the children to experience the theme of 'Dreams are realized through one's own efforts'.

On 26 May 2012, the Group, together with more than 30 entrepreneurs and representatives from different sectors, attended the event entitled 'Tender Care for Children' sponsored by the non-profit organization Blue Bird Seeds (青鳥種子) of China Charities Aid Foundation for Children, at which the 'Love Convention for Half-Day Holiday on June 1' was signed, promising and calling on more enterprises to give half-day leave on 'June 1' International Children's Day to employees with children under 14 years old so that the parents may have a little more time to spend with their children and to care for them. Thanks to its role in promoting this event which is a social responsibility initiative, the Group received the 2012 Award for "Best Dissemination and Innovation of Social Responsibility Ideas" (最佳社會責任理念傳播創新獎) on 15 December 2012 at the 10th Anniversary of China Marketing Forum (中國營銷盛典) & Award Ceremony for Chinese Enterprise Marketing Innovation sponsored by the magazine Sales & Markets (《銷售與市場》).

Management Discussion and Analysis (continued)

In 2012, the public lecture 'Are you loving in an appropriate way', co-sponsored by the Group and the non-profit organization Blue Bird Seeds (青鳥種子) of China Charities Aid Foundation for Children was successfully presented in Shanghai, Wuhan, Xi'an and Beijing. The lecture brought together well known hosts of CCTV children's channels and several children's education experts to conduct a thoughtful discussion on parents' 'love' for their children. By providing this platform, the Group hoped to stimulate reflection and discussion on children's education among all members of the community. The topic drew heated discussion among the audience and the event was very well received by parents and teachers.

On 13 December 2012, the 2012 national 'Caring Mommy' online contest, co-sponsored by the Group and the non-profit organization Blue Bird Seeds (青鳥種子), officially kicked off. Ten candidates of 'Caring Mommy' elected through mass election and online voting competed with each other in the final held in Shanghai on 13 January 2013. The winner was named 'Caring Mommy' for the year and received a prize from the Prince Frog Love Fund. This event attracted more than 170,000 hits; 1,664 caring mothers from around the country enthusiastically signed up and over 80,000 Internet users participated in online voting. This event aimed to provide parents with a platform to share parenting tips and to spread more and better family education experience.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 utilized up to 31 December 2012** *HK$ million*	**Balance as at 31 December 2012** *HK$ million*
Strengthening the marketing and promotion of products, expanding and strengthening management of sales networks and channels	285.5	258.4	254.7	3.7
Expanding and enhancing production facilities and capacities	214.1	193.8	175.6	18.2
Expanding product offerings	107.1	96.9	96.7	0.2
Enhancing research and development capabilities	35.7	32.3	8.6	23.7
Working capital and other general purposes	71.3	64.6	64.6	—
Total	713.7	646.0	600.2	45.8

FINANCIAL REVIEW

For the year ended 31 December 2012, revenue of the Group amounted to approximately RMB1,572.1 million (31 December 2011: approximately RMB1,269.2 million), representing an increase of about 23.9% as compared with the same period last year. Revenue of children's personal care products for the year ended 31 December 2012 increased by about 39.2% to approximately RMB1,277.6 million (31 December 2011: approximately RMB917.6 million). The Group vigorously expanded its distribution network and accelerated its pace to establish presence in supermarkets and large-scale shopping mall and supermarket chains. Meanwhile, the Group further strengthened brand building through commercial advertisements and in-store promotion activities and optimized its product portfolio. Accordingly, the revenue of the Group recorded stable growth.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year ended 31 December 2012 increased by about 34.2% to approximately RMB721.6 million (31 December 2011: approximately RMB537.7 million) as compared with the same period last year. During the year under review, gross profit margin increased by around 3.5 percentage points to approximately 45.9% as compared to the previous year (31 December 2011: about 42.4%). It was mainly due to (1) revenue of the K/A series products with higher gross profit margin more than doubled from approximately RMB61 million for the same period of the previous year to approximately RMB204 million; (2) improved productivity of the Group's new industrial park in 2012 after the run-in period; and (3) decrease in prices of certain bulk raw materials.

Selling and Distribution Expenses

Selling and distribution expenses primarily represented advertising expenses, marketing and promotion expenses, transportation costs, sales staff costs and other small amount of selling expenses. Selling and distribution expenses of the Group increased by about 49.0% from approximately RMB240.3 million for the year ended 31 December 2011 to approximately RMB358.0 million for the year ended 31 December 2012, which was primarily due to the following measures taken by the Group: (1) strengthened the penetration to K/A channels and proactively set footprint in the first-tier and other large scale supermarket chains; (2) vigorously carried out brand promotion and enhanced brand awareness by continuously launching more hard advertisements, online and charitable events marketing; (3) launched diversified in-store promotion activities and boosted the consumption of the end consumers by attaching lovely cartoon shape gifts. Selling and distribution expenses accounted for about 22.8% of the Group's revenue for the year ended 31 December 2012, with around 3.9 percentage points increase as compared to about 18.9% for the year ended 31 December 2011.

Management Discussion and Analysis (continued)

Administrative Expenses

Administrative expenses primarily consisted of salaries and wages to our administrative staff, depreciation, share option expenses, taxes and other surcharges. For the year ended 31 December 2012, administrative expenses amounted to approximately RMB76.3 million (31 December 2011: approximately RMB79.4 million). The decrease in administrative expenses was mainly due to the absence of the one-off listing expenses incurred in 2011. However, additional administrative expenses were incurred in 2012, including staff's share option expenses and higher remuneration for middle and senior level management members. Administrative expenses accounted for about 4.9% of the Group's revenue for the year under review (31 December 2011: about 6.3%).

Finance Costs

For the year ended 31 December 2012, finance costs decreased significantly to approximately RMB0.9 million (31 December 2011: approximately RMB4.4 million), mainly due to decrease in interest on bank borrowings as we repaid all our bank borrowings during the year ended 31 December 2012.

Net Profit and Net Profit Margin

For the year ended 31 December 2012, profit attributable to the equity holders of the Company amounted to approximately RMB241.1 million, representing an increase of about 31.1% as compared to last year (31 December 2011: approximately RMB183.9 million). During the year under review, net profit margin increased by around 0.8 percentage points over the same period in last year to about 15.3% (31 December 2011: about 14.5%) with basic earnings per share being approximately RMB23.9 cents (31 December 2011: approximately RMB21.2 cents).

Capital Expenditure

For the year ended 31 December 2012, major capital expenditure of the Group amounted to approximately RMB42.6 million, including that incurred in the construction of the second and third phase of the new plant at the new industrial park in Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC.

Financial Resources and Liquidity

As at 31 December 2012, cash and cash equivalents and other wealth management products of the Group amounted to approximately RMB819.9 million (31 December 2011: approximately RMB736.7 million). Current ratio was around 10.0 (31 December 2011: around 6.5) while gearing ratio (interest-bearing bank borrowings to equity) was zero (31 December 2011: about 3.2%).

Trade Receivables' Turnover Days

During the year under review, trade receivables' turnover days came to around 24.3 days (31 December 2011: around 21.9 days), calculated as the average of the beginning and ending trade receivables balances for the year divided by revenue for the year and multiplied by 366 days. The slight increase as compared with the same period last year was mainly due to the longer payment days for direct sales and extension of credit period to certain distributors.

Trade and Bills Payables' Turnover Days

During the year under review, trade and bills payables' turnover days came to around 31.4 days (31 December 2011: around 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 366 days. The Group's bargaining power with suppliers was higher as the credibility of the Group was enhanced after the listing.

Inventories' Turnover Days

During the year under review, inventories' turnover days came to around 25.3 days (31 December 2011: around 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 366 days. The decrease in inventories' turnover days was due to enhanced inventory management of the Company.

Bank Borrowings

As at 31 December 2012, the Group had no bank borrowings (31 December 2011: approximately RMB30.0 million).

Risks of Foreign Exchange

As at 31 December 2012, 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 2012, the Group did not have any material contingent liabilities (31 December 2011: Nil).

Pledge of Assets

As at 31 December 2012, the Group secured its bills payables by the pledge of its time deposits amounting to RMB1,148,000. At 31 December 2011, the Group secured its bills payables and certain banking facilities granted by banks by the pledge of its time deposits amounting to RMB1,096,000. In addition, at 31 December 2011, the secured bank loans of the Group were secured by the pledge of the Group's building and leasehold land with net carrying amounts of RMB62,036,000 and RMB15,387,000, respectively. During the year ended 31 December 2012, the respective bank borrowings were fully repaid and the pledge of the Group's building and leasehold land were released.

FUTURE PROSPECTS

Looking in the future, China has devoted itself to a shift in economic structure that promotes more growth from domestic consumption and investment rather than relying significantly on export. The national 12th Five Year Plan (2011-2015) clearly indicates that the government would address the evolving mode of economic development and focus on stimulating domestic demand by continued urbanization and a notable rise of personal disposable income, especially for the mid-to-low income population. All of the aforementioned changes will translate into greater opportunities for retailing and the fast moving consumer goods industry.

Since the implementation of the 'one-child' policy, there have been more and more one-child families in China, which resulted in such a family structure where there are four grandparents, two parents and one child in one family. As such, both the grandparents and parents are willing to splurge for the only child.

Parents perceive children's personal care products as a tool to show their love for their kids, therefore they are inclined to purchase relevant products with assured quality. Well-heeled parents prefer to buy expensive branded products for their children, and generally parents would rather reduce their own expenditure to spend on the children. In recent years, more and more Chinese consumers continue to increase spending on children's personal care products.

Meanwhile, Chinese authorities have relaxed the 'one-child' policy in some areas under certain circumstances. Accordingly, it is estimated that China might see another baby boom in the coming years, sustaining demand for children's personal care products.

In light of the potentially huge market demand for personal care products for babies and children, the Group will continue to focus on the development of this core business segment. The Group will continue to pursue its 'Branding comes first' philosophy, integrating its brand promotion plans to move ahead in transforming its sales channels, increasing market penetration and market share in first-tier cities while constantly consolidating and boosting market presence in second, third and fourth-tier cities. The Group will also synchronize online and offline marketing to generate synergy in an effort to reach niche markets via the e-commerce channel.

Further, the Group will gradually shift the positioning of babies' and children's personal care products from middle end to middle and high-end. This will be achieved through constant improvement of products, upgrading of packaging and design of outward appearance, in accordance with ever changing consumer demands and trends, different consumer preferences and consumption habits.

And furthermore, the Group will continue to make use of an animated cartoon culture as a differentiated marketing strategy, injecting into the brand different cultural connotations through animated cartoons and community activities to cultivate consumer identification with the brand and to enhance consumer loyalty.

The year 2013 will usher in great business opportunities brought about by rapid expansion of the domestic market. As a leader of babies' and children's personal care products sector in China, we are confident of the steady and healthy growth of our core business and our capability to create higher return for our shareholders.

Directors and Senior Management Biographies

DIRECTORS

Executive Directors

Mr. Li Zhenhui (李振輝), aged 53, 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 19 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" from the 14th to 17th China Beauty Expo (Shanghai CBE) (第14至17屆中國美容博覽會(上海CBE)「品牌聯盟」). 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 News (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 Economics (中央財經大學金融證券研究所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 controlling shareholder of the Company) and the director of Prince Frog International Company Limited (a wholly-owned subsidiary of Zhenfei Investment Company Limited and a controlling shareholder of the Company).

Mr. Xie Jinling (謝金玲), aged 54, a founder of the Group, is an executive director and a vice general manager of the Company. Mr. Xie has over 19 years of experience in personal care products industry of China gained from his work in the Group. He is mainly responsible for the management of new facilities construction of the Group. He received a high school diploma in 1976. Mr. Xie is also the sole shareholder and director of Jinlin Investment Company Limited (a substantial shareholder of the Company).

Mr. Ge Xiaohua (葛曉華), aged 43, is an executive director and a vice general manager of the Company. Mr. Ge has over 13 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 has successively been responsible for the Group's production management and domestic marketing and sales. Mr. Ge is currently responsible for the administration of R&D Center and Quality Management Center of the Group. 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 Institute of the 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 Zhangzhoushi Bureau of Personnel (漳州市人事局) in 1994.

Directors and Senior Management Biographies (continued)

Mr. Huang Xinwen (黃新文), aged 46, is an executive director and a vice general manager of the Company. Mr. Huang has about 8 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. Mr. Huang is currently responsible for the Group's international trade and production management. 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 36, 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 14 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 management, informationization construction 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.

Independent Non-executive Directors

Mr. Chen Shaojun (陳少軍), aged 61, 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 Institute of the 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 37, 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. 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 an investment holding company investing in PRC pharmaceutical business. He was appointed as an independent director and the chairman of audit committee of Tiger Media, Inc. (formerly known as SearchMedia Holdings Limited and name changed on 14 December 2012) (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 a solicitor not in private practice in Hong Kong.

Directors and Senior Management Biographies (continued)

Mr. Wong Wai Ming (黃偉明), aged 40, 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 16 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 39, was appointed as one of the joint company secretaries of the Company on 18 February 2011 and an authorized representative of the Company on 10 October 2012. She is a senior 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 12 years.

SENIOR MANAGEMENT

Mr. Liu Longping (劉龍平), aged 35, is the sales manager of the children's personal care products division of the Company. Mr. Liu has more than 11 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 35, is the production manager of the Company. Ms. Han has nearly 11 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 46, is the manager of the research and development department of the Company. Mr. Wen has over 22 years of experience in the research and development of children's personal 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 Company has applied the principles as contained in the former Code on Corporate Governance Practices (the "Former CG Code"), for the period from 1 January to 31 March 2012, and the Corporate Governance Code (the "CG Code"), for the period from 1 April to 31 December 2012, contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The Board considers that during the year ended 31 December 2012, the Company has complied with the code provisions set out in the Former CG Code and the CG Code, except for the code provisions A.2.1 and A.6.7. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviations are 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, take decisions objectively and act in the interests of the Company and its shareholders at all times.

The Board reserves for its decision on 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 as at 31 December 2012 is as follow:

Executive directors:

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

Independent non-executive directors:

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

Throughout the year ended 31 December 2012, the Board has met the requirements of Listing Rules 3.10 and 3.10A of having three independent non-executive directors (representing at least one-third of the Board) with one of them possessing appropriate professional qualifications, and accounting and related financial management expertise.

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 independent non-executive directors bring different business and financial expertise, experience 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 light of the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

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

Mr. Li Zhenhui currently holds the positions of Chairman and Chief Executive Officer of the Company. He is the founder of the Group and has over 19 years of experiences 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 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

The Company's Articles of Association contain provisions on the procedures and process of appointment and removal of directors.

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. 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.

Each director, including the independent non-executive directors, is engaged for a term of three years, subject to renewal upon expiry of the term. They are also subject to re-election in accordance with the Company's Articles of Association provisions as mentioned above.

At the forthcoming annual general meeting of the Company to be held on 23 May 2013 (the "2013 AGM"), Mr. Huang Xinwen, Ms. Hong Fang and Mr. Chen Shaojun shall retire by rotation pursuant to the Company's Articles of Association provisions stated in the foregoing paragraphs. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2013 AGM. The Board recommended their re-appointment. The nomination was made in accordance with the nomination policy of the Company. The Company's circular, sent together with this annual report, contains detailed information of the above three directors as required by the Listing Rules.

A5. Training and Continuing Development for Directors

Each newly appointed director shall receive 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 for directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to directors from time to time for their studying and reference.

During the year ended 31 December 2012, all directors complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

— In October 2012, the Company organized a training session conducted by the lawyer relating to directors' duties and responsibilities and corporate governance. All the then directors (being Mr. Li Zhenhui, Mr. Xie Jinling, Mr. Ge Xiaohua, Mr. Huang Xinwen, Ms. Hong Fang, Mr. Chen Shaojun, Mr. Ren Yunan and Mr. Wong Wai Ming) attended such training session.

— All directors (being Mr. Li Zhenhui, Mr. Xie Jinling, Mr. Ge Xiaohua, Mr. Huang Xinwen, Ms. Hong Fang, Mr. Chen Shaojun, Mr. Ren Yunan, Mr. Wong Wai Ming and Mr. Yang Feng) received regular briefings and updates from the Company on the Group's business, operations and corporate governance matters.

— Mr. Ren Yunan, Ms. Hong Fang and Mr. Wong Wai Ming attended seminars, which are relevant to their duties and responsibilities, organized by professional firms/institutions.

Corporate Governance Report (continued)

A6. Directors' Attendance Records

The attendance records of each director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2012 are set out below:

	Attendance / Number of Meetings				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive directors:					
Mr. Li Zhenhui	7/8	N/A	1/1	N/A	1/1
Mr. Xie Jinling	6/8	N/A	N/A	N/A	1/1
Mr. Ge Xiaohua	7/8	N/A	N/A	N/A	0/1
Mr. Huang Xinwen	6/8	N/A	N/A	N/A	0/1
Ms. Hong Fang	8/8	N/A	N/A	N/A	1/1
Non-executive director:					
Mr. Yang Feng *(Note)*	1/3	N/A	N/A	N/A	0/1
Independent non-executive directors:					
Mr. Chen Shaojun	6/8	2/2	N/A	1/1	0/1
Mr. Ren Yunan	6/8	2/2	1/1	1/1	1/1
Mr. Wong Wai Ming	6/8	2/2	1/1	1/1	1/1

Note: Mr. Yang Feng resigned as a non-executive director of the Company on 30 May 2012. Before his resignation, 3 Board meetings and 1 general meeting were held during the year ended 31 December 2012.

In addition, the Chairman of the Board held a meeting with the independent non-executive directors without the presence of executive directors during the year under review.

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 throughout the year ended 31 December 2012.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), governing securities transactions by employees who are likely to possess inside 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.

A8. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

During the year under review, the Board has performed such corporate governance functions as follows: (i) reviewed and developed the Company's corporate governance policies and practices in response to the implementation of the CG Code, (ii) reviewed and monitored the training and continuous professional development of directors and senior management, (iii) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements, (iv) reviewed and monitored the compliance of the Model Code and the Employee Written Guidelines, and (v) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

B. BOARD COMMITTEE

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

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 for meeting the new Listing Rule requirement on having an independent non-executive director to chair a remuneration committee.

The Remuneration Committee comprises a total of three members, being an executive director, namely Mr. Li Zhenhui, and two independent non-executive directors, namely Mr. Ren Yunan and Mr. Wong Wai Ming. The majority of the Remuneration Committee members are independent non-executive directors.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure, the remuneration packages of executive directors and members of senior management and the remuneration of non-executive directors (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted). 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 the Board with reference to the performance of the individual and the Group as well as market practice and conditions.

During the year ended 31 December 2012, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

— Discussion of the change of the chairman of the Remuneration Committee; and

— General review and discussion of the remuneration packages of the directors and the senior staff of the Group.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band *(RMB)*	**Number of individuals**
0 – 250,000	2
250,001 – 500,000	1

Details of the remuneration of each director of the Company for the year ended 31 December 2012 are set out in note 8 to the financial statements contained in this annual report.

B2. Nomination Committee

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 assessing the independence of the independent non-executive directors.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, skills, professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

During the year ended 31 December 2012, the Nomination Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above) and reviewed the Board composition and structure, considering and recommending the re-election of the retiring directors at the 2012 annual general meeting, assessing the independence of the three independent non-executive directors of the Company, and considering the change of chairman of the Remuneration Committee.

B3. Audit Committee

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 professional qualifications, and 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 year ended 31 December 2012, the Audit Committee has held 2 meetings (the attendance records of each Committee member are set out in section A6 above) and performed the following major works:

— Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2011, the related accounting principles and practices adopted by the Group and internal controls related matters, and recommendation of the re-appointment of the external auditors; and

— Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2012, and the related accounting principles and practices adopted by the Group.

The external auditors were invited to attend the said meetings 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 re-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 2012.

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 and 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. COMPANY SECRETARY

The Company's joint company secretaries are Ms. Hong Fang, the executive director, and Ms. So Ka Man of Tricor Services Limited, an external service provider. The primary contact of Ms. So Ka Man at the Company is Ms. Hong Fang and/or Ms. Sandra Huang, the Company's investor relations director.

During the year ended 31 December 2012, both Ms. Hong and Ms. So have taken not less than 15 hours of relevant professional training.

F. 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 2012 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services for the year ended 31 December 2012 are analyzed below:

Type of services provided by the external auditors	**Fees paid/payable**
Audit services:	
— Audit fee for the year ended 31 December 2012	HK$2,100,000
Non-audit services:	
— Agreed-upon procedures on interim results for the six months ended 30 June 2012	HK$380,000
TOTAL:	HK$2,480,000

G. 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. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address:	Suite 602A-3, 6/F, Ocean Centre, Harbour City, 5 Canton Road, Tsimshatsui, Kowloon, Hong Kong
Fax no.:	(852) 2375 0783
Email:	princefrog@wsfg.hk

Inquiries are dealt with in an informative and timely manner.

Besides, 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.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. The former non-executive director and one of the independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 23 May 2012 due to their unavoidable business engagement.

H. SHAREHOLDER RIGHTS

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. The Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings as follows:

(1) Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 58 of the Company's Articles of Association by sending a written requisition to the Board or the Company Secretary at the Company's head office/principal place of business in Hong Kong. The objects of the meeting must be stated in the written requisition.

(2) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, pursuant to Article 85 of the Company's Articles of Association, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office/principal place of business in Hong Kong, or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end 7 days prior to the date of such general meeting.

For the avoidance of doubt, shareholder(s) must provide their full name, contact details and identification, in the originally signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of shareholder(s) may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association of the Company is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

All resolutions put forward at shareholders' meetings shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.princefrog.com.cn) after each shareholders' meeting.

Report of the Directors

The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2012.

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.

FINANCIAL STATEMENTS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 119 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 to the financial statements.

FINAL DIVIDEND

The directors recommended a final dividend of HK6.0 cents (approximately RMB4.8 cents) per ordinary share, representing a total of approximately HK$60.5 million (approximately RMB48.2 million), for the year ended 31 December 2012, subject to the approval of the shareholders at the 2013 AGM. The proposed final dividend is expected to be paid on 18 June 2013 to the Company's shareholders whose names appear on the Company's register of members on 3 June 2013.

SUMMARY FINANCIAL INFORMATION

A summary of the financial information of the Group for the last five financial years is set out on page 120 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 2013 to 23 May 2013 (both days inclusive) for the purpose of determining the right to attend and vote at the 2013 AGM. In order to be entitled to attend and vote at the 2013 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 not later than 4:30 p.m. on 20 May 2013.

In addition, the register of members of the Company will also be closed from 30 May 2013 to 3 June 2013 (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2012 (subject to the approval of the shareholders at the 2013 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 2013.

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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB509,411,000. In addition, the Company's share premium account, in the amount of RMB571,012,000, of which RMB48,184,000 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 14.2% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 28.8% 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 and suppliers.

DIRECTORS

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

Executive Directors

Mr. Li Zhenhui
Mr. Xie Jinling
Mr. Ge Xiaohua
Mr. Huang Xinwen
Ms. Hong Fang

Non-executive Director

Mr. Yang Feng (resigned on 30 May 2012)

Independent Non-executive Directors

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

Pursuant to Article 84 of the Company's Articles of Association, Mr. Huang Xinwen, Ms. Hong Fang and Mr. Chen Shaojun will retire from office as directors of the Company by rotation at the 2013 AGM. The above retiring directors, being eligible, will offer themselves for re-election at the 2013 AGM.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 to 18 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 is 15 July 2011) (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 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 coming annual general meeting 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 34(i) to the financial statements and in the section "Continuing Connected Transactions" below, there was no other significant contract 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.

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 contribution to the Group. Details of the Scheme are disclosed in note 29 to the financial statements.

As set out in the Company's 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 and 9,394,000 shares were granted by the Company on 14 October 2011 and 21 June 2012 respectively (out of which a total of 690,000 options were forfeited/lapsed up to the date of this report), the Board may further grant 78,330,000 options, representing approximately 7.77% 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 ended 31 December 2012:

			Number of options						
Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year *(Note 2)*	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012	Exercise period *(Note 3)*
Executive Directors									
Mr. Li Zhenhui	14 October 2011	1.92	800,000	–	–	–	–	800,000	A
(also a substantial			600,000	–	–	–	–	600,000	B
shareholder)			600,000	–	–	–	–	600,000	C
			2,000,000	–	–	–	–	2,000,000	
	21 June 2012	2.94	–	144,000	–	–	–	144,000	D
			–	108,000	–	–	–	108,000	E
			–	108,000	–	–	–	108,000	F
			–	360,000	–	–	–	360,000	
Sub-total			*2,000,000*	*360,000*	–	–	–	*2,360,000*	

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2012	Granted during the year	Exercised during the year *(Note 2)*	Cancelled during the year	Forfeited/lapsed during the year	Outstanding as at 31 December 2012	Exercise period *(Note 3)*
Executive Directors									
Mr. Xie Jinling	14 October 2011	1.92	400,000	—	—	—	—	400,000	A
(also a substantial			300,000	—	—	—	—	300,000	B
shareholder)			300,000	—	—	—	—	300,000	C
			1,000,000	—	—	—	—	1,000,000	
	21 June 2012	2.94	—	320,000	—	—	—	320,000	D
			—	240,000	—	—	—	240,000	E
			—	240,000	—	—	—	240,000	F
			—	800,000	—	—	—	800,000	
Sub-total			*1,000,000*	*800,000*	—	—	—	*1,800,000*	
Mr. Ge Xiaohua	14 October 2011	1.92	400,000	—	—	—	—	400,000	A
			300,000	—	—	—	—	300,000	B
			300,000	—	—	—	—	300,000	C
			1,000,000	—	—	—	—	1,000,000	
	21 June 2012	2.94	—	320,000	—	—	—	320,000	D
			—	240,000	—	—	—	240,000	E
			—	240,000	—	—	—	240,000	F
			—	800,000	—	—	—	800,000	
Sub-total			*1,000,000*	*800,000*	—	—	—	*1,800,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year (Note 2)	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012	Exercise period (Note 3)
			Number of options						
Executive Directors									
Mr. Huang Xinwen	14 October 2011	1.92	400,000	—	(200,000)	—	—	200,000	A
			300,000	—	—	—	—	300,000	B
			300,000	—	—	—	—	300,000	C
			1,000,000	—	(200,000)	—	—	800,000	
	21 June 2012	2.94	—	320,000	—	—	—	320,000	D
			—	240,000	—	—	—	240,000	E
			—	240,000	—	—	—	240,000	F
			—	800,000	—	—	—	800,000	
Sub-total			*1,000,000*	*800,000*	*(200,000)*	—	—	*1,600,000*	
Ms. Hong Fang	14 October 2011	1.92	400,000	—	—	—	—	400,000	A
			300,000	—	—	—	—	300,000	B
			300,000	—	—	—	—	300,000	C
			1,000,000	—	—	—	—	1,000,000	
	21 June 2012	2.94	—	320,000	—	—	—	320,000	D
			—	240,000	—	—	—	240,000	E
			—	240,000	—	—	—	240,000	F
			—	800,000	—	—	—	800,000	
Sub-total			*1,000,000*	*800,000*	—	—	—	*1,800,000*	
Non-executive Director									
Mr. Yang Feng (resigned on 30 May 2012)	14 October 2011	1.92	40,000	—	—	—	(40,000)	—	A
			30,000	—	—	—	(30,000)	—	B
			30,000	—	—	—	(30,000)	—	C
Sub-total			*100,000*	—	—	—	*(100,000)*	—	

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2012	Granted during the year	Exercised during the year *(Note 2)*	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012	Exercise period *(Note 3)*
Independent Non-executive Directors									
Mr. Chen Shaojun	14 October 2011	1.92	40,000	—	—	—	—	40,000	A
			30,000	—	—	—	—	30,000	B
			30,000	—	—	—	—	30,000	C
			100,000	—	—	—	—	100,000	
	21 June 2012	2.94	—	40,000	—	—	—	40,000	D
			—	30,000	—	—	—	30,000	E
			—	30,000	—	—	—	30,000	F
			—	100,000	—	—	—	100,000	
Sub-total			*100,000*	*100,000*	—	—	—	*200,000*	
Mr. Ren Yunan	14 October 2011	1.92	40,000	—	—	—	—	40,000	A
			30,000	—	—	—	—	30,000	B
			30,000	—	—	—	—	30,000	C
			100,000	—	—	—	—	100,000	
	21 June 2012	2.94	—	40,000	—	—	—	40,000	D
			—	30,000	—	—	—	30,000	E
			—	30,000	—	—	—	30,000	F
			—	100,000	—	—	—	100,000	
Sub-total			*100,000*	*100,000*	—	—	—	*200,000*	

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2012	Granted during the year	Exercised during the year *(Note 2)*	Cancelled during the year	Forfeited/ lapsed during the year	Outstanding as at 31 December 2012	Exercise period *(Note 3)*
Independent Non-executive Directors									
Mr. Wong Wai Ming	14 October 2011	1.92	40,000	—	—	—	—	40,000	A
			30,000	—	—	—	—	30,000	B
			30,000	—	—	—	—	30,000	C
			100,000	—	—	—	—	100,000	
	21 June 2012	2.94	—	40,000	—	—	—	40,000	D
			—	30,000	—	—	—	30,000	E
			—	30,000	—	—	—	30,000	F
			—	100,000	—	—	—	100,000	
Sub-total			*100,000*	*100,000*	—	—	—	*200,000*	
Total for directors			**6,400,000**	**3,860,000**	**(200,000)**	**—**	**(100,000)**	**9,960,000**	
Employees of the Group in aggregate	14 October 2011	1.92	2,626,400	—	(576,000)	—	(72,000)	1,978,400	A
			1,969,800	—	—	—	(54,000)	1,915,800	B
			1,969,800	—	—	—	(54,000)	1,915,800	C
			6,566,000	—	(576,000)	—	(180,000)	5,810,000	
	21 June 2012	2.94	—	2,213,600	—	—	—	2,213,600	D
			—	1,660,200	—	—	—	1,660,200	E
			—	1,660,200	—	—	—	1,660,200	F
			—	5,534,000	—	—	—	5,534,000	
Total for employees			**6,566,000**	**5,534,000**	**(576,000)**	**—**	**(180,000)**	**11,344,000**	
Total			**12,966,000**	**9,394,000**	**(776,000)**	**—**	**(280,000)**	**21,304,000**	

Notes:

1. The closing prices of the Company's shares immediately before the dates of grant on 14 October 2011 and 21 June 2012 were HK$1.98 and HK$2.94, respectively.

2. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$2.98.

3. 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
   D: From 21 June 2013 to 20 June 2022
   E: From 21 June 2014 to 20 June 2022
   F: From 21 June 2015 to 20 June 2022

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

4. 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 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 2012, 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 Future 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:

Report of the Directors (continued)

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)*	324,308,500	32.17%
Mr. Xie Jinling	Interest of controlled corporation *(Note 2)*	229,383,500	22.76%
Mr. Huang Xinwen	Beneficial owner	200,000	0.02%

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 2012.

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

Name of director	Nature of interests	Number of ordinary shares interested	Percentage+ of underlying shares over the Company's issued share capital
Mr. Li Zhenhui	Beneficial owner	2,360,000	0.23%
Mr. Xie Jinling	Beneficial owner	1,800,000	0.18%
Mr. Ge Xiaohua	Beneficial owner	1,800,000	0.18%
Mr. Huang Xinwen	Beneficial owner	1,600,000	0.16%
Ms. Hong Fang	Beneficial owner	1,800,000	0.18%
Mr. Chen Shaojun	Beneficial owner	200,000	0.02%
Mr. Ren Yunan	Beneficial owner	200,000	0.02%
Mr. Wong Wai Ming	Beneficial owner	200,000	0.02%

Note: The underlying shares stated above refer to the share options granted by the Company under the Scheme. Details of these share options as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share Option Scheme" above and note 29 to the financial statements.

+ The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2012.

Save as disclosed above and in the above section headed "Share Option Scheme", as at 31 December 2012, 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 2012, 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)*	324,308,500	32.17%
Zhenfei Investment Company Limited	Interest of controlled corporation *(Note 1)*	324,308,500	32.17%
Jinlin Investment Company Limited	Beneficial owner *(Note 2)*	229,383,500	22.76%

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, an executive director of the Company. 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".

+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, no person, other than the directors of the Company whose interests are set out in the 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. 162, North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou, Fujian, the 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 dated 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 Decmber 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 metres on such Land and has not obtained property titles for such builidings. 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 2012 as set out in the Company's 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 Fujian 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 2012 as set out in the Company's 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 RMB6,104,000 and the annual cap for the year ended 31 December 2012 as set out in the Company's prospectus is RMB12,000,000.

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 amounts paid by Shuangfei (USA) under the Sale of Goods Agreement was approximately RMB16,921,000 and the annual cap for the year ended 31 December 2012 as set out in the Company's prospectus is RMB45,333,000.

CONNECTED TRANSACTIONS

The remaining transactions set out in note 34(i) to the financial statements contained in this annual report also constituted connected transactions of the Group and the amounts for relevant transactions were disclosed on an aggregation basis. As confirmed by the directors of the Company, as relevant applicable ratios were below 0.1% or the total consideration was below HK$1,000,000, such transactions were exempt from the reporting, announcement and independent shareholders' approval requirements.

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group employed 1,406 employees (31 December 2011: 1,314). 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.

As mentioned above, a share option scheme was adopted in June 2011 to retain staff members 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 training to its employees to help them to 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

The Company repurchased a total of 1,000,000 shares on the Stock Exchange during the year ended 31 December 2012. Such shares were cancelled on 16 July 2012.

Details of the share repurchase are summarized as follows:

Month of repurchase	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Aggregate consideration (excluding transaction cost)
		HK$	*HK$*	*HK$*
June 2012	1,000,000	2.78	2.60	2,710,510

Report of the Directors (continued)

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate obtained from shareholders at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

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.

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.

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 Company's 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.

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.

Report of the Directors (continued)

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 2012, including accounting principles and practices adopted by the Group, and discussed financial reporting matters.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for re-appointment at the 2013 AGM. A resolution for their re-appointment as auditors of the Company will be proposed at the 2013 AGM.

ON BEHALF OF THE BOARD

Li Zhenhui
Chairman

Zhangzhou, PRC
26 March 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

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 50 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

Independent Auditors' Report (continued)

AUDITORS' RESPONSIBILITY (continued)

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 2012, 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
26 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
REVENUE	5	**1,572,054**	1,269,167
Cost of sales		**(850,498)**	(731,465)
Gross profit		**721,556**	537,702
Other income and gains	5	**12,711**	5,046
Selling and distribution expenses		**(357,973)**	(240,259)
Administrative expenses		**(76,333)**	(79,353)
Other operating expenses		**(425)**	(272)
Finance costs	6	**(902)**	(4,398)
PROFIT BEFORE TAX	7	**298,634**	218,466
Income tax expense	10	**(57,524)**	(34,521)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR	11	**241,110**	183,945
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY	13		
Basic		**RMB23.9 cents**	RMB21.2 cents
Diluted		**RMB23.9 cents**	RMB21.2 cents

Details of the dividends are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 *RMB'000*	2011 *RMB'000*
PROFIT FOR THE YEAR	**241,110**	183,945
Other comprehensive income: Exchange differences on translating foreign operations	**929**	889
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR	**242,039**	184,834

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	**174,575**	142,517
Prepaid land lease payments	15	**19,598**	20,032
Intangible assets	16	**4,503**	5,943
Prepayments and deposits	20	**68,198**	2,839
Total non-current assets		**266,874**	171,331
CURRENT ASSETS			
Inventories	18	**42,837**	74,518
Trade receivables	19	**115,990**	92,999
Amount due from a related company	34(ii)	**9,915**	7,691
Prepayments, deposits and other receivables	20	**8,851**	7,233
Available-for-sale investments	21	**95,920**	—
Entrusted loan receivable	22	**80,000**	—
Pledged deposits	23	**1,148**	1,096
Cash and cash equivalents	23	**642,877**	735,597
Total current assets		**997,538**	919,134
CURRENT LIABILITIES			
Trade and bills payables	24	**65,158**	80,595
Other payables and accruals	25	**23,534**	24,570
Interest-bearing bank borrowings	26	**—**	30,000
Tax payable		**11,190**	6,948
Total current liabilities		**99,882**	142,113
NET CURRENT ASSETS		**897,656**	777,021
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,164,530**	948,352
NON-CURRENT LIABILITY			
Deferred tax liabilities	27	**4,900**	—
Net assets		**1,159,630**	948,352

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	28	**8,366**	8,368
Reserves	30(a)	**1,151,264**	939,984
Total equity		**1,159,630**	948,352

Li Zhenhui
Director

Hong Fang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to ordinary equity holders of the Company								
	Notes	Issued capital RMB'000 (Note 28)	Share premium RMB'000 (Note 30 (a)(i))	Share option reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (Note 30 (a)(ii))	Capital redemption reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012		8,368	608,412	1,083	11	35,418	—	3,188	291,872	948,352
Exchange differences on translation of foreign operations		—	—	—	—	—	—	929	—	929
Profit for the year		—	—	—	—	—	—	—	241,110	241,110
Total comprehensive income for the year		—	—	—	—	—	—	929	241,110	242,039
Repurchase and cancellation of shares	28(j)	(8)	(2,203)	—	—	—	8	—	(8)	(2,211)
Exercise of share options	28(k)	6	1,664	(463)	—	—	—	—	—	1,207
Equity-settled share option arrangements	29	—	—	7,104	—	—	—	—	—	7,104
2011 final dividend declared and paid	12	—	(36,861)	—	—	—	—	—	—	(36,861)
Transfer to statutory reserve		—	—	—	—	26,729	—	—	(26,729)	—
At 31 December 2012		8,366	571,012*	7,724*	11*	62,147*	8*	4,117*	506,245*	1,159,630

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2012

		Attributable to ordinary equity holders of the Company							
	Notes	Issued capital RMB'000 (Note 28)	Share premium RMB'000 (Note 30 (a)(i))	Share option reserve RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000 (Note 30 (a)(ii))	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")	30(a)(i)	—	86,958	—	—	—	—	—	86,958
Capitalisation issue	28(g)	6,217	(6,217)	—	—	—	—	—	—
Issue of shares	28(h), 28(i)	2,143	535,475	—	—	—	—	—	537,618
Share issue expenses		—	(7,804)	—	—	—	—	—	(7,804)
Equity-settled share option arrangements	29	—	—	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

* These reserve accounts comprise the consolidated reserves of RMB1,151,264,000 (2011: RMB939,984,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**298,634**	218,466
Adjustments for:			
Finance costs	6	**902**	4,398
Interest income received from banks	5	**(6,523)**	(3,265)
Loss on disposal of items of property, plant and equipment	7	**—**	17
Depreciation	7	**10,177**	5,953
Amortisation of prepaid land lease payments	7	**434**	434
Amortisation of intangible assets	7	**1,440**	1,321
Equity-settled share option expense	7	**7,104**	1,083
		312,168	228,407
Decrease/(increase) in inventories		**31,681**	(39,781)
Increase in trade receivables		**(22,991)**	(33,850)
Decrease/(increase) in prepayments, deposits and other receivables		**1,589**	(3,502)
Increase/(decrease) in trade and bills payables		**(15,437)**	46,701
Increase/(decrease) in other payables and accruals		**(1,036)**	7,359
Movements in balances with related parties		**(2,224)**	18,023
Exchange realignment		**1,144**	(689)
Cash generated from operations		**304,894**	222,668
Interest received		**6,523**	3,265
Interest paid		**(902)**	(4,398)
PRC tax paid		**(48,382)**	(34,922)
Net cash flows from operating activities		**262,133**	186,613
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14, 31(b)	**(41,851)**	(58,133)
Proceeds from disposal of items of property, plant and equipment		**355**	—
Purchases of intangible assets	16	**—**	(7,120)
Deposits for purchase of items of property, plant and equipment	20	**(64,351)**	(2,739)
Deposits for purchase of intangible assets		**(3,747)**	—
Increase in available-for-sale investments		**(95,920)**	—
Increase in an entrusted loan receivable		**(80,000)**	—
Decrease/(increase) in pledged deposits		**(52)**	1,254
Increase in time deposits with original maturity of more than three months when acquired		**(74,030)**	—
Net cash flows used in investing activities		**(359,596)**	(66,738)

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**20,000**	207,352
Repayment of bank loans		**(50,000)**	(193,152)
Net proceeds from issue of ordinary shares		**—**	529,814
Payment for repurchase of ordinary shares		**(2,211)**	—
Dividend paid		**(36,861)**	—
Net cash flows from/(used in) financing activities		**(69,072)**	544,014
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(166,535)**	663,889
Cash and cash equivalents at beginning of year		**735,597**	72,299
Effect of foreign exchange rate changes, net		**(215)**	(591)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**568,847**	735,597
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position		**642,877**	735,597
Non-pledged time deposits with original maturity of more than three months when acquired	23	**(74,030)**	—
Cash and cash equivalents as stated in the consolidated statement of cash flows		**568,847**	735,597

Statement of Financial Position

31 December 2012

	Notes	2012 *RMB'000*	2011 *RMB'000*
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**82,348**	82,348
Total non-current assets		**82,348**	82,348
CURRENT ASSETS			
Amounts due from subsidiaries	17	**432,382**	250,772
Amount due from a related company	34(ii)	**348**	—
Prepayments and other receivables	20	**5,559**	4,168
Cash and cash equivalents	23	**8,074**	245,419
Total current assets		**446,363**	500,359
CURRENT LIABILITIES			
Accruals	25	**3,202**	2,100
Amount due to a subsidiary	17	**—**	3,130
Total current liabilities		**3,202**	5,230
NET CURRENT ASSETS		**443,161**	495,129
TOTAL ASSETS LESS CURRENT LIABILITIES		**525,509**	577,477
Net assets		**525,509**	577,477
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	28	**8,366**	8,368
Reserves	30(b)	**517,143**	569,109
Total equity		**525,509**	577,477

Li Zhenhui
Director

Hong Fang
Director

Notes to Financial Statements

31 December 2012

1. CORPORATE INFORMATION

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 address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. During the year, the Company's principal place of business changed from No. 8 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the People's Republic of China (the "PRC") to No. 40 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC, and changed from No. 40 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC to No. 162 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the PRC due to district planning of local government. The principal place of business is not relocated, but only the street number was changed from 8 to 40 and then from 40 to 162.

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 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 2012. 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements (continued)

31 December 2012

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with the merger method of accounting on the basis as if the Company has always been the holding company of its subsidiaries because the Company and the companies then comprising the Group were under common control before and after the reorganisation, as explained in the prospectus of the Company dated 30 June 2011. Accordingly, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2011 include the results and cash flows of all companies then comprising the Group, as if the then group structure had been in existence throughout the year ended 31 December 2011, or since their respective dates of incorporation, where this is a shorter period.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's 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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

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 — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 9 and IFRS 7 Amendments	Amendments to IFRS 9 *Financial Instruments and* IFRS7 *Financial Instruments: Disclosures — Mandatory Effective Date of IFRS 9 and Transition Disclosures*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements Projects	Annual Improvements to IFRSs 2009 - 2011 Cycle[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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.

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 an 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

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

(vii) 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

An item of property, plant and equipment including 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.

Notes to Financial Statements (continued)

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest earned whilst holding the available-for-sale financial investments are reported as interest income and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

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

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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 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 occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
The carrying amount of the asset is reduced through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to the income statement.

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

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

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

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

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

The Group's financial liabilities include trade and bills payables, other payables, financial liabilities included in accruals 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 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

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 current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to 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 income statement 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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; and

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

Share-based payments

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 payments, 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 29 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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 payments, 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

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Foreign currencies

These financial statements are presented in RMB which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 prevailing 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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment 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 have 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.

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 derived from banks, 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 receivables, an amount due from a related company, available-for-sale investments, an entrusted loan receivable, 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, tax payable and deferred tax liabilities 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 2012					
Segment revenue:					
Sales to external customers	1,277,645	141,780	48,660	103,969	1,572,054
Segment results	500,843	32,204	5,997	26,245	565,289
Interest income derived from banks					6,523
Other unallocated gains					6,188
Corporate and other unallocated expenses					(278,464)
Finance costs					(902)
Profit before tax					298,634
Segment assets	169,855	112	4,257	30,586	204,810
Reconciliation:					
Corporate and other unallocated assets					1,059,602
Total assets					1,264,412
Segment liabilities	55,386	—	3,030	6,742	65,158
Reconciliation:					
Corporate and other unallocated liabilities					39,624
Total liabilities					104,782
Other segment information:					
Depreciation and amortisation*	4,994	16	52	327	5,389
Capital expenditure**	3,035	—	—	275	3,310

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 derived from banks					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)

* 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.

Geographical information

Since over 90% of the Group's revenue was generated from the sales 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 2012 and 2011, 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	
	2012	2011
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**1,572,054**	1,269,167
Other income and gains		
Interest income derived from banks	**6,523**	3,265
Net income derived from available-for-sale financial assets	**692**	—
Government subsidies*	**4,257**	203
Net fair value gains on foreign exchange derivative financial instruments		
— transactions not qualified as hedges	**418**	1,246
Others	**821**	332
	12,711	5,046
	1,584,765	1,274,213

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

6. FINANCE COSTS

	Group 2012 RMB'000	Group 2011 RMB'000
Interest on bank borrowings wholly repayable within five years	**902**	4,398

7. PROFIT BEFORE TAX

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

	Notes	Group 2012 RMB'000	Group 2011 RMB'000
Cost of inventories sold		**850,498**	731,465
Depreciation*	14	**10,177**	5,953
Amortisation of prepaid land lease payments	15	**434**	434
Amortisation of intangible assets*	16	**1,440**	1,321
Minimum lease payments under operating leases on land and buildings*		**5,161**	5,042
Loss on disposal of items of property, plant and equipment#		**—**	17
Employee benefit expenses* (including directors' remuneration (note 8)):			
Wages and salaries		**71,579**	57,029
Equity-settled share option expense		**7,104**	1,083
Retirement benefit scheme contributions		**2,362**	1,714
		81,045	59,826
Auditors' remuneration		**1,709**	2,939
Research and development costs#		**2,851**	2,534
Net foreign exchange loss, excluding net fair value gains on foreign exchange derivative financial instruments		**1,784**	5,640

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	
	2012	2011
	RMB'000	*RMB'000*
Depreciation	**6,757**	3,841
Minimum lease payments under operating leases on land and buildings	**2,589**	2,826
Employee benefit expenses	**33,570**	28,989
	42,916	35,656

8. DIRECTORS' REMUNERATION

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Fees:		
Executive directors	**3,569**	1,744
Non-executive director	**20**	73
Independent non-executive directors	**474**	219
Other emoluments:		
Salaries and bonuses	**—**	—
Equity-settled share option expense	**3,282**	535
Retirement benefit scheme contributions	**12**	10
	7,357	2,581

During the years ended 31 December 2012 and 2011, 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 29 to the financial statements and the report of the directors. The fair values of such options, which have been recognised in the income statement over the vesting period, were determined as at the dates of grants and the amounts included in the financial statements for both years are included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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*
2012			
Mr. Chen Shaojun	158	64	222
Mr. Ren Yunan	158	64	222
Mr. Wong Wai Ming	158	64	222
	474	192	666

	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.

Notes to Financial Statements (continued)

31 December 2012

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director

Mr. Li Zhenhui and Mr. Xie Jinling were appointed as executive directors of the Company on 11 January 2011. 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. Mr. Yang Feng resigned as a non-executive director of the Company on 30 May 2012.

	Fees *RMB'000*	Salaries and bonuses *RMB'000*	Equity-settled share option expense *RMB'000*	Retirement benefit scheme contributions *RMB'000*	Total *RMB'000*
2012					
Executive directors:					
Mr. Li Zhenhui*	1,122	—	778	2	1,902
Mr. Xie Jinling	482	—	578	2	1,062
Mr. Ge Xiaohua	558	—	578	4	1,140
Mr. Huang Xinwen	558	—	578	2	1,138
Ms. Hong Fang	849	—	578	2	1,429
	3,569	—	3,090	12	6,671
Non-executive director:					
Mr. Yang Feng	20	—	—	—	20
	3,589	—	3,090	12	6,691

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director (continued)

	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 Zhenhui*	550	—	167	2	719
Mr. Xie Jinling	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

* Mr. Li Zhenhui is also the chief executive officer of the Company.

Except that Mr. Yang Feng initiatively gave up his six-month director's remuneration of HK$72,000 (equivalent to approximately RMB59,000) during the year ended 31 December 2012, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2011: five) directors, details of whose remuneration are set out in note 8 above.

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.

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 (2011: 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	
	2012	2011
	RMB'000	*RMB'000*
Current - Mainland China		
Charge for the year	**49,881**	34,521
Underprovision in prior year	**2,743**	—
	52,624	34,521
Deferred (note 27)	**4,900**	—
Total tax charge for the year	**57,524**	34,521

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%.

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, which is 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%.

10. INCOME TAX EXPENSE (continued)

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	
	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**298,634**	218,466
Tax at the applicable tax rates	**76,564**	57,244
Lower tax rate due to Tax Holiday	**(40,131)**	(31,173)
Adjustments in respect of current tax of previous year	**2,743**	—
Income not subject to tax	**(310)**	—
Expenses not deductible for tax	**11,070**	9,946
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	**4,900**	—
Others	**2,688**	(1,496)
Tax charge at the Group's effective tax rates	**57,524**	34,521

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 2012 includes a loss of RMB21,207,000 (2011: RMB35,773,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDENDS

	2012 *RMB'000*	2011 *RMB'000*
Dividend paid during the year:		
Final in respect of the financial year ended 31 December 2011 - HK4.5 cents (approximately RMB3.7 cents) (2011: Nil) per ordinary share	**36,861**	—
Proposed final in respect of the financial year ended 31 December 2012 - HK6.0 cents (approximately RMB4.8 cents) (2011: HK4.5 cents (approximately RMB3.6 cents)) per ordinary share	**48,184**	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 amount is based on the profit for the year attributable to the equity holders of the Company of RMB241,110,000 (2011: RMB183,945,000) and the weighted average number of ordinary shares in issue during the year of 1,007,842,889 (2011: 869,670,548).

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

(i) the pro-forma issued share capital of the Company of 750,000,000 shares as further detailed in note 28;

(ii) 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 28(h)); and

(iii) the 8,250,000 ordinary shares issued upon the exercise of the Over-allotment Option (as defined in note 28(i)) on 11 August 2011 (note 28(i)).

The calculation of diluted earnings per share amount is based on the profit for the year attributable to the equity holders of the Company of RMB241,110,000. The weighted average number of ordinary shares of 1,010,875,485 used in the calculation is the weighted average number of ordinary shares of 1,007,842,889 in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares during the year of 3,032,596.

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 ended 31 December 2011 has no dilutive effect.

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 2012						
Cost:						
At 1 January 2012	100,473	34,458	3,768	4,190	7,090	149,979
Additions	—	3,310	665	—	38,615	42,590
Disposals	—	(439)	(2)	—	—	(441)
Transfers	—	9,543	—	—	(9,543)	—
At 31 December 2012	100,473	46,872	4,431	4,190	36,162	192,128
Accumulated depreciation:						
At 1 January 2012	4,068	1,528	222	1,644	—	7,462
Provided during the year	4,827	3,949	618	783	—	10,177
Disposals	—	(85)	(1)	—	—	(86)
At 31 December 2012	8,895	5,392	839	2,427	—	17,553
Net book value:						
At 31 December 2012	91,578	41,480	3,592	1,763	36,162	174,575
At 31 December 2011	96,405	32,930	3,546	2,546	7,090	142,517

31 December 2012

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 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
Provided during 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

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 26).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount at 1 January	**20,466**	20,900
Recognised during the year	**(434)**	(434)
Carrying amount at 31 December	**20,032**	20,466
Current portion included in prepayments, deposits and other receivables	**(434)**	(434)
Non-current portion	**19,598**	20,032

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 26).

16. INTANGIBLE ASSETS

Group

	Trademarks	**Copyrights**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2011	160	—	160
Additions	—	7,120	7,120
At 31 December 2011, 1 January 2012 and 31 December 2012	160	7,120	7,280
Accumulated amortisation:			
At 1 January 2011	16	—	16
Provided during the year	16	1,305	1,321
At 31 December 2011 and 1 January 2012	32	1,305	1,337
Provided during the year	16	1,424	1,440
At 31 December 2012	48	2,729	2,777
Net carrying amount:			
At 31 December 2012	112	4,391	4,503
At 31 December 2011	128	5,815	5,943

Notes to Financial Statements (continued)

31 December 2012

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted shares, at cost	**82,348**	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	US$30 (2011: US$30)	100	—	Investment holding
Prince Frog (HK) Daily Chemicals Company Limited ("Prince Frog (HK)") *(note 1)*	Hong Kong	HK$10,100 (2011: HK$10,100)	—	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$56,000,000 (2011: US$40,000,000)	—	100	Manufacture and sale of personal care and household hygiene products

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$55,000,000 to US$60,000,000 during the year ended 31 December 2012, of which US$56,000,000 was paid up as at 31 December 2012. The commitment of US$4,000,000 (equivalent to approximately RMB25,142,000) (2011: US$15,000,000 (equivalent to approximately RMB94,514,000)) is disclosed in note 33 to the financial statements.

18. INVENTORIES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**14,794**	19,879
Work in progress	**2,897**	4,116
Finished goods	**25,146**	50,523
	42,837	74,518

19. TRADE RECEIVABLES

	Group	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**115,990**	92,999

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 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 receivables are non-interest-bearing.

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 30 days	**65,362**	74,682
31 to 60 days	**43,017**	17,233
61 to 90 days	**5,784**	767
91 to 180 days	**1,827**	317
	115,990	92,999

19. TRADE RECEIVABLES (continued)

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

	Total	Neither past due nor impaired	Past due but not impaired 1 to 30 days	31 to 60 days
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2012	115,990	66,876	43,523	5,591
2011	92,999	74,833	17,849	317

The Group's trade 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

	2012	2011
	RMB'000	*RMB'000*
Prepayments	**7,387**	6,761
Deposits for purchase of items of property, plant and equipment	**7,975**	2,739
Deposits for construction contracts	**56,376**	—
Deposits for purchase of intangible assets	**3,747**	—
Deposits and other receivables	**1,564**	492
Other taxes recoverable	**—**	80
	77,049	10,072
Less: non-current portion	**(68,198)**	(2,839)
	8,851	7,233

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company

	2012 RMB'000	2011 RMB'000
Prepayments	**4,128**	4,168
Other receivables	**1,431**	—
	5,559	4,168

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. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Unlisted investment funds, at cost	**95,920**	—

As at 31 December 2012, the unlisted investment funds with a carrying amount of RMB95,920,000 (2011: Nil) were stated at cost less impairment because the unlisted investment funds do not have quoted market price in an active market and whose fair value cannot be reliably measured.

22. ENTRUSTED LOAN RECEIVABLE

	Group	
	2012 RMB'000	2011 RMB'000
Entrusted loan receivable	**80,000**	—

During the year ended 31 December 2012, the Group subscribed an entrusted loan financing arrangement (the "Arrangement") with China Merchants Bank in the PRC (the "Bank") as the loan administrator, and China Foreign Economy and Trade Trust Co., Ltd. as the trustee. Pursuant to the Arrangement, the Group advanced a total of RMB80,000,000 as a short-term entrusted loan to a third party.

In the opinion of the directors, the entrusted loan receivable was not impaired as at the end of the reporting period. It is unsecured, interest-bearing and is due in April 2013.

Notes to Financial Statements (continued)

31 December 2012

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**558,645**	474,884
Time deposits	**85,380**	261,809
	644,025	736,693
Less: Pledged time deposits:		
Pledged for bills payables	**(1,148)**	(421)
Pledged for banking facilities on letter of credit	**—**	(127)
Pledged for banking facilities on foreign exchange derivative financial instruments	**—**	(548)
Cash and cash equivalents	**642,877**	735,597

Company

	2012	2011
	RMB'000	*RMB'000*
Cash and bank balances	**8,074**	5,608
Time deposits	**—**	239,811
Cash and cash equivalents	**8,074**	245,419

At 31 December 2012, the Group's cash and bank balances and time deposits denominated in RMB amounted to RMB538,746,000 (2011: RMB467,173,000) and RMB85,380,000 (2011: RMB122,000,000), respectively. RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and six months (2011: 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.

Included in the 31 December 2012 balance are time deposits of RMB74,030,000 (2011: Nil) of which the original maturity is more than three months when acquired.

24. 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	
	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**37,300**	75,273
1 to 3 months	**27,858**	4,901
3 to 6 months	**—**	421
	65,158	80,595

The trade and bills payables are non-interest-bearing and are normally settled on one to six months' terms. The bills payables were secured by the pledge of certain of the Group's time deposits amounting to RMB1,148,000 and RMB421,000 (note 23) as at 31 December 2012 and 2011, respectively.

25. OTHER PAYABLES AND ACCRUALS

Group

	2012	2011
	RMB'000	*RMB'000*
Other payables and accruals	**16,926**	20,854
Other tax payables	**6,608**	3,716
	23,534	24,570

Company

	2012	2011
	RMB'000	*RMB'000*
Accruals	**3,202**	2,100

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

Notes to Financial Statements (continued)

31 December 2012

26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2012 RMB'000	2011 RMB'000
Current				
Bank loans - secured	6.4	May 2012	—	20,000
Bank loans - unsecured	6.1	May 2012	—	10,000
			—	30,000
Analysed into:				
Bank loans repayable within one year			—	30,000

(a) Certain of the Group's bank loans at 31 December 2011 are secured by:

(i) the pledge of the Group's building with a net carrying amount of approximately RMB62,036,000 as at 31 December 2011; and

(ii) the pledge of the Group's leasehold land with a net carrying amount of approximately RMB15,387,000 as at 31 December 2011.

(b) As at 31 December 2011, all bank loans bore interest rates announced by the People's Bank of China per annum and are denominated in RMB.

(c) Bank loans of RMB20,000,000 utilised during the year ended 31 December 2011 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 Zhenhui ("Mr. Li") and Mr. Xie Jinling ("Mr. Xie"), and had been repaid during the year ended 31 December 2011. 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 utilised during the year ended 31 December 2011 were guaranteed by Fujian Shuangfei Daily Chemicals Co., Ltd. ("Fujian Shuangfei"), a domestic enterprise under the laws of the PRC owned by Mr. Li and Mr. Xie, Mr. Li and Mr. Xie, and had been repaid during the year ended 31 December 2011. The guarantees provided by Mr. Li and Mr. Xie had been released during the year ended 31 December 2011.

27. DEFERRED TAX LIABILITIES

Group

	Withholding taxes *RMB'000*
At 1 January 2011, 31 December 2011 and 1 January 2012	—
Deferred tax charged to the income statement during the year *(note 10)*	4,900
At 31 December 2012	4,900

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 Mainland 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 2012, there were no significant unrecognised deferred tax liabilities (2011: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiary expected to be distributed, after considering the abovementioned factors, 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.

28. ISSUED CAPITAL

	2012 ***RMB'000***	2011 *RMB'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.01 each	**41,524**	41,524
Issued and fully paid:		
1,008,026,000 (2011: 1,008,250,000) ordinary shares of HK$0.01 each	**8,366**	8,368

Notes to Financial Statements (continued)

31 December 2012

28. 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 2012:

	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 and 31 December 2012		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 30*(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
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
Repurchase and cancellation of shares	(j)	(1,000,000)	**(10)**	(8)
Exercise of share options	(k)	776,000	**8**	6
As at 31 December 2012		1,008,026,000	**10,081**	8,366

28. 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 respects 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 the Capitalisation of Pre-IPO Investors Fund (as defined in note 30(a)).

(g) Pursuant to a resolution passed on 22 June 2011, 748,999,999 shares of HK$0.01 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.

Notes to Financial Statements (continued)

31 December 2012

28. 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, exerciseable 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, the Company repurchased its 1,000,000 ordinary shares at prices ranging from HK$2.60 to HK$2.78 per share at a total consideration of approximately HK$2,711,000 (equivalent to RMB2,211,000). The 1,000,000 repurchased ordinary shares were cancelled during the year. The premium of approximately HK$2,701,000 (equivalent to RMB2,203,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$10,000 (equivalent to RMB8,000) was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 30(a) to the financial statements.

(k) The subscription rights attaching to 776,000 share options granted under the 2011 Options (as defined in note 29) were exercised at the subscription price of HK$1.92 per share, resulting in the issue of 776,000 shares of HK$0.01 each for a total cash consideration before expenses of approximately HK$1,490,000 (equivalent to RMB1,207,000, representing nominal value of ordinary shares of RMB6,000 and share premium of RMB1,201,000). An amount of approximately HK$571,000 (equivalent to RMB463,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(l) 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. 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.

29. 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.

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 grant of the share options.

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.

29. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme at the end of the reporting period:

	31 December 2012		31 December 2011	
	Weighted average exercise price *HK$* **per share**	Number of options *'000*	**Weighted average exercise price** *HK$* **per share**	Number of options *'000*
At 1 January	**1.92**	12,966	**—**	—
Granted during the year	**2.94**	9,394	**1.92**	12,966
Forfeited during the year	**1.92**	(280)	**—**	—
Exercise of share options	**1.92**	(776)	**—**	—
At 31 December	**2.37**	21,304	**1.92**	12,966

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

2012 Number of options *'000*	**Exercise price** *HK$* per share	**Exercise period**
11,910	1.92	14-10-2012 to 13-10-2021
9,394	2.94	21-06-2013 to 20-06-2022
21,304		

2011 Number of options *'000*	Exercise price *HK$* per share	Exercise period
12,966	1.92	14-10-2012 to 13-10-2021

The fair value of the share options granted during the year ended 31 December 2011 (the "2011 Options") was RMB7,817,000 (RMB0.60 each). The fair value of the share options granted during the year was RMB8,329,000 (RMB0.89 each) (the "2012 Options"). The Group recognised share option expenses of a total of RMB7,104,000 (2011: RMB1,083,000) in respect of the 2011 Options and the 2012 Options during the year ended 31 December 2012.

29. SHARE OPTION SCHEME (continued)

The fair values of equity-settled share options granted during the years ended 31 December 2012 and 2011 were 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:

	Share options granted on	
	21 June 2012	14 October 2011
Dividend yield *(%)*	**1.78**	1.75
Expected volatility *(%)*	**37.6**	38.17
Risk-free interest rate *(%)*	**1.0**	1.33
Expected life of options *(year)*	**8 - 10**	8 - 10
Price of the Company's shares at date of grant *(HK$ per share)*	**2.94**	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, the Company had 21,304,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 21,304,000 additional ordinary shares of the Company and additional share capital of approximately HK$213,000 (equivalent to approximately RMB173,000) and share premium of approximately HK$50,273,000 (equivalent to approximately RMB40,763,000), before issue expenses.

At the date of approval of these financial statements, the Company had 20,324,000 share options outstanding under the Scheme, which represented approximately 2.02% of the Company's shares in issue as at that date.

30. 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 2012, share premium of RMB571,012,000 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; (ii) the excess of the 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 notes 28(h) and 28(i), after capitalisation issue as mentioned in note 28(g) and share issue expenses; (iii) repurchase of 1,000,000 ordinary shares as mentioned in note 28(j); (iv) payment of the final dividend for the year ended 31 December 2011 of HK$45,371,000 (equivalent to approximately RMB36,861,000); and (v) the excess of the consideration over the nominal value of the Company's share capital issued pursuant to the exercise of 776,000 share options as mentioned in note 28(k).

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 (the "Consideration") 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 Consideration 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.

30. RESERVES (continued)

(a) Group (continued)

(i) Share premium (continued)

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 (approximately RMB86,958,000). 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 ended 31 December 2011.

The share capital movements of the Company are set out in note 28 to the financial statements.

(ii) 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.

Notes to Financial Statements (continued)

31 December 2012

30. RESERVES (continued)

(b) Company

	Share premium RMB'000	Capital reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 11 January 2011	—	—	—	—	—	—
Loss for the year and 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 and 1 January 2012	608,412	(4,613)	—	1,083	(35,773)	569,109
Loss for the year and total comprehensive expense for the year	—	—	—	—	(21,207)	(21,207)
Repurchase of shares	(2,203)	—	8	—	(8)	(2,203)
Equity-settled share option arrangements	—	—	—	7,104	—	7,104
2011 final dividend declared and paid	(36,861)	—	—	—	—	(36,861)
Exercise of share options	1,664	—	—	(463)	—	1,201
At 31 December 2012	571,012	(4,613)	8	7,724	(56,988)	517,143

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.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) 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.

(b) During the year ended 31 December 2012, deposits for purchase of items of property, plant and equipment of RMB739,000 (2011: RMB8,287,000) as at 31 December 2011 were transferred to property, plant and equipment.

(c) During the year ended 31 December 2012, consideration for exercise of 776,000 share options of HK$1,490,000 (equivalent to RMB1,207,000) was receivable from a third party and was recorded in "Prepayments, deposits and other receivables" in the consolidated statement of financial position as at 31 December 2012.

32. 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 six months to five years (2011: 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	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**1,212**	4,894
In the second to fifth years, inclusive	**496**	2,673
	1,708	7,567

At the end of the reporting period, the Company did not have any significant operating lease arrangements.

Notes to Financial Statements (continued)

31 December 2012

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the end of the reporting period:

	Group	
	2012 ***RMB'000***	2011 *RMB'000*
Contracted, but not provided for:		
Construction of buildings	**201,673**	67,370
Purchase of items of property, plant and equipment	**3,683**	2,782
	205,356	70,152
Contracted for commitment in respect of investment in a wholly-foreign-owned subsidiary in the PRC	**25,142**	94,514
	230,498	164,666

At the end of the reporting period, the Company did not have any significant commitments.

34. 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	**2012** ***RMB'000***	2011 *RMB'000*
Related companies:			
Sales of products	(a)	**16,921**	35,007
Rental expenses	(b)	**3,409**	3,409
Subcontracting fees	(c)	**6,104**	9,613
Sales of raw materials and finished goods	(d)	**2,514**	—
Purchase of intangible asset	(e)	**—**	7,120
Purchase of plant and machinery	(f)	**108**	627
Sales of plant and machinery	(f)	**355**	—

34. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

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 RMB16,921,000 (2011: RMB34,789,000) and nil (2011: RMB218,000), respectively, were made on mutually agreed terms.

(b) Frog Prince (China), a wholly-owned subsidiary of the Group, and Fujian Shuangfei, which is controlled by Mr. Li and Mr. Xie, entered into buildings, equipment and vehicles lease agreements on 1 January 2010 and 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 the leasing of 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 other 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. The lease of buildings with a total floor area of 4,846 square metres was early terminated on 31 December 2012.

Subsequent to the end of reporting period, Frog Prince (China) and Fujian Shuangfei entered into a supplementary lease agreement on 1 January 2013. Pursuant to this agreement, Frog Prince (China) leases from Fujian Shuangfei an office building with a total floor area of 2,437 square metres which is for a lease period of thirty-six months ending 31 December 2015 with a fixed monthly rental payable of approximately RMB21,000.

(c) The directors confirmed that the subcontracting fees paid to Fujian Shuangfei were made on mutually agreed terms.

(d) The directors confirmed that the sales to Fujian Shuangfei were made on mutually agreed terms.

(e) Frog Prince (China) and Fujian Shuangfei entered into a 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 the purchase was made on mutually agreed terms.

(f) The directors confirmed that the plant and machinery purchased from and sold to Fujian Shuangfei were made on mutually agreed terms.

Notes to Financial Statements (continued)

31 December 2012

34. RELATED PARTY TRANSACTIONS (continued)

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

Due from a related company:

Group

	2012 *RMB'000*	2011 *RMB'000*
A related company	**9,915**	7,691

Company

	2012 *RMB'000*	2011 *RMB'000*
A related company	**348**	—

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 2012

Name	31 December 2012 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	1 January 2012 *RMB'000*
Related company			
Shuangfei USA	**9,915**	**20,163**	**7,691**

Company

Name	31 December 2012 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	1 January 2012 *RMB'000*
Related company			
Shuangfei USA	**348**	**348**	—

34. RELATED PARTY TRANSACTIONS (continued)

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

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

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, which has been early terminated on 31 December 2012. The amount of total rental expenses incurred for the year is included in note 34(i)(b) to the financial statements. As at the end of the reporting period, the Group does not have any lease payment under non-cancellable operating lease with Fujian Shuangfei.

As at 31 December 2011, the Group expected total rental expenses payable to Fujian Shuangfei in 2012, 2013 and 2014 to be approximately RMB3,410,000, RMB321,000 and RMB294,000, respectively.

34. RELATED PARTY TRANSACTIONS (continued)

(iv) Compensation of key management personnel of the Group

Further details of directors' and the chief executive's remuneration are included in note 8 to these financial statements.

The related party transactions in respect of items (i)(d), (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.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Group	
	2012	2011
	RMB'000	*RMB'000*
Available-for-sale investments	**95,920**	—
Loans and receivables		
Trade receivables	**115,990**	92,999
Amount due from a related company	**9,915**	7,691
Financial assets included in prepayments, deposits and other receivables	**1,564**	492
Entrusted loan receivable	**80,000**	—
Pledged deposits	**1,148**	1,096
Cash and cash equivalents	**642,877**	735,597
	851,494	837,875

35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Financial liabilities at amortised cost

	Group	
	2012 **RMB'000**	2011 RMB'000
Trade and bills payables	**65,158**	80,595
Financial liabilities included in other payables and accruals	**7,795**	13,116
Interest-bearing bank borrowings	**—**	30,000
	72,953	123,711

Financial assets

Loans and receivables

	Company	
	2012 **RMB'000**	2011 RMB'000
Amounts due from subsidiaries	**432,382**	250,772
Amount due from a related company	**348**	—
Financial assets included in other receivables	**1,431**	—
Cash and cash equivalents	**8,074**	245,419
	442,235	496,191

Financial liabilities

Financial liabilities at amortised cost

	Company	
	2012 **RMB'000**	2011 RMB'000
Financial liabilities included in accruals	**1,703**	2,100
Amount due to a subsidiary	**—**	3,130
	1,703	5,230

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise pledged deposits, cash and cash equivalents, available-for-sale investments and entrusted loan receivable. 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 receivables, amount due from a related company, financial assets included in prepayments, deposits and other receivables, trade and bills payables and financial liabilities included in other payables and accruals, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. It is, and has been, throughout the 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.

36. 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 profit before tax	
	Increase/ (decrease) in US$/HK$ rate	**2012**	2011
	%	***RMB'000***	*RMB'000*
If RMB weakens against US$	5	**1,386**	5,276
If RMB strengthens against US$	(5)	**(1,386)**	(5,276)
If RMB weakens against HK$	5	**19**	2,697
If RMB strengthens against HK$	(5)	**(19)**	(2,697)

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 amount due from a related company 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.

Notes to Financial Statements (continued)

31 December 2012

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

Group

	On demand and less than 1 year	
	2012	2011
	RMB'000	*RMB'000*
Trade and bills payables	**65,158**	80,595
Financial liabilities included in other payables and accruals	**7,795**	13,116
Interest-bearing bank borrowings	**—**	30,672
	72,953	124,383

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.

Capital management

The primary objectives of the Group's capital management are 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 2012 and 2011.

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.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.

Summary Financial Information

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

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,572,054**	1,269,167	837,991	624,396	473,966
Profit before tax	**298,634**	218,466	167,900	126,266	99,416
Income tax expense	**57,524**	34,521	23,431	34,467	27,192
Profit attributable to the equity holders of the Company for the year	**241,110**	183,945	144,469	91,799	72,224

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,264,412**	1,090,465	309,474	315,859	176,260
Total liabilities	**104,782**	142,113	163,819	169,261	71,477
	1,159,630	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 of the Company dated 30 June 2011 (the "Prospectus"). Such summary is presented on the basis as set out in the Prospectus.

(ii) The consolidated results of the Group for the two years ended 31 December 2011 and 2012 and the consolidated assets and liabilities of the Group as at 31 December 2011 and 2012 are those set out on pages 50 to 53 of this annual report. Such summary for the year ended 31 December 2011 was prepared as if the current structure of the Group had been in existence throughout that financial year.

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