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Web Proof Information Pack of

Prince Frog International Holdings Limited
青蛙王子國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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CONTENTS

The Web Proof Information Pack contains the following information relating to the Company extracted from the draft document:

Contents

Summary

Definitions

Forward-Looking Statements

Risk Factors

Information about this Document

Directors and Parties Involved

Corporate Information

Industry Overview

Regulatory Overview

History and Reorganisation

Business

Relationship with the Controlling Shareholders

Connected Transactions

Directors, Senior Management and Employees

Share Capital

Shareholders

Financial Information

Future Plans

Appendix I Accountants’ Report

Appendix III Profit Forecast

Appendix IV Property Valuation

Appendix V Summary of the Constitution of the Company and Cayman Islands Company Law

Appendix VI Statutory and General Information

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.

OVERVIEW

Our 青蛙王子 (Frog Prince) brand is a leading domestic brand of children care products in China with the largest market shares in terms of retail sales value in moisturising lotion products, bath and shampoo products and oral care products, among all domestic brands in China in 2010¹.

We primarily design and provide a broad range of children care products under our own brand, including skin care products, body and hair care products, oral care products and diaper products, which are tailored for the mid-end market segment in China. In addition to children care products, we also provide baby care products, household hygiene products and adult care products under our own brand names and manufacture OEM products.

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

We believe the recognition for the quality of our products and the goodwill of our 青蛙王子 (Frog Prince) brand are also crucial to our success. We place great emphasis on the quality and safety of our products and implement stringent quality control measures throughout our whole production process. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)² to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products³; and (ii) Pony⁴ to conduct additional independent tests of all of our household hygiene products currently in production,

Notes:

1. According to Euromonitor, our children moisturising lotion products, children bath and shampoo products and children oral care products under our 青蛙王子 (Frog Prince) brand had the market shares in those three market segments of approximately 23.1%, 10.0% and 14.6% respectively, in 2010. Our 青蛙王子 (Frog Prince) brand has the second largest market shares in terms of retail sales value in the children moisturising lotions products, children bath and shampoo products and children oral care products among all international and domestic brands in 2010. The total retail sales value of our children moisturising lotion products, bath and shampoo products and oral care products accounted for approximately 15.5% of the total retail sales value of children care products market in China in 2010.
2. A testing laboratory accredited by Hong Kong Accreditation Service, the United Kingdom Accreditation Service and China National Accreditation Service for Conformity Assessment and an Independent Third Party.
3. As of 18 February 2011.
4. A testing organisation accredited by China National Accreditation Service for Conformity Assessment and an Independent Third Party.

SUMMARY

which found that all of them were in compliance with the relevant national standards in China⁵. Since our establishment in 1995, we had not announced any product recalls nor had we experienced any returns or exchanges of products or made any compensation payment due to reasons related to quality defects, perceived side effects or existence of harmful chemicals or substances nor had we received any complaints about quality and safety problems which had caused a material adverse impact on our business or reputation.

With quality of our products as the foundation of our Group’s success, we have also successfully built our brand image and enhanced our brand recognition among our customers. We created and produced our own animation series based on the 青蛙王子 (Frog Prince) character of our brand. The first season of the animation series was broadcasted nationwide in China from 2006 to 2008. Leveraging on the success of the first season of this animation series, we produced and later broadcasted our second season in 2010. We believe the strategy to produce our own animation series to promote our brand recognition differentiates us from other competitors, and has contributed to our success of being the top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China⁶. As both the first and second seasons of the animation series were broadcasted on CCTV Children Channel and other top television channels such as Jiangsu Satellite TV Animation Channel, we believe we have effectively promoted our 青蛙王子 (Frog Prince) brand to a wide group of audience that has contributed to our increase in sales over the years.

Due to the rise in disposable income and the improvement in living standard, parents in China have become more conscious of the quality and safety of the products used by their children and thus more willing to purchase quality children care products that are safe and tailored to children’s specific need. According to Euromonitor, there is a surging demand for children care products and the market size for children care products increased from RMB3,325.4 million in 2006 to RMB5,336.6 million in 2010, representing a CAGR of 12.6%. By the end of 2013, the expected market size will reach RMB8,679.4 million, representing a CAGR of 17.6% from that of 2011. Leveraging on our brand recognition, product development capability and our established nationwide sales network, we are well positioned to capture the booming children care products market in China. For the three years ended 31 December 2008, 2009 and 2010, our children care products under our 青蛙王子 (Frog Prince) brand had achieved significant growth in sales from approximately RMB320.3 million in 2008 to RMB578.9 million in 2010, representing a CAGR of 34.4%.

In 2009, we expanded our product portfolio to provide baby diaper products under our 青蛙王子 (Frog Prince) brand in order to capture the significant market demand for baby diaper products in China. Since their launch in 2009, we have distributed our diaper products in 26 provinces, including Fujian, Henan, Hunan, Hubei, Jiangxi, Shandong, Sichuan and Yunnan, and will continue to leverage on our existing and future sales network to expand the distribution of our diaper products throughout China. Since the launch of our diaper products in 2009, our turnover from the sales of diaper products were RMB8.8 million and RMB20.2 million for the two years ended 31 December 2009 and 2010 respectively.

Our household hygiene products under the brand names of 雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi) are not our core business segment. However, as we have been able to effectively distribute such products via the sales network established by the 青蛙王子 (Frog Prince) brand,

Note:

5. As of 16 February 2011.

6. As of 31 December 2010 according to Frost & Sullivan.

SUMMARY

turnover from this household hygiene business segment has also shown significant growth without any material promotion or marketing efforts from us. We expect the turnover of household hygiene products to continue to increase in tandem with the expansion of the sales network of our Group. Our household hygiene products recorded a turnover of RMB84.3 million, RMB109.4 million and RMB180.0 million for the three years ended 31 December 2008, 2009 and 2010 respectively, representing a CAGR of 46.1%.

Other products produced by us during the Track Record Period include baby care products, adult care products and OEM products.

Different from our products under our own brands which are sold domestically, all our OEM products are sold to our overseas customers. We either export those OEM products to our overseas customers on our own or sell them to our local OEM customers which export such OEM products to their overseas customers. Insofar as the Directors understand, our overseas customers will then sell the products to retailers or sub-distributors outside China. Our revenue generated from the sales of our OEM products represented approximately 13.4%, 12.1% and 9.0% of our total revenue for the three years ended 31 December 2008, 2009 and 2010, respectively. In order to maintain our relationships with our OEM customers, we will continue our OEM business and will accept orders if it is in the interest of the Group.

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

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

Non-compliance incidents

During the Track Record Period, there were some non-compliance incidents relating to the Companies Ordinance and the production and sale of our certain products beyond the scope of our business license or other approvals. All those incidents are rectified and we have obtained the relevant licenses or approvals to produce and/or sell those products. Moreover, six of our products had failed to pass random checks conducted by government authorities. We did not, and were not obliged to, announce any recall of those products as such non-compliance incidents did not give rise to any safety problem and health risks to the users and we have not received any complaint or claim in respect of the quality of those products from any end-consumer. All those products have passed the subsequent tests conducted by the relevant government authorities and are currently in compliance with the relevant industry standards. We have also obtained the confirmations from the relevant PRC authorities that we would not be penalised for those non-compliance incidents. For details of those incidents and our mitigating measures, please refer to the section headed “Business — Litigation and Compliance” of this document.

SUMMARY

The following table sets forth the breakdown of our revenue by each brand, their product categories and respective product series for the three years ended 31 December 2008, 2009 and 2010, respectively:

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

Note: Others refer to our OEM products and our adult oral care products and skin care products under other brands of our Group.

OUR COMPETITIVE STRENGTHS

We believe our success and future prospects are attributable to a combination of our competitive strengths as set out below:

- Top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China
- Leading market position to capture the fast-growing baby and children care products market in PRC
- Nationwide and well-established sales network

SUMMARY

- Broad and diversified product offerings
- Outstanding product quality
- Experienced and dedicated management team

OUR STRATEGIES

With the aim of maintaining our leading position in the domestic children care products market in China, further developing our business and continuing our growth, we plan to pursue the following strategies:

- Continue to strengthen and develop the image of our 青蛙王子 (Frog Prince) brand
- Further enrich and expand our product offerings
- Further penetrate into different regions in China and enhance our sales network
- Continue to expand production capacity and improve production efficiency
- Continue to strengthen our product research and development capabilities

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table presents a summary of our combined income statements for the three years ended 31 December 2008, 2009 and 2010. The summary of our combined income statements are derived from, and should be read in conjunction with, our combined financial statements included in the Accountants’ Report set forth in Appendix I to this document. Our combined financial statements have been prepared in accordance with IFRS. Investors should also read the following selected financial data together with the discussion in the section headed “Financial Information” of this document.

Combined income statements

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

Combined statements of comprehensive income

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

SUMMARY

Combined statements of financial position

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

INVESTMENT BY CCBIAM, JOYFUL AND PARAMOUNT

To further finance our Group's operations such as brand promotion and marketing activities, to improve corporate governance of our Group and finance the construction of our Group's new production lines, CCBIAM, Joyful and Paramount invested in Prince Frog International in July 2010 as investors. Pursuant to the terms of share purchase agreements all dated 29 July 2010 and all entered into by Prince Frog International, Prince Frog (HK), Prince Frog (China), Mr. Li, Mr. Xie, Zhenfei Investment and Jinlin Investment with each of CCBIAM, Joyful and

SUMMARY

Paramount (the “**Share Purchase Agreements**”), CCBIAM, Joyful and Paramount subscribed for 10,785 shares, 1,618 shares and 2,157 shares in Prince Frog International at a consideration of US\$10 million, US\$1.5 million and US\$2.0 million, respectively and such considerations were fully paid in August 2010. The considerations were determined on an arm’s length basis with reference to the estimated financial performance of Prince Frog (China) for the financial year of 2009. After such subscription, CCBIAM, Joyful and Paramount held approximately 9.42%, 1.41% and 1.88% equity interests in Prince Frog International, respectively.

For more details regarding CCBIAM, Joyful and Paramount’s investment, please refer to the paragraphs headed “History and Reorganisation — Reorganisation and Financial Investments” of this document.

TRANSFER OF INTELLECTUAL PROPERTY RIGHTS

Pursuant to the Copyrights Assignment Agreement, Fujian Shuangfei assigned all the copyrights and other rights relating to such copyrights of the 青蛙王子 (Frog Prince) animation series to Prince Frog (China).

In addition, pursuant to the relevant agreements, Fujian Shuangfei agreed to transfer 73 trademarks (among which 68 are registered in PRC and five are registered outside PRC) and 36 trademark applications (among which 35 were made in PRC and one was made outside PRC), 16 patents, one patent application and 12 domain names owned or applied for by Fujian Shuangfei to Prince Frog (China). Among those 73 trademarks and 36 trademark applications under transfer, 82 are related to our 青蛙王子 (Frog Prince) brand. Pursuant to the relevant agreements, Prince Frog (China) has the right to use such trademarks under transfer without fee charges before the completion of transfer.

As at the Latest Practicable Date, six trademarks (excluding the two “BODY & EARTH” and “GREEN CANYON SPA” trademarks which were transferred back to Fujian Shuangfei) and all patents, patent application and domain names under the relevant agreements were transferred from Fujian Shuangfei to Prince Frog (China). All those six transferred trademarks are related to our 青蛙王子 (Frog Prince) brand. Our Directors estimate that all the transfers of trademarks from Fujian Shuangfei to Prince Frog (China) will be completed within one year from our [●] based on their experience. Our PRC legal advisers, Jingtian & Gongcheng, have advised us that there is no legal impediment for the transfers of the remaining 94 trademarks (including the trademarks newly registered according to the trademark applications transferred by Fujian Shuangfei to Prince Frog (China)) and two trademark applications under PRC laws. Our Controlling Shareholders, Mr. Xie and Jinlin Investment undertake that if Fujian Shuangfei fails to transfer these trademarks and trademark applications to Prince Frog (China), our Controlling Shareholders, Mr. Xie and Jinlin Investment will procure Fujian Shuangfei to grant Prince Frog (China) an exclusive and perpetual license to use these trademarks without any fee or charge.

For details of those transfers, please refer to the paragraphs headed “Reorganisation and Financial Investments — Reorganisation — (1) Onshore Restructuring” in the section headed “History and Reorganisation” of this document.

PROFIT FORECAST

On the bases and assumptions set out in Appendix III to this document, and in the absence of unforeseen circumstances, we forecast that our combined profit attributable to the equity

SUMMARY

holders of the Company for the six months ending 30 June 2011 is expected to be not less than RMB67.7 million.

The profit forecast is prepared on the basis of accounting policies consistent in all material respects with those currently adopted by us as described in the Accountants’ Report, the text of which is set out in Appendix I to this document.

DIVIDEND POLICY

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

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

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

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

RISK FACTORS

There are numerous risks involved in our operations. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; and (iii) risks relating to conducting business in PRC. A detailed discussion of the risk factors are set forth in the section headed “Risk Factors” in this document. The following is a list of the risk factors:

Risks relating to our business

- Our performance and sales of our products may be materially and adversely affected if we fail to effectively promote our brands in particular our 青蛙王子 (Frog Prince) brand
- We may encounter difficulties in enhancing our sales network and expanding our sales channel
- Our success depends on our ability to effectively manage the business practice and the manners of our distributors

SUMMARY

- Our brand image and business may be affected by our distributors’ failure to comply with the restrictions with regard to their exclusive distribution rights and other requirements under the distribution agreements
- Our distributors may accumulate excess or obsolete inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors and thus have a material adverse impact on our business
- Our efforts to continuously diversify and develop our products may not be successful
- The use of our products may cause unexpected or undesirable side effects on our end-users which may give rise to quality control concerns, product liability claims and consumer complaints. These could materially and adversely affect our business and reputation
- Our brands and products may be subject to counterfeiting, imitation and/or infringement of intellectual property rights by third parties
- Third parties may assert or claim that we have infringed their intellectual property rights
- Material unfavourable changes in our outsourcing cooperation with third-party manufacturers could adversely affect our product supply, quality and cost
- We do not maintain a large volume of raw materials and packaging materials at our production facility and thus, we are vulnerable to increases in the prices of raw materials and packaging materials and our cost of sales may increase
- We are dependent on the contribution of our key management personnel
- Our insurance coverage may not completely cover the risks related to our business and operations
- We may be unable to obtain financing on favourable terms, or at all, to meet our funding requirements
- Title defects affecting the properties in PRC that we lease could adversely affect our use of such properties
- Our sales may be subject to seasonality
- Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business

Risks relating to our industry

- We are required to obtain and maintain various licenses and permits to operate our business and the loss of or failure to renew any of these licenses and permits could adversely affect our business

SUMMARY

- Changes in existing laws and regulations may cause us to incur additional costs to comply with more stringent rules, which could slow down our product development efforts and limit our growth and development

Risks relating to conducting business in PRC

- Changes in PRC’s political, economic and governmental policies may have an adverse impact on our operations
- Unfavourable change in tax rate in China may have a negative impact on our results of operations
- Future changes in laws, regulations or enforcement policies in China may adversely affect us
- Restrictions on payment of dividend under PRC law and the tax exemptions on dividends received by the Company and the Shareholders may be affected by PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)
- Dividends payable by us to our investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws
- Changes in foreign exchange regulations may adversely affect our business, financial condition and results of operation
- Uncertainty in PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in which may in turn have an adverse impact on our operations
- We are subject to various environmental regulations and any failure to comply with these regulations or to control the associated costs may harm our business
- The enforcement of PRC Labour Contract Law (中華人民共和國勞動合同法) and other relative regulations may adversely affect our business and our results of operations

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions shall have the following meanings.

“Articles” or “Articles of Association”	: the articles of association of our Company adopted on 22 June 2011, which shall become effective upon the [●] and as amended from time to time, a summary of which is set out in Appendix V to this document
“associate”	: has the meaning ascribed to it under the Listing Rules
“baby care product(s)”	: unless the context defines otherwise, refers to personal care products targeting babies from zero to three years old
“Board” or “Board of Directors”	: the board of Directors
“Business Day”	: a day (which is not a Saturday, a Sunday or a public holiday in Hong Kong) on which banks in Hong Kong are generally open for business
“BVI”	: the British Virgin Islands
“CAGR”	: acronym for compound annual growth rate
“CCBIAM”	: CCB International Asset Management Limited, a company incorporated in Hong Kong with limited liability on 29 November 2004
“CCTV”	: China Center Television (中國中央電視台), one of the national television channels in China
“children care product(s)”	: unless the context defines otherwise, refers to personal care products targeting children from four to 12 years old
“China” or “PRC” or “Mainland”	: the People’s Republic of China excluding, for the purpose of this document, Taiwan region or Hong Kong or the Macao Special Administrative Region of PRC
“Companies Law”	: the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	: the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented, or otherwise modified from time to time
“Company” or “our Company”	: Prince Frog International Holdings Limited (青蛙王子國際控股有限公司), an exempted company incorporated with limited liability under the laws of the Cayman Islands on 11 January 2011
“Controlling Shareholder(s)”	: in the context of our Company for the purposes of this document, unless the contents otherwise require or define, means Mr. Li, Zhenfei Investment and Prince Frog International

DEFINITIONS

“Copyrights Assignment Agreement”	: a copyrights assignment agreement, dated 28 February 2011 and entered into between Prince Frog (China) and Fujian Shuangfei, pursuant to which Fujian Shuangfei agreed to transfer the copyrights of the 青蛙王子 (Frog Prince) animation series and other rights relating to such copyrights to Prince Frog (China) at a consideration of RMB7,120,000
“Cosmetics Directive”	: Council Directive 76/768/EEC, the principal legislation governing safety in relation to cosmetics products applicable to the member states of the European Union
“CSRC”	: 中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in PRC
“Deed of Indemnity”	: a deed of indemnity dated 22 June 2011 made by our Controlling Shareholders, Mr. Xie and Jinlin Investment in favour of our Company (for itself and as trustee for each of its subsidiaries), under which each of our Controlling Shareholders, Mr. Xie and Jinlin Investment has given certain indemnities in favour of our Group containing, among other things, the indemnities referred to in the paragraph headed “G. Other Information — 1. Estate duty and tax indemnity” in Appendix VI to this document
“Deed of Non-competition”	: a non-competition deed dated 22 June 2011 entered into by our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei in favour of our Company (for itself and on behalf of its subsidiaries), details of which are disclosed in the section headed “Relationship with the Controlling Shareholders” of this document
“Director(s)”	: director(s) of our Company
“Euromonitor”	: Euromonitor International Ltd, a market research firm and an Independent Third Party
“Euromonitor Report”	: the industry report prepared by Euromonitor, the details of which are more particularly set out in the section headed “Industry Overview” of this document
“First-tier City(ies)”	: refer(s) to Beijing, Shanghai, Guangzhou and Shenzhen
“FMCG”	: fast moving consumer goods
“Fourth-tier City(ies)”	: refer(s) to the vast prefecture-level and county-level cities in PRC
“Frog Prince”	: unless the context defines otherwise, refers to our baby and children care product brands
“Frost & Sullivan”	: Frost & Sullivan, a market research firm and an Independent Third Party
“Frost & Sullivan Report”	: the market survey conducted by Frost & Sullivan, the details of which are more particularly set out in the section headed “Industry Overview” of this document

DEFINITIONS

- “Fujian Shuangfei”** : 福建雙飛日化有限公司 (Fujian Shuangfei Daily Chemicals Co., Ltd.), a company established in PRC on 18 May 2001 with a registered capital of RMB20,000,000 as at the Latest Practicable Date and owned as to 51% by Mr. Li and as to 49% by Mr. Xie. Fujian Shuangfei was registered as a collective enterprise on 19 January 1995 and converted into a limited liability company in 2001
- “GDP”** : gross domestic product
- “General Administration”** : the General Administration of Quality Supervision, Inspection and Quarantine of PRC (國家質量監督檢驗檢疫總局) the national authority governing among others, the safety and quality of personal care products and household hygiene products
- “Group”, “our Group”, “we” or “us”** : our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the business operated by its present subsidiaries or (as the case may be) its predecessor
- “HK\$” or “HK dollar(s)”** : Hong Kong dollars, the lawful currency of Hong Kong
- “HKFRS”** : Hong Kong Financial Reporting Standards
- “HKICPA”** : Hong Kong Institute of Certified Public Accountants
- “Hong Kong” or “HK”** : the Hong Kong Special Administrative Region of PRC
- “IFRS”** : International Financial Reporting Standards, as issued by the International Accounting Standards Board
- “Independent Third Party(ies)”** : an individual(s) or a company(ies) who or which is/are independent of and not connected with any Director, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates
- “Intertek (HK)”** : Intertek Testing Services Hong Kong Limited, a testing laboratory accredited by Hong Kong Accreditation Service, the United Kingdom Accreditation Service and China National Accreditation Service for Conformity Assessment and an Independent Third Party
- “Jinlin Investment”** : Jinlin Investment Company Limited, a limited liability company incorporated in BVI on 10 March 2010 with an authorised capital of US\$5,000 with a par value of US\$0.1 each as at the Latest Practicable Date and owned as to 100% by Mr. Xie
- “Joyful”** : Joyful Business Holdings Limited, a limited liability company incorporated in BVI on 4 June 2009 under the laws of BVI and wholly owned by Mr. Jie Liao, an Independent Third Party
- “Latest Practicable Date”** : [●], being the latest practicable date prior to the printing of this document for ascertaining certain information in this document prior to its publication

DEFINITIONS

“Memorandum” or “Memorandum of Association”	: the memorandum of association of our Company as amended from time to time
“Ministry of Commerce” “MOFCOM”	: 中華人民共和國商務部 (the Ministry of Commerce of PRC)
“Mr. Li”	: Mr. Li Zhenhui (李振輝), the chairman, the chief executive officer, one of our executive Directors and one of our Controlling Shareholders
“Mr. Xie”	: Mr. Xie Jinling (謝金玲), the vice general manager and one of our executive Directors
“OEM”	: acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
“Paramount”	: PARAMOUNT STAGE LIMITED, a limited liability company incorporated in BVI on 26 May 2010 under the laws of BVI and owned as to 100% by Mr. Wan Chi Keung, an Independent Third Party
“PONY”	: Pony Testing International Group, a testing organisation accredited by China National Accreditation Service for Conformity Assessment and an Independent Third Party
“PRC Government” or “State”	: the central government of PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities, or, where the context requires, any of them
“PRC GAAP”	: generally accepted accounting rules and regulations in China
“Prince Frog (China)”	: 青蛙王子(中國)日化有限公司 (Frog Prince (China) Daily Chemicals Co., Ltd), a limited liability company established in PRC on 28 February 2005 with a registered capital of US\$10,000,000 as at the Latest Practicable Date and owned as to 100% by Prince Frog (HK)
“Prince Frog (HK)”	: Prince Frog (HK) Daily Chemicals Company Limited (青蛙王子(香港)日化有限公司), formerly known as Taiwan Waishen Shareholder (H.K) Limited (台灣慧秀股份(香港)有限公司) and FROGPRINCE (H.K.) DAILY CHEMICAL LIMITED (青蛙王子(香港)日化有限公司), a company incorporated in Hong Kong on 5 July 2002 with a share capital of HK\$10,000 as at the Latest Practicable Date and an indirect wholly-owned subsidiary of our Company
“Prince Frog International”	: Prince Frog International Company Limited (青蛙王子國際有限公司), a company incorporated in BVI on 12 March 2010 under the laws of BVI with an authorised share capital of US\$5,000 with a par value of US\$0.1 each and one of our Controlling Shareholders

DEFINITIONS

“Prince Frog Investment”	: Prince Frog Investment Limited (青蛙王子投資有限公司), a limited liability company incorporated in BVI on 3 December 2010 under the laws of BVI with an authorised share capital of US\$5,000 with a par value of US\$0.1 each and a direct wholly-owned subsidiary of our Company
“Process Outsourcing Agreement”	: the process outsourcing agreement dated 31 December 2009 and a supplemental agreement dated 22 June 2011, all entered into by Fujian Shuangfei and Prince Frog (China), pursuant to which Prince Frog (China) agreed to outsource the sunscreen, air freshener and insecticide products to Fujian Shuangfei
“Reorganisation”	: the corporate reorganisation undertaken by our Group which is more particularly described in the paragraph headed “Reorganisation” in the section headed “History and Reorganisation” of this document
“retail sales value”	: the sales value of product(s) based on retail selling price(s) at points of sales
“RMB” or “Renminbi”	: Renminbi, the lawful currency of PRC
“SAFE”	: 中國國家外匯管理局 (the State Administration of Foreign Exchange of PRC)
“Second-tier City(ies)”	: refer(s) to 25 cities in PRC which are the major municipalities or provincial capitals that record a relatively high gross domestic product and personal disposable income among the cities in PRC
“Share(s)”	: ordinary share(s) with a nominal value of HK\$0.01 each in the capital of our Company
“Shareholder(s)”	: holder(s) of the Share(s)
“Shuangfei (USA)”	: Shuangfei Daily Chemicals (USA) Inc., a corporation incorporated on 16 July 2008 in the U.S. under the laws of the State of Florida, U.S., and its 51% outstanding shares are owned by Mr. Li, 48% by Mr. Xie, and 1% by Ms. Lina Xu, an Independent Third Party, as at the Latest Practicable Date
“subsidiary(ies)”	: has the meaning ascribed to it in section 2 of the Companies Ordinance
“Third-tier City(ies)”	: refer(s) to 41 mid-upper affluent cities and provincial capitals in PRC
“Track Record Period”	: the period comprising the three financial years ended 31 December 2008, 2009 and 2010
“Trademark Transfer Agreements”	: the six trademark transfer agreements dated 31 December 2009, the trademark transfer agreement dated 20 March 2011 and the trademark transfer agreement dated 22 April 2011, all entered into between Fujian Shuangfei and Prince Frog (China)

DEFINITIONS

“United States” or “U.S.”	: the United States of America
“US\$”, “U.S. dollars” or “USD”	: United States dollars, the lawful currency of the United States
“VAT”	: value added tax in PRC
“WFOE”	: wholly foreign owned enterprise incorporated and registered under the laws of PRC
“Zhenfei Investment”	: Zhenfei Investment Company Limited, a limited liability company incorporated in BVI on 10 March 2010 with an authorised capital of US\$5,000 with a par value of US\$0.1 each and owned as to 100% by Mr. Li
“%”	: per cent.

Unless otherwise expressly stated or the context otherwise requires, all data in this document are of the Latest Practicable Date.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this document, the English names of PRC nationals, companies, associations, entities, departments, facilities, certificates, titles are directly translated from their Chinese names and are furnished for identification purposes only. Should any inconsistencies between the Chinese names and the English names exist, the Chinese names shall prevail.

FORWARD-LOOKING STATEMENTS

This document contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “will”, “expect”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industries in which we operate;
- the regulatory environment as well as the general industry outlook for the industries in which we operate;
- future developments in the industries in which we operate; and
- the general economic trend in PRC.

The words “will”, “expect”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Please refer to the sections headed “Risk Factors”, “Business” and “Financial Information” in this document for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable law, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information.

In this document, statements of or references to our intentions or those of our Directors are made as at the date of this document. Any such intentions may change in light of future developments. Our Directors confirm that any forward-looking statements contained in this document are made after due and careful consideration.

RISK FACTORS

You should carefully consider all of the information set out in this document. You should pay particular attention to the fact that, although our Company is incorporated in the Cayman Islands, our Company’s business is located almost exclusively in PRC and our Company’s operations are governed by a legal and regulatory environment which in some respects may differ from what prevails in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any of these risks.

We believe that there are numerous risks involved in our operations, many of which are beyond our control. These risks can be categorised into: (i) risks relating to our business; (ii) risks relating to our industry; and (iii) risks relating to conducting business in PRC.

RISKS RELATING TO OUR BUSINESS

Our performance and sales of our products may be materially and adversely affected if we fail to effectively promote our brands in particular our 青蛙王子 (Frog Prince) brand

Our brand image can influence consumers’ decisions in purchasing our products and therefore we believe that the reputation and market recognition of our brands, in particular our 青蛙王子 (Frog Prince) brand, is one of the winning factors to our success. Our business and market positions largely depend on our ability to successfully promote our brands and our ability to continue to offer new products which follow the market trend under our brands. We promote and enhance our brand image through marketing and advertising methods including (i) 青蛙王子 (Frog Prince) animation series; (ii) television commercials; (iii) advertisement in magazines and newspapers and on billboards, banners and public transportation; (iv) in-store marketing and promotional activities; and (v) attending industrial promotional exhibitions. These marketing strategies play an important role in building up our brand image and have been very successful. However, we cannot give assurance that our marketing and promotional activities will remain effective if there is any change in market conditions. If we fail to promote and enhance the image of our brands to adapt to such changes, our reputation may be adversely affected and we may fail to enhance our brand recognition successfully as planned and the demand for our products may decline or fail to increase to the degree we have expected. As a result, we may lose our competitive advantages and our business, financial conditions and results of operations may be materially and adversely affected.

We may encounter difficulties in enhancing our sales network and expanding our sales channel

As of the Latest Practicable Date, we had 173 distributors, through which we distribute our products to various types of retail stores, such as hypermarkets, supermarkets, mother and children products specialty stores and convenience stores, located all over China. As part of our business strategy, we plan to enhance our sales network by optimising the sales performance of our distributors, and to further expand our sales channels by improving the penetration of our products to more types and increasing numbers of retail stores all over China. However, the success of our optimisation and expansion plan is subject to, among other things, the following factors: (i) the existence and availability of suitable regions and locations for expansion of our sales network; (ii) our ability to negotiate favourable cooperation terms with our distributors; (iii) the availability of suitable distributors; (iv) the availability of adequate management and financial resources; (v) the ability of our distributors to improve their sales performances and expand the coverage of

RISK FACTORS

their sub-distribution and retail network; and (vi) our ability to hire, train and retain skilled personnel as well as implementing other operational and management systems to adapt to an expanded sales network. Therefore, we cannot assure you that we will be able to achieve our optimisation and expansion goals or effectively integrate any new distributors into our existing sales network. If we encounter difficulties in optimising our sales network and expanding our sales channels, our growth prospects may be limited, which may in turn have a material adverse impact on our business, financial condition and results of operations.

Our success depends on our ability to effectively manage the business practice and manners of our distributors

We currently do not own or operate any retail outlets, and we depend on our distributors to sell our products. We offer our products to our distributors over designated geographical regions or specified sales channels within a designated geographical region who then distribute and resell our products to its sub-distributors and/or ultimate retailers within such region. The sales performances of our distributors are therefore crucial to the future growth of our business and directly affect our success in our business. As of the Latest Practicable Date, we had 173 distributors throughout China. Although we have adopted a management system to monitor our distributors’ sales performance, we cannot give assurance that the sales performance of our distributors will achieve the sales target that we have set out for them.

In addition, we do not have any contractual relationship with the downstream sub-distributors and the ultimate retailers. As a result, we do not have direct control over the ultimate retail sales of our products by these sub-distributors and retailers. We formulate our sales policies, such as suggested retail price for each of our products as a price reference for the retailers to determine the final retail price of our product. Despite that we have a pricing policy in place and that we have regional sales teams to monitor the actual retail prices of our products from time to time, we cannot give assurance that our suggested retail prices will be followed by the sub-distributors and ultimate retailers. If our contracted distributors fail to effectively implement the terms of our distribution agreement and our pricing policy, and the sub-distributors and ultimate retailers fail to follow our suggested retail prices, artificial price fluctuation may be induced which may adversely affect the sales of our products and may in turn materially and adversely affect the results of our operations.

Our brand image and business may be affected by our distributors’ failure to comply with the restrictions with regard to their exclusive distribution rights and other requirements under the distribution agreements

We generally enter into a standard distribution agreement with each of our distributors in China. Under the distribution agreement, each of our distributors is granted an exclusive distribution right to sell and distribute our products over a designated geographical area or specified sales channels within a designated geographical area in accordance with the terms of the distribution agreement. In the event that any of our distributors violates such restrictions on the geographical region or sales channel under the distribution agreements, or fails to comply with other requirements in the distribution agreements, disorder or confusion may arise affecting our sales network and marketing strategies, our brand image and reputation, and in turn our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Our distributors may accumulate excess or obsolete inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors and thus have a material adverse impact on our business

We sell all of our products to our distributors, who maintain their own inventories of our products. Our distributors, and their sub-distributors and ultimate retailers in turn distribute our products to end consumers through various types of retail stores. In order to track the inventory level of our distributors, our personnel conduct visits to our distributors from time to time in an effort to assess their inventory levels. However, we may not be able to accurately track the inventory levels of our distributors or to identify any excessive inventory build-up at various level of our distribution network. In addition, our distributors may be unable to sell an adequate amount of their inventories of our products in a given period to retailers, which may result in a build-up of inventory at our distributors. In such event, these distributors may reduce future orders until their inventory levels realign with demand from their sub-distributors or ultimate retailers. As such, any excessive build-up of inventory levels of our distributors could reduce the volume of future orders from our distributors and thus have a material adverse impact on our sales to our distributors and accordingly, our financial condition and results of operations.

Our efforts to continuously diversify and develop our products may not be successful

The children care products market is highly competitive and consumers are tempted to change their choices and preferences whenever new products are launched or introduced by various marketing and promotional events of different brands owned by our competitors. In order to keep our leading position in this competitive market, we need to keep upgrading our existing product series and develop new and innovative products to respond to consumers' demands and market changes. The launch of new product series and development of new product categories involve inherent risks, such as making incorrect judgments as to consumer preferences, the anticipated levels of demands and/or the price ranges for the new products. We may also lack sufficient experience in research and development, marketing and promotion for new products. In addition, although we have adopted and will continue to adopt stringent quality control procedures, we cannot assure you that the quality of our products will remain high and stable. Failure to successfully translate market trend into attractive product offerings, recover development, production and marketing costs of unsuccessful new products or maintain the high quality of our products in the future may adversely affect our market share, financial condition and overall profitability and financial performance.

The use of our products may cause unexpected or undesirable side effects on our end-users which may give rise to quality control concerns, product liability claims and consumer complaints. These could materially and adversely affect our business and reputation

Our products contain a number of ingredients, some of which or the combination of which may cause side effects that are unknown to us. Likewise, some of the raw materials we use in our production may contain harmful chemicals or substances which we may not be able to detect and may cause undesirable side effects to our end-users. As at the Latest Practicable Date, we were not aware of any report on side effects of our products that might be harmful to our consumers. However, we cannot give assurance that the use of our products will not have undesirable side effects on our consumers in the future. If any side effects occur or if the use of our products are perceived to give rise to any side effect, we may be affected financially as a result of related product recalls or returns, which in turn could lead to severe reputational damage, monetary loss or lawsuits. Our business, financial condition and results of operations will be materially and

RISK FACTORS

adversely affected if our consumers lose confidence in our brands and products and stop or decrease in the purchase of our products.

We have adopted and will continue to adopt stringent quality control measures. Save as disclosed in the section headed “Business — Quality Control” of this document, our children care products had complied with all national standards in China. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)¹ to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products; and (ii) Pony² to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the national standards in China. We also provide quality assurance to our distributors and consumers by allowing them to exchange products with quality or packaging defects. As we have never had an occasion when we had to recall any of our products due to quality defects, we do not currently have in place a product recall procedure. We are currently reviewing the situation and will consider adopting measures that allow us to voluntarily recall products from the market if we become aware of any quality defects or other issues relating to the quality of our products. However, we cannot give assurance that all our products can and be in compliance with all industry standards and requirements under the relevant PRC laws and regulations in the future and we may be able to adopt sufficient measure to ensure the exchanges will be done efficiently.

Our brands and products may be subject to counterfeiting, imitation and/or infringement of intellectual property rights by third parties

We rely on intellectual property laws in PRC and other jurisdictions to protect our trademarks and other intellectual property rights. Our products have been subject to counterfeiting and imitation from time to time. Although we have successfully detected and taken actions in cooperation with the relevant PRC authorities in several counterfeiting cases, we cannot assure that counterfeiting or imitation of our products will not occur in the future or, if it does occur, that we will be able to effectively detect or address the problem in a timely manner. Any occurrence of counterfeiting or imitation of our products or other infringement of our intellectual property rights could negatively affect our reputation and brand image, which will lead to loss of consumer confidence in our brands and in turn adversely affect our results of operations. In addition, any litigation to prosecute infringements of our intellectual property rights and products will be expensive and will divert the management’s attention as well as other resources away from our business. As a result, such litigation may have a material adverse effect on our business, financial condition and results of operations.

Third parties may assert or claim that we have infringed their intellectual property rights

Intellectual property rights, such as trademarks, copyrights and patents, are of great importance in the consumer products industry as they protect brand image, product formulation and other valuable rights which are critical to our business development. Our competitors or other third parties may have intellectual property rights and interests which could potentially come into conflict with ours. If any intellectual property disputes and claims against us are successful, we

Notes:

1. As of 18 February 2011.
2. As of 16 February 2011.

RISK FACTORS

may not have a legal right to continue to develop, produce, use or sell products that are adjudicated to have infringed third parties' intellectual property rights. In that case, we may be forced to redesign our products so that they do not infringe third parties' intellectual property rights or we may be required to obtain relevant licenses to avoid further infringements. Intellectual property litigation against us may significantly disrupt our business, divert our management's attention as well as other resources away from our business. As a result, any intellectual property disputes may have a material adverse impact on our business, financial condition and results of operations.

Material unfavourable changes in our outsourcing cooperation with third-party manufacturers could adversely affect our product supply, quality and cost

For the years ended 31 December 2008, 2009 and 2010, our outsourcing cost accounted for approximately 27.7%, 24.0% and 22.5% of our total cost of sales, respectively. We did not experience any material quality problem or delay in supply of our outsourced products manufactured by third-party manufacturers during the Track Record Period. However, there is no assurance that those third-party manufacturers will be able to provide us with products of sufficiently high quality either in a timely manner or at a competitive price in the future, and we may, from time to time, need to reject products that do not meet our standards or specifications. These may result in a stock shortage or potential delay in delivering products to our customers. In addition, in the event of any significant increase in outsourcing cost, we may not be able to pass these increases onto our customers due to competitive pricing pressures. In such cases, we may have to seek alternative third-party manufacturers with comparable prices and high quality products or develop similar manufacturing capabilities internally. If we are unable to locate suitable alternative third-party manufacturers or manufacture these products internally, we may have to reduce or cease our sales of such items, which in turn may have a material adverse effect on our business, financial condition, results of operations and prospects.

We do not maintain a large volume of raw materials and packaging materials at our production facility and thus, we are vulnerable to increases in the prices of raw materials and packaging materials and our cost of sales may increase

We have limited warehousing space at our current production premises and therefore do not maintain a large volume of raw materials or packaging materials at our production premises. We purchase raw materials and packaging materials from suppliers regularly, thus eliminating the need to store a large volume of raw materials and packaging materials. The costs of raw materials and packaging materials represent a significant portion of our cost of sales. In order to prevent any significant price fluctuation and potential shortage of our raw and packaging materials, we normally stock sufficient amount of those materials for our production for 15 to 30 days. However, we cannot give assurance that we will not encounter fluctuations in the price of raw materials and packaging materials due to factors beyond our control such as inflation, changes of weather or changes in the supply and demand for such raw materials. We may have difficulty passing such increase onto our consumers as this will render our products less competitive. If the prices of raw materials and packaging materials increase in the future and we cannot pass such increase onto our consumers, we may not be able to maintain our current gross profit margins and our business, financial condition and results of operations may be materially and adversely affected.

We are dependent on the contribution of our key management personnel

Our future success depends, to a significant extent, on the continuous service of key members of our management team. If we were to lose the services of any of the existing key

RISK FACTORS

management members without a suitable replacement, or were unable to attract new qualified members to join our management team with suitable experience as we grow, there could be a negative impact on the operations and business of our Group. Our chairman, chief executive officer and executive Director, Mr. Li, and our executive Director and vice general manager, Mr. Xie, are both our founding members of our Group who have played an important role in forming the business direction and promoting the growth of our Group. Mr. Ge Xiaohua, our executive Director and the vice general manager of our domestic sales department, possesses extensive knowledge and experience in the personal care product industry and has made significant contributions to the development of our Group. Our expansion plans and future success depend on our ability to maintain a skilled and experienced management team. Moreover, our industry is characterised by high demand and intense competition for talented personnel. We may not be able to attract or retain highly skilled employees or key personnel. The competition for experienced personnel in China may increase our labour costs, which would in turn increase our costs of operations and affect our profitability.

Our insurance coverage may not completely cover the risks related to our business and operations

Natural disasters, war, terrorist acts, political unrest and epidemics, or other events beyond our control may adversely affect our business, financial condition and results of operations. If any of these events occur, we may have to bear the risk of loss of raw materials or finished products in transit. We may also face the risk of loss or damage to our properties, machinery and inventories. Furthermore, we are subject to hazards and risks that are normally associated with our daily operations. Our operations will be interrupted or damaged by fire, floods, power failures, natural disasters and other events beyond our control at our production facility. As a result, our business, financial condition and results of operations may be materially and adversely affected as a result of these interruptions. In addition, we may also be exposed to product liability claims if the use of any of our products, including those sold to overseas markets under our OEM operations, is alleged to have undesirable harmful side effects. We cannot give assurance that our insurance policies are sufficient to cover all the risks associated with our operations. Although we are not required under PRC laws to maintain any product liability insurance, we are in the process of identifying appropriate product liability insurance for all our products in China. In the meantime, we are reliant on the effectiveness and integrity of the manufacturing and quality control processes we have in place to eradicate or to reduce the risk of product liability claims. Such manufacturing and quality control processes may not be effective or sufficient in preventing product liability claims in which case our financial condition may be affected by such claims.

For our OEM products, we only manufacture our OEM products according to our OEM customers’ requirements and do not directly sell our OEM products to end-consumers in other jurisdictions. In line with industry practice, we also do not maintain any product liability insurance in other jurisdictions in respect of our OEM products sold to our overseas customers under our OEM operations. However, to further mitigate our risks from any possible liabilities arising from our OEM products sold and distributed in other jurisdictions by our overseas customers in the future, we will, from July 2011 onwards, request in the contracts to be made with our OEM customers that the specification of our OEM products provided by them complies with the requirements for such products under the laws of the jurisdictions where they sell our OEM products. Such preventive measures may still prove insufficient and we may still be subject to claims made by other relevant parties, such as the end-consumers of the products, under the laws of the relevant jurisdictions.

RISK FACTORS

Losses incurred for liabilities not covered by our insurance policies may have a material and adverse impact on our business, financial condition and results of operations.

We may be unable to obtain financing on favourable terms, or at all, to meet our funding requirements

We currently fund our operations primarily from the proceeds from sales of our products, bank loans and through capital injections by our Shareholders. With the aim to continually expanding our business and keeping our leading market position, we may need to obtain further financing from external sources to supplement our liquidity in the future. Our ability to obtain external financing in the future is subject to a number of uncertainties, including but not limited to the following: (i) regulatory approvals for financing in the domestic or international markets; (ii) our financial condition, results of operation, business reputation, cash flow and credit history; (iii) the condition of the global and domestic financial market; and (iv) changes in PRC monetary policy with regard to bank interest and lending practices and conditions. As at 30 April 2011, our Group's total indebtedness amounted to RMB65.8 million which consisted of unsecured bank loan of approximately RMB15.8 million and secured bank loans of approximately RMB50.0 million. However, even with such a good credit record, we cannot assure you that we will be able to obtain bank loans or renew existing facilities in the future on favourable terms or at all. We also cannot give assurance that we will not be affected by the fluctuation in the interest rates on external financing secured or to be secured to fund our operations and planned expansion. If adequate funding is not available to us on favourable terms, or at all, we may not be able to fund our existing operations, develop or expand our business, and therefore our business, financial condition and results of operations in turn may be materially and adversely affected.

Title defects affecting the properties in PRC that we lease could adversely affect our use of such properties

As at the Latest Practicable Date, we leased six properties in PRC, with an aggregate gross floor area of approximately 18,200 square meters. Out of these leased properties, two are our production premises, offices and warehouse located in Zhangzhou and are used for the production of our skin care and body and hair care products, the remaining four, located in Zhengzhou, Guangzhou, Linyi and Xi'an, respectively, are all warehouses used for the storage of our products. The lessors of the above leased properties have not been able to provide us with full and complete title documents in respect of such properties, such as the real estate title certificates and/or the building permits, or the consent of the owner for subleasing the properties to us.

As advised by our PRC legal advisers, Jingtian & Gongcheng, as a result of such title defects, the leases for such properties may be considered as invalid under PRC laws and we may be required to cease occupation and usage of such leased properties, in which case we will have to relocate those production premises and warehouses. Our Directors estimate that the relocation of such production premises and warehouses may take approximately one month and confirm that such defective properties are not crucial to our business and operations for the following reasons: (a) we can easily identify suitable properties in appropriate areas for relocation, if required, and (b) the operation of the leased production premises is not substantial and we have commenced the production of the products previously manufactured in that leased production premises in our new plant since May 2011. In addition, we have obtained confirmations from each of the lessors of the above leased properties that the lessors will be responsible for, and will fully and immediately indemnify us against, all our liabilities and losses arising from any disputes, claims or penalties in connection with the title of such leased properties. Moreover, our Controlling Shareholders, Mr. Xie and Jinlin Investment have also confirmed that they will fully indemnify us against our

RISK FACTORS

losses, costs and any other expenses as a result of relocation of such production premises and warehouses. As such, our Directors believe that the relocation of any of the leased properties will not lead to any material adverse effect on our business and financial condition.

Our sales may be subject to seasonality

Our results of operations are affected by seasonal fluctuations in demand for our products. We generally experience higher sales of our skin care products in winters while we sell more body and hair care products in summers. As our skin care products contributed a significant portion of our sales, we generally record higher sales and results of operation in the second half of the year. Unexpected and abnormal changes in weather may also affect the sales of our products that are timed for release in a particular season. Furthermore, our sales are also affected by national holidays, such as the Chinese New Year holidays in the early spring, the Labour Day holiday in early May, the International Children’s Day in early June and the National Day holidays in early October.

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in China. Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of the people of China. Some cities in China are particularly susceptible to floods, earthquakes, sandstorms and droughts. Political unrest, acts of war and terrorist attacks may cause damage or disruption to us, our employees or our facilities. Potential outbreak of war or terrorists attacks may also cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries and regions have encountered epidemics such as Severe Acute Respiratory Syndrome (“SARS”), or swine flu. Past occurrence of epidemics has caused different degrees of damage to the national and local economies in China. A recurrence of an outbreak of SARS, swine flu or any other similar epidemic could cause a slowdown in the levels of economic activity generally. If any of such natural disasters occurs, our business, revenue, financial condition and results of operation may be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRY

We are required to obtain and maintain various licenses and permits to operate our business and the loss of or failure to renew any of these licenses and permits could adversely affect our business

In accordance with PRC laws and regulations, we are required to obtain and maintain various licenses and permits, including Hygiene License for Cosmetics Production Enterprise (化妝品生產企業衛生許可證) and Production License of Industrial Products (工業產品生產許可證), for production of our different products. We are required to comply with applicable health and hygiene quality standard and production safety standards in relation to our production processes. Our products are subject to regular and random inspections in order to comply with the rules and regulations of the relevant hygiene authority and quality and technology supervision administration. Failure to pass these inspections and to comply with the licensing or other regulatory requirements may result in temporary or permanent suspension of our production, which will materially and adversely affect our operations, financial conditions and business. Furthermore, we cannot give assurance that the State Food and Drug Administration (國家食品藥品監督管理局), General Administration and other relevant government authorities in China will not introduce new regulations to impose more stringent production requirements.

RISK FACTORS

Changes in existing laws and regulations may cause us to incur additional costs to comply with more stringent rules, which could slow down our product development efforts and limit our growth and development

We are subject to various laws and regulations relating to personal care products, general consumer protection and product safety in the products. In particular, we are subject to laws and regulations of PRC, where all our products are produced and substantial quantities of our products are sold. For example, the Administrative Regulations on Cosmetics Labeling (化妝品標識管理規定) (the “Administrative Regulations”) promulgated on 27 August 2007, which takes into effect on 1 September 2008, has set out new requirements for producers of cosmetics products with regard to the information required and/or prohibited in a product label. Specifically, the producer is required to provide detailed information about the place where the product is produced, the name and the address of the producer, production date, expiry date and batch number, details of applicable industry or state standards, quality inspection certificate and product license number. In accordance with this new regulation, the label must not contain any information claiming or implying any medical or therapeutic effects. As disclosed in the paragraphs headed “Quality Control” under the “Business” section of this document, certain of our products failed to pass certain testing standard during the Track Record Period. Save for such incidents, Zhangzhou Product Quality and Technical Supervision (漳州市質量技術監督局) issued two letters of confirmation both dated 2 June 2011, respectively confirming that since the establishment of our Group and up to the date of the confirmations, all our products had complied with all requirements for product quality under the relevant PRC laws and regulations, and had not been involved in any dispute with and subject to any penalty imposed by the said authority. As advised by our PRC legal advisers, Jingtian & Gongcheng, such government authority was competent and appropriate to provide such confirmation. Please refer to that section of this document for further details. There are also certain non-compliance incidents of the Group. Please refer to the paragraph headed “Litigation and Compliance” under the “Business” section of this document. Further, as advised by our PRC legal advisers, Jingtian & Gongcheng, saved as disclosed in this document and based on the relevant confirmation letters issued by the competent authorities, our Group has obtained all requisite licenses, permits and approval for our production and our Group’s products have passed all regular and random inspection during the Track Record Period and up to the Latest Practicable Date. However, we cannot give assurance that we will be able to comply with all such laws and regulations in the future. Moreover, laws and regulations in PRC also change from time to time and these may impose more stringent requirements on operations of this industry. As a result, we may have to incur additional costs to comply with these laws and regulations, which in turn may slow down our research, development and production of our products and have a material and adverse impact on our business, financial condition and results of operation.

RISKS RELATING TO CONDUCTING BUSINESS IN PRC

Changes in PRC’s political, economic and governmental policies may have an adverse impact on our operations

We conduct substantially all of our business in China and plan to continue expanding our business into new geographic areas in China. All of our assets are currently situated in PRC and most of our revenue is generated from products manufactured and sold in China. Accordingly, our business, financial condition and results of operation are subject to political, economic and legal developments in China to a significant degree. China’s economy differs from the economies of most developed countries in many aspects, including the extent of government involvement,

RISK FACTORS

growth rate, control of foreign exchange, allocation of resources and capital reinvestment. Historically, PRC economy was centrally-planned. With the implementation of the “Open and Reform” policy, China has gradually shifted from a planned economy toward a market-oriented economy. PRC government has also implemented various measures to encourage economic development and guide the allocation of resources. However, continued governmental control of the economy may adversely affect us. We cannot assure that PRC government will continue to pursue economic reforms. Changes in policies and measures of PRC government to regulate the economy may in turn have a negative effect on us, including the introduction of measures to control inflation, deflation, or reduce growth, or changes in the rates or methods of taxation.

Unfavourable change in tax rate in China may have a negative impact on our results of operations

On 16 March 2007, the National People’s Congress of PRC promulgated the Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法) (the “PRC Enterprise Income Tax Law”), which took effect as of 1 January 2008. In December 2007, the Implementation Rules of the Enterprise Income Tax Law of PRC were promulgated on 6 December 2007 (the “Implementation Rules”) (企業所得稅法實施條例), which also took effect as of 1 January 2008. Under PRC Enterprise Income Tax Law and the Implementation Rules, a uniform tax rate of 25% for all enterprises is applied and the enterprises which have already been established prior to the promulgation of PRC Enterprise Income Tax Law and enjoy the preferential treatment of tax exemption for a fixed term may, according to the provisions of the State Council, continue to enjoy such treatment after the promulgation of PRC Enterprise Income Tax Law until the fixed term expires. However, for those who have failed to enjoy the preferential tax treatment due to their failure to make profits, their entitlements to the preferential tax treatments are counted from 2008. We are still entitled to the preferential tax treatment with 50% reduction of our income tax rate which reduces the tax rate from 25% to 12.5% for the years ending 31 December 2010, 2011 and 2012. If there is any change to PRC Enterprise Income Tax Law and the Implementing Regulations which speed up the abolition of the preferential tax treatment in China, our tax burden will be increased and our financial results will be adversely affected.

Future changes in laws, regulations or enforcement policies in China may adversely affect us

Laws, regulations or enforcement policies in China, including those regulating the personal care products industry, are evolving and subject to frequent changes. Further, regulatory agencies in China may periodically, and sometimes abruptly, change their enforcement practices. Therefore, prior enforcement activity, or lack of enforcement activity, is not necessarily predictive of future action. Any enforcement actions against us may have a material and adverse effect on us and the market price of our Shares. In addition, any litigation or governmental investigation or enforcement proceedings in China may be protracted and may result in substantial cost and diversion of resources and management attention, negative publicity, damage to our reputation and a decline in the price of our Shares.

Restrictions on payment of dividend under PRC law and the tax exemptions on dividends received by the Company and the Shareholders may be affected by PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits with regard to the subsidiaries of the Company incorporated in PRC means their after tax profits as determined under PRC GAAP, less any recovery of accumulated losses and allocations

RISK FACTORS

to statutory funds that is required to make. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP differs in many aspects from the calculation under IFRS. As a result, a subsidiary of the Company incorporated in PRC may not be able to pay dividend in a given year to the Company if it does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under IFRS. Accordingly, since the Company derives all of its profits from its subsidiary, it may not have sufficient distributable profits to pay dividends to its Shareholders, even if there is such an amount as shown in its accounts prepared under IFRS.

Moreover, under PRC Enterprise Income Tax Law, enterprises established under the laws of foreign jurisdictions other than China may nevertheless be considered as resident enterprises in China for tax purposes if the actual institution of management of these enterprises is located within China. Substantially all of our Group’s management team members are domiciled in China. If most of them continue to reside in PRC, the Company may bear the risk that it may be recognised as a PRC resident enterprise and therefore subject to PRC Enterprise Income Tax at a rate of 25% on its worldwide income. If this happens, the Company’s distributable profits may be adversely affected. In addition, dividend payments between certain “qualified PRC-resident enterprises” are exempt from income tax under the Enterprise Income Tax Law, and the Implementation Rules refer to “qualified PRC-resident enterprises” as enterprises with “direct equity interest”, but it remains unclear what the detailed qualification requirements for such exemptions are, and whether dividends distributed by our PRC operating subsidiary to our Company will meet such qualification requirements and thus constitute dividend income between qualified resident enterprises which qualifies for tax exemption treatment even if our Company are considered PRC-resident enterprises for tax purposes.

Dividends payable by us to our investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new PRC Enterprise Income Tax Law and the Implementation Rules, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” that do not have an establishment or place of business in PRC, or that have an establishment or business but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends have their sources within PRC. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% PRC income tax if the gain is regarded as income derived from sources within PRC. If we are considered as a PRC “resident enterprise”, it is unclear whether the dividends we pay with regard to our Shares, or the gain investors may realise from the transfer of our Shares, would be treated as income derived from sources within PRC and be subject to PRC tax. If we are required under the new PRC Enterprise Income Tax Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if investors are required to pay PRC income tax on the transfer of their Shares, the value of their investment in our Shares may be materially and adversely affected.

Changes in foreign exchange regulations may adversely affect our business, financial condition and results of operation

We are a holding company incorporated in the Cayman Islands, and we operate our core business through our subsidiary in China. Therefore, we receive almost all of our revenues in RMB, which is not freely convertible into other currencies. As a result, any restrictions on

RISK FACTORS

currency exchange may limit the ability of our subsidiaries to use our revenue generated in RMB to pay dividends to us. Under existing PRC foreign exchange regulations, our PRC subsidiary may make payment of dividends without prior approval from SAFE by producing documents including but not limited to board resolutions evidencing dividend allocation, provided that they are processed through PRC banks licensed to engage in foreign currency transactions. However, conversion of currency in the capital amount is still subject to the SAFE approval. PRC government has stated publicly that it intends to make the RMB freely convertible in the future. However, it remains uncertain whether PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in PRC. There is also no assurance that PRC regulatory authorities will not impose further restrictions on currency exchanges. If PRC Government does restrict such access or impose such restrictions, our ability to pay dividends or to satisfy other foreign exchange requirements may be adversely affected.

Uncertainty in PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in which may in turn have an adverse impact on our operations

PRC legal system is based on PRC Constitution and is made up of written laws, regulations, circulars and directives. PRC government is still in the process of developing its legal system by establishing a comprehensive statutory framework so as to meet the needs of investors and encourage foreign investment. As China’s economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain circumstances.

Some of our laws and regulations, and interpretation, implementation and enforcement thereof, are gradually evolving and subject to policy changes. We cannot assure you that the introduction of new laws, changes to the existing laws and the interpretation or implementation will not have an adverse impact on our business or our results of operations.

We are subject to various environmental regulations and any failure to comply with these regulations or to control the associated costs may harm our business

We are required to comply with various and extensive environmental, health, hygiene and safety laws and regulations promulgated by the relevant PRC government authorities. Our failure to comply with these laws and regulations will result in penalties, fines, suspension or revocation of our licenses or permits to conduct our business, administrative proceedings and litigations. Considering the magnitude and complexity of these laws and regulations, compliance with them may be burdensome or require a significant amount of financial and other resources. These laws and regulations change from time to time and thus we cannot give assurance that PRC government will not impose any additional or more stringent laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our distributors. Such problems may materially and adversely affect our business, financial condition and results of operations.

The enforcement of PRC Labour Contract Law (中華人民共和國勞動合同法) and other relative regulations may adversely affect our business and our results of operations

The National People’s Congress of China passed PRC Labour Contract Law on 29 June 2007, which took effect on 1 January 2008. Compared to PRC Labour Law (中華人民共和國勞動法), PRC Labour Contract Law establishes more stringent requirements and increases the cost to

RISK FACTORS

employers upon termination of employment contracts, including but not limited to specific provisions related to fixed-term employment contracts, temporary employment, probation, employment without a contract, dismissal of employees, compensation upon termination and overtime work. Under PRC Labour Contract Law, an employer is obliged to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after two consecutive fixed term labour contracts except for certain circumstances specified in PRC Labour Contract Law. The employer may be required to pay compensation to employees if the employer terminates an unlimited term labour contract or any fixed term contract at its expiry, unless the employee voluntarily terminates the contract or reject to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the original contract. Furthermore, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which came into effect on 1 January 2008, employees who have served more than one year with an employer are entitled to paid vacation ranging from five to 15 days, depending on their length of service. Employees who have waived paid vacation as required by their employers shall be compensated at three times of their normal salaries for each paid vacation day that is waived. Our labour costs may increase due to these series of new protective labour measures. We did not experience any material dispute and do not have any compensation obligation relating to our employment contracts with our employees under PRC Labour Contract Law during the Track Record Period. However, we cannot give assurance that our labour relationship with our employees under these laws and regulations will remain harmonious as before and that disputes or work strikes will not arise in the future.

INFORMATION ABOUT THIS DOCUMENT

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

DIRECTORS AND PARTIES INVOLVED

DIRECTORS AND PARTIES INVOLVED

Directors

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Li Zhenhui	Room 806 Building Seven Jianyuan South Garden No. 56, Jianyuan Road Xiangcheng District Zhangzhou Fujian, PRC	Chinese
Mr. Xie Jinling	Room 304 Building Two, Yuehua Yuan No. 18, Yuanguang South Road Xiangcheng District Zhangzhou Fujian, PRC	Chinese
Mr. Ge Xiaohua	Room 302 Building One No. 5, Yuanguang North Road Xiangcheng District Zhangzhou Fujian, PRC	Chinese
Mr. Huang Xinwen	Room 302 Building Eight, Huneixincun No. 13, Hunei Road Xiangcheng District Zhangzhou Fujian, PRC	Chinese
Ms. Hong Fang	Room 1804 Building Two, Tianlirenhe No. 8, New Pudong Road Longwen District Zhangzhou Fujian, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Non-Executive Director</i>		
Mr. Yang Feng	Room 17B Building Three Shenzhen Bay Rainbow Coast No. 36, High-tech South Circle Road Nanshan District Shenzhen Guangdong, PRC	Chinese
<i>Independent Non-Executive Directors</i>		
Mr. Chen Shaojun	Room 101, Unit Two Building 23 West Red Fuxing Garden Daxing District Beijing, PRC	Chinese
Mr. Ren Yunan	Floor 52 Building 37 Celestial Heights No. 80, Sheung Shing Street Ho Man Tin Kowloon, Hong Kong	Chinese
Mr. Wong Wai Ming	Floor 13 Flat C, Hoi Sing Mansion No. 10, Taikoo Shing Road Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED

PARTIES INVOLVED

Legal advisers to the Company

As to Hong Kong law:

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15 Queen’s Road Central
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As to PRC law:

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77 Jianguo Road
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Beijing, PRC

As to Cayman Islands law:

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

Reporting Accountants

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

Property Valuer

Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen’s Road East
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in PRC	No. 8, North Huancheng Road Longwen Industrial Development Zone Zhangzhou Fujian, PRC
Principal place of business in Hong Kong	36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Company’s website	www.princefrog.com.cn (<i>information contained in this website does not form part of the document</i>)
Joint company secretaries	Ms. Hong Fang Ms. So Ka Man (ACS, ACIS)
Principal bankers	Agricultural Bank of China Limited Zhangzhou Branch Jinhui Building East Victory Road Xiangcheng District Zhangzhou Fujian, PRC
Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to PRC economy and the industry in which we operate. Unless otherwise specified, the information and statistics set out in this section have been extracted, in part, from various official government publications. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by the Directors in extracting and reproducing such information and statistics; however, none of our Company, its directors and advisers or any other party involved make any representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with other information compiled within or outside PRC. Certain information set forth in this section has been extracted from an industry report we commissioned from Euromonitor and a market survey we commissioned from Frost & Sullivan, both being independent industry consultancy firms. For the qualifications of Euromonitor and Frost & Sullivan, please refer to the paragraph headed “G. Other Information — 9. Qualifications of experts” in Appendix VI to this document.

We engaged Euromonitor, one of the world’s leading industry consultancy firms, to conduct a detailed study of the baby and children care products as well as household care products, in particular insecticides and air fresheners in China. For the qualifications of Euromonitor, please refer to the section headed “G. Other Information — 9. Qualifications of experts” in Appendix VI to this document.

To the best of the Directors’ information and belief, the information contained in the Euromonitor Report is derived by means of data and intelligence gathering methodology which includes (i) specialist trade press, official statistics and reports from government, reports or documents prepared by trade associations and the database maintained by Euromonitor; (ii) company research by reviewing information contained in the annual reports and accounts published by the major manufacturers in the relevant industries; and (iii) primary research by conducting trade interviews. Euromonitor would then carry out data validation and integrity assessment to verify the data and information collected. The projection made by Euromonitor is prepared based on a comprehensive and in-depth review over the historical market development, and a cross-check with government or industry figures or trade interviews.

We engaged Frost & Sullivan to conduct a market survey on the brand awareness of baby and children care products in China. For the qualifications of Frost & Sullivan, please refer to the paragraph headed “G. Other Information — 9. Qualifications of experts” in Appendix VI to this document. Frost & Sullivan prepared its report based on face-to-face interviews with 2,300 customers in 2010 in 24 major cities in China on the overall brand awareness of baby and children care products, which include baby and children skin lotions, baby and children bathing products, baby and children oral care products and baby and children paper products.

Certain information set forth in this section and the section headed “Business” of this document has been extracted from the Euromonitor Report and the Frost & Sullivan Report. The consultancy fees paid by our Company to Euromonitor and Frost & Sullivan in connection with the preparation of the Euromonitor Report and the Frost & Sullivan Report are US\$38,000 and RMB330,000, respectively.

We believe that the Euromonitor Report and the Frost & Sullivan Report are appropriate sources of information that have been extracted for inclusion in this section and the section headed

INDUSTRY OVERVIEW

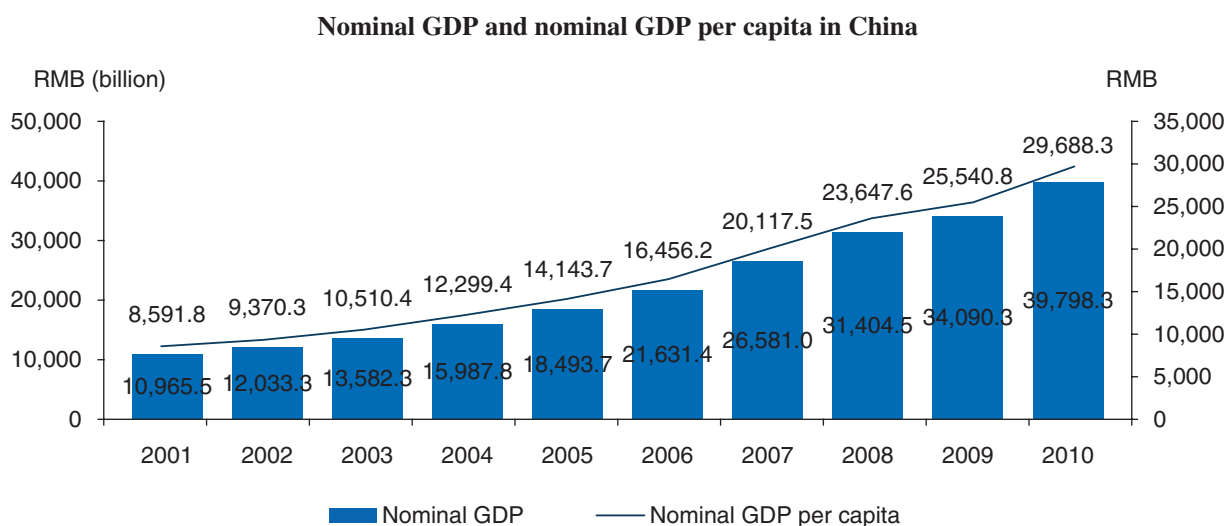
“Business” of this document and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. The information has not been independently verified by us or any other parties involved and no representation is given as to its accuracy.

OVERVIEW OF THE ECONOMY OF CHINA

Growth of China’s economy

China’s economy has expanded rapidly since the economic reform initiated by the Chinese government in the late 1970s. Nominal GDP of China grew from RMB10,965.5 billion in 2001 to RMB39,798.3 billion in 2010, representing a CAGR of 15.4%. As a result, nominal GDP per capita of China also increased from RMB8,591.8 in 2001 to RMB29,688.3 in 2010, representing a CAGR of 14.8%.

The chart below illustrates China’s nominal GDP and nominal GDP per capita from 2001 to 2010.



Source: National Bureau of Statistics of China, Euromonitor

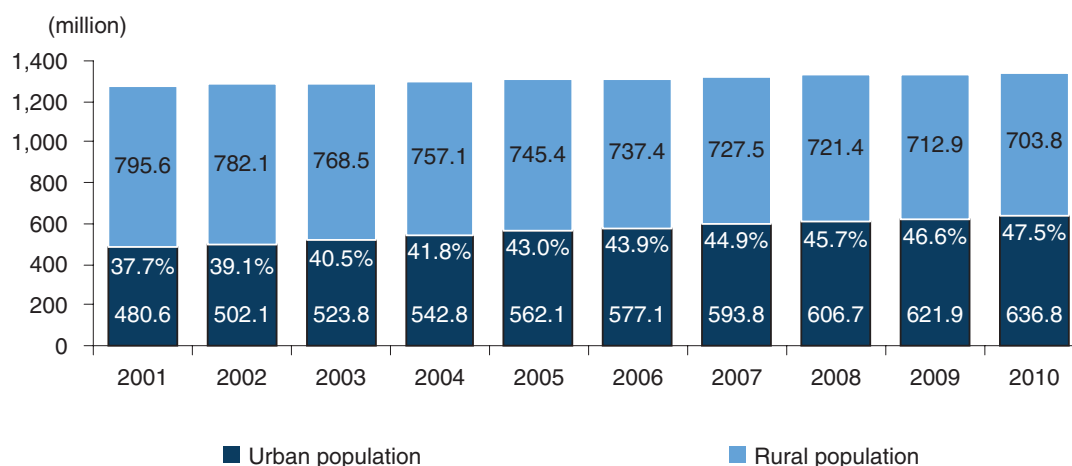
Rising urbanisation trend

Urbanisation has risen in China as a result of the country’s rapid economic growth. Population in urban cities has swelled with the influx of immigrants from the rural and less developed areas. From 2001 to 2010, the total urban population of China increased by 32.5% or approximately 156.2 million to reach 636.8 million with the urbanisation rate of 47.5% in 2010.

INDUSTRY OVERVIEW

The chart below illustrates the breakdown between urban and rural population and urbanisation rate in China from 2001 to 2010.

Urban and rural population and urbanisation rate in China



Source: National Bureau of Statistics of China, Euromonitor

Note: The percentage figures refer to the urbanisation rate in China, being the urban population as a percentage of total population.

According to Euromonitor, the ongoing urbanisation process in China has brought about significant changes in lifestyle, consumption pattern and habit as well as other social aspects of Chinese consumers. In addition, residents who have moved into urban areas from rural areas have been influenced by the consumption habits of the urban residents and have been increasingly willing to spend on FMCG that enhance their living standard, including baby and children care products for their children. As a measure to cater to the growing demand, new retail formats emerge including hypermarkets, supermarkets, department stores, and other types of modern trade formats, which are conduits for sales and distribution of FMCG including baby and children care products.

Rising disposable income

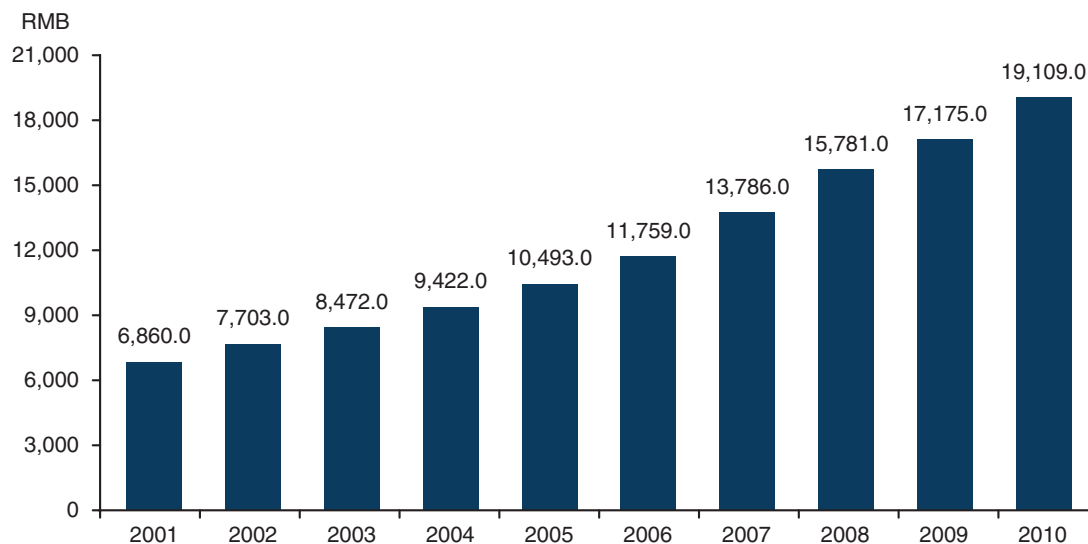
The per capita annual disposable income of urban households in China achieved rapid growth from RMB6,860.0 in 2001 to RMB19,109.0 in 2010, representing a CAGR of 12.1%. During the same period, the per capita annual gross income of rural households grew at a CAGR of 10.7% from RMB2,366.0 in 2001 to RMB5,919.0 in 2010.

The growth in per capita disposable income of urban households and per capita annual gross income of rural households results in the overall increase in the affluence as well as the purchasing power of Chinese consumers.

INDUSTRY OVERVIEW

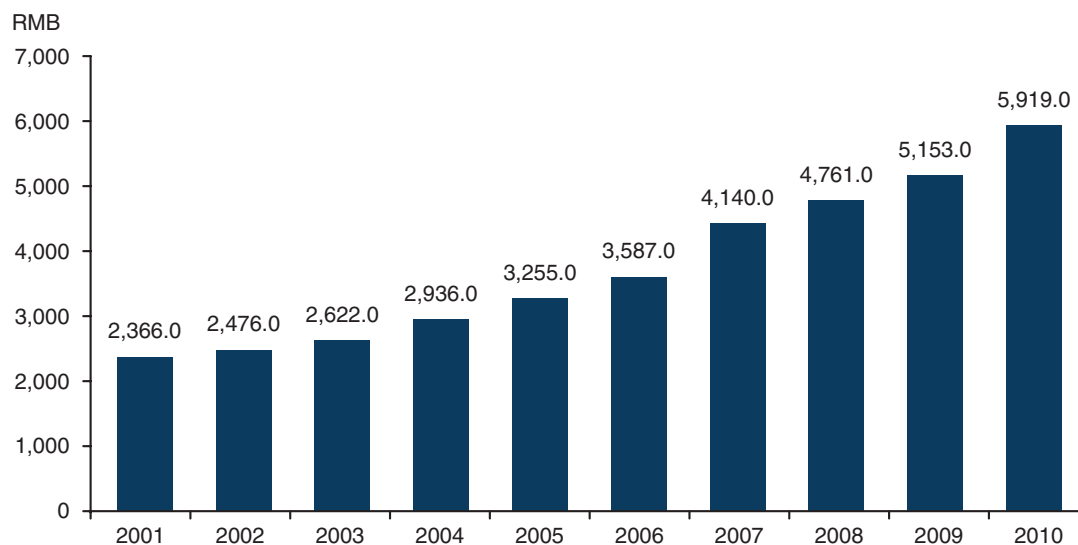
The charts below illustrate the per capita annual disposable income of urban households and the per capita annual gross income of rural households in China from 2001 to 2010.

Per capita annual disposable income of urban households in China



Source: National Bureau of Statistics of China, Euromonitor

Per capita annual gross income of rural households in China



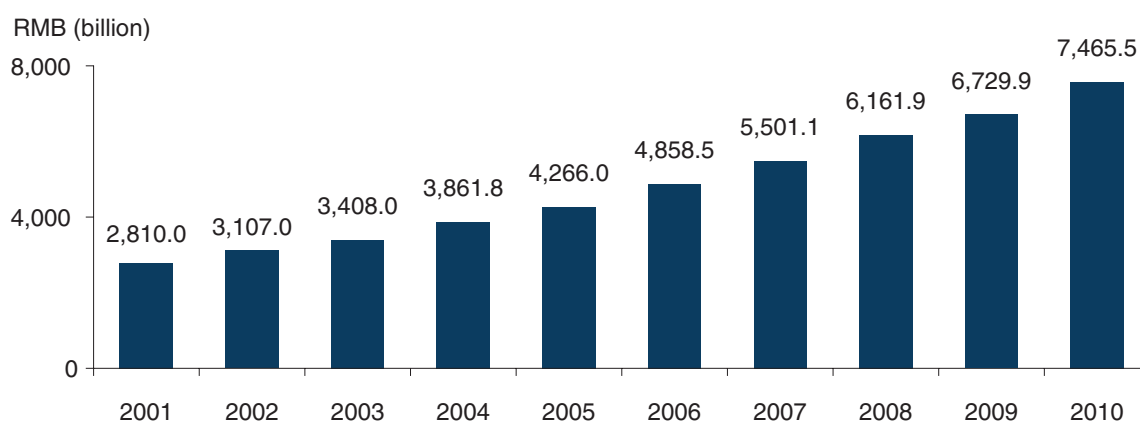
Source: National Bureau of Statistics of China, Euromonitor

INDUSTRY OVERVIEW

Substantial growth in China’s retail market

China’s retail market expanded rapidly in the past decade amid strong GDP growth and growing income and affluence of both urban and rural households. The size of retail market in China has grown from approximately RMB2,810.0 billion in 2001 to approximately RMB7,465.5 billion in 2010, representing a CAGR of 11.5%. The chart below illustrates the historical retail market size in China from 2001 to 2010.

Retail market size in China



Source: Euromonitor

Note: Retail market refers to the sales of new and used goods to the general public for personal or household consumption, which excludes specialist retailers of motor vehicles, motorcycles, vehicle parts, fuel, food service, rental and hire and wholesale industries.

Impact of “Thousands of Villages and Rural Market Project” on retail and distribution model in China

In 2005, the Ministry of Commerce of China launched the “Thousands of Villages and Rural Market Project” (萬村千鄉市場工程) with the aim of encouraging the establishment of more retail chain stores and supermarkets in the rural areas of China. Under this project, the Chinese government set a target to establish or reform 520,000 countryside stores (農家店) in 80% of the towns and 65% of the villages all over China by the end of 2010. We believe that this policy has changed the consumption patterns and spending habits of the rural population in China, which has an impact on the FMCG industry with FMCG products including personal care products now becoming more easily accessible to residents in the rural areas.

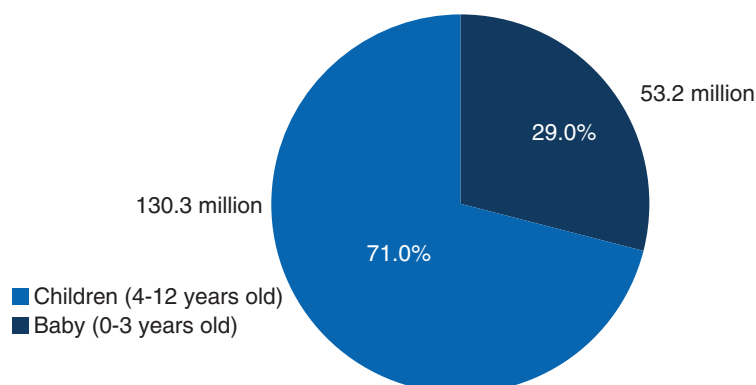
OVERVIEW OF BABY AND CHILDREN CARE PRODUCTS MARKET IN CHINA

Baby and children’s population in China

According to Euromonitor, China had a population of 1,340.5 million in 2010, with the population of babies from new born to three years old and the population of children aged between four to twelve years old in 2010 being 53.2 million and 130.3 million, respectively.

INDUSTRY OVERVIEW

The chart below illustrates the demography of China’s baby and children population in 2010.



Source: Euromonitor

Children care products market in China

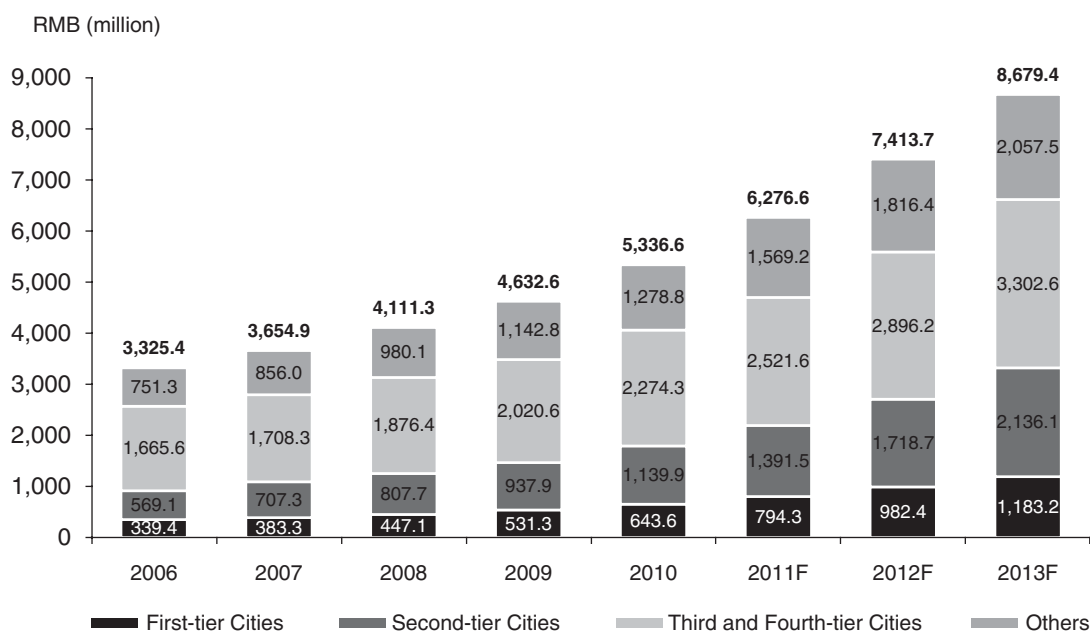
With the rapid economic growth in China, the children care products market in China grew substantially from RMB3,325.4 million in 2006 to RMB5,336.6 million in 2010 in terms of retail sales value, representing a CAGR of 12.6%, according to Euromonitor. Euromonitor forecasts that China’s children care products market will grow to RMB8,679.4 million by 2013 in terms of retail sales value, representing a CAGR of 17.6% from 2011 to 2013.

According to Euromonitor, due to the large consumer base and burgeoning demand arising from increasing purchasing power, the Second, Third and Fourth-tier Cities, comprising a total of over 600 cities across China, in aggregate accounted for approximately 64.0% of the children care products market in China in 2010. Going forward, Euromonitor estimates that the Second, Third and Fourth-tier Cities will continue to account for more than 60.0% of the entire children care market in China from 2011 to 2013.

INDUSTRY OVERVIEW

The chart below sets forth the historical and forecast retail sales value of children care products market in China and its breakdown between different city tiers from 2006 to 2013.

Retail sales value of children care products market in China by city tiers



Source: Euromonitor

Baby care products market in China

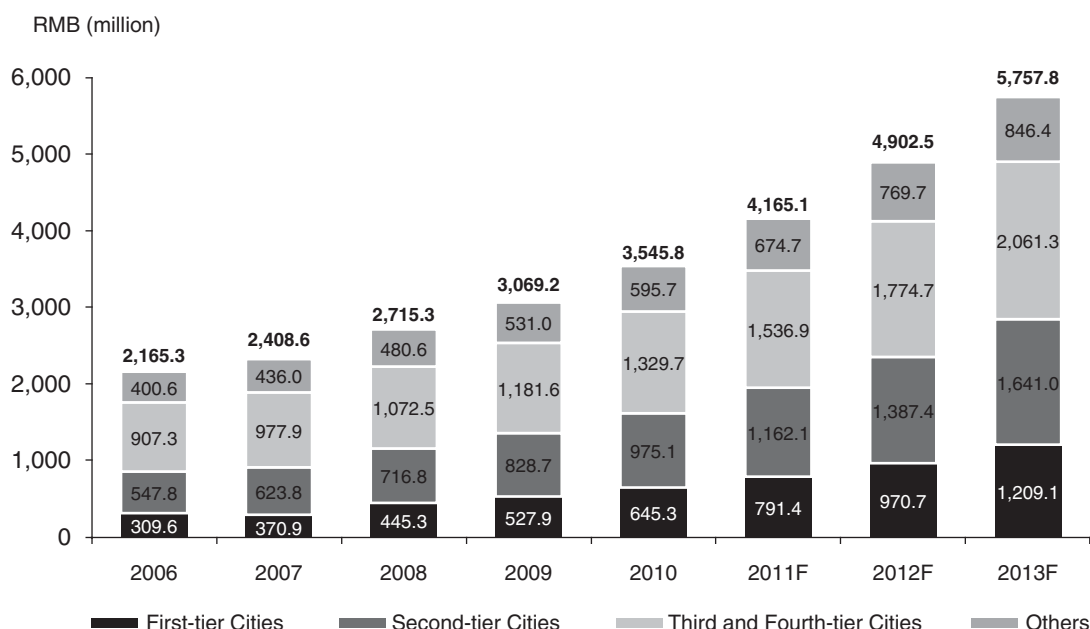
The baby care products market in China has also been growing substantially in the past few years, from RMB2,165.3 million in 2006 to RMB3,545.8 million in 2010 in terms of retail sale value, representing a CAGR of 13.1%. Euromonitor forecasts that China's baby care products market will grow to RMB5,757.8 million in terms of retail sales value by 2013, representing a CAGR of 17.6% from 2011 to 2013.

According to Euromonitor, similar to the children care products market in China, Second, Third and Fourth-tier Cities in aggregate accounted for approximately 65.0% of baby care products market in China in 2010 and is expected to continue to account for more than 60.0% of market from 2011 to 2013.

INDUSTRY OVERVIEW

The chart below sets forth the historical and forecast retail sales value of the baby care products market in China and its breakdown between different city tiers from 2006 to 2013.

Retail sales value of baby care products market in China by city tiers



Source: Euromonitor

Per household spending on baby and children care products in China

Although China’s baby and children care products market has experienced rapid growth in the past few years, the per household spending on baby and children care products in China still lags behind some developed regions such as the United States, Europe and Japan by a significant margin. According to Euromonitor, China’s per household spending on baby and children products in 2009 only represents approximately 22.5% to 33.1% of those of the United States, Europe and Japan for the same year, as illustrated in the table below, indicating significant growth potential of the baby and children care products market in China, amid strong economic growth and increasing income level and purchasing power.

Country	Unit	2006	2007	2008	2009	CAGR(06-09)
China	RMB	9.6	10.9	12.3	13.0	10.6%
Japan	RMB	41.7	40.9	40.2	39.3	-2.0%
Europe	RMB	40.6	46.5	50.1	45.7	4.0%
The United States	RMB	56.5	57.9	57.2	57.9	0.8%

Source: Euromonitor

Note: According to Euromonitor, the baby and children care products in relation to the calculation of per household spending include baby and children toiletries, medicated baby and children care, diapers / nappies rash treatments, baby and children hair care, baby and children skin care and baby and children sun care.

In particular, according to Euromonitor, the “one-child” policy implemented by the Chinese government has also contributed to the growth of the baby and children care products market in China. Since the implementation of the “one-child” policy in China, there is an increasing number

INDUSTRY OVERVIEW

of one-child families which has resulted in a common family structure comprising four grandparents, two parents and one child in one family. As a result, both the grandparents and parents are more willing to spend on their only grandchildren or children. In addition, according to Euromonitor, children care products represent or convey parents’ love for their kids, so they are inclined to purchase relatively expensive products with assured quality. Well-to-do parents prefer to buy branded products even at higher prices for their kids, and those who are not as affluent would curtail their own expenses for the benefits of their kids.

Competitive landscape of the baby and children care products market in China

According to Euromonitor, the baby and children care products market in China is still at its early development stage. Johnson’s Baby is the leading brand in the overall baby and children care products market in China. Its success is largely attributable to its wide variety of product lines and offerings, affordable price range, and its comprehensive distribution network.

On the other hand, domestic brands have been emerging and growing rapidly over the past few years thanks to improving quality, competitive pricing, strong brand awareness, better local know-how and broad distribution network across the country in particular the Second, Third and Fourth-tier Cities. Frog Prince has achieved rapid growth over the past three years with increasing market share in its product categories and has solidified its leadership position among the domestic brands. Other domestic brands that have established market presence include Coati, Pipedog, Omnibaby, Big eyes and Elsker.

KEY DEVELOPMENT TRENDS FOR THE BABY AND CHILDREN CARE PRODUCTS MARKET IN CHINA

Product functions and product safety are among the priority concern of the consumers

At the beginning of 2009, certain international branded baby and children care products were alleged to contain harmful or toxic substance. These scandals have enhanced the awareness of the general public on product safety of baby and children care products and provided an opportunity to quality domestic brands to increase their market share.

Baby and children have more fragile and subtle skin than adults, with PH value close to seven. In addition, baby’s and children’s skin absorbs liquid better but their body system is not well-developed for self-detoxication. As a result, baby and children require more gentle skin care products and hence, the products targeting adults are normally not suitable for baby’s or children’s use. Baby and children care products typically contain ingredients that are mild and non-stimulus.

Products associated with cartoon image are popular

Consumers generally make their purchase decision through a process that involves product/brand awareness, product comparison, purchase intention and payment. In this regard, baby and children care products are different from other FMCG in that while it is the parents who lead the purchase process from product and brand identification, purchase intention to payment, the baby and children also have influence on the eventual products purchased. Given this uniqueness, it is therefore crucial for both manufactures and retailers of baby and children care products to make the products attractive and visible to both children and their parents.

Most baby and children care products brands seek to market their products and reach their target consumers by using cartoon images, which can be visible in either packaging or media

INDUSTRY OVERVIEW

advertisements, such as animations broadcasted via TV networks or movies. Frog Prince acted as the sponsor for the broadcast of animation series “Frog Prince” on CCTV Children Channel, which, combined with some effective marketing strategies with the cartoon character, has helped to establish a positive brand image for “Frog Prince”, resulting in a strong brand recognition and awareness among the consumers.

Following the success of Frog Prince, some other domestic brands also employed similar marketing strategies to build up their brand images with varying success.

More diversified product lines and product offerings

Since 2000’s, with more and more multinational companies entering the baby and children care market in China, market players have launched various series and categories of baby and children care products that provide different functionalities and target different age groups. Nowadays, almost all of the major market players have a wide range of product offerings covering hair care, skin care, oral care, hand care and lip care. New emerging products being increasingly introduced to the market include fabric cleansers, diapers and nappies. Johnson’s Baby, being the market leader, has the most diversified product offerings in the market. Frog Prince, the leading domestic brand, has expanded its product lines and offerings, and recently introduced new product categories such as diapers and nappies.

Domestic brands have not traditionally produced separate products lines to cater for the individual baby and children care market space. However, with the increasing demand for quality baby and children care products from consumers, domestic brands are now also moving to produce more focused products that meet the individual needs of their end customers.

Expansion of market coverage into top-tier and lower-tier cities

International brands such as Johnson’s Baby and Pigeon have focused on First and Second-tier Cities since they entered the market. However, to grasp larger market share, they are expanding into the developing market comprising lower-tier cities and rural areas, where there is still a huge potential for further development.

In contrast, leading domestic brands have also been successful by establishing a nationwide network with focus on lower tier cities. While lower-tier cities will continue to be a core market for these leading domestic brands, an increasing number of these brands are penetrating into the top-tier cities where traditionally international brands have been more successful. To be successful in these top-tier cities, these leading domestic brands have started introducing new product lines with propositions that satisfy the needs of consumers with higher spending power, and have increased marketing efforts to build and enhance brand awareness among consumers.

Emergence of various distribution channels for the baby and children care products market in China

Currently, baby and children care products market in China is still in the early development stage and in comparison with other FMCG, the distribution channels of the baby and children care market are less developed. In top tier cities where the retail industry is more developed, the key distribution channel remains hypermarket or supermarket chains.

In lower tier cities where the retail industry is less developed, baby and children care products manufacturers often set up regional network of distributors so that they can leverage

INDUSTRY OVERVIEW

upon the distribution capabilities of the distributors to distribute their products through channels including regional supermarkets and convenience stores.

New distribution channels are emerging. Internet retailing is gaining increasing importance for the sales and distribution of baby and children care products, due to the shopping experience given that consumers can choose products according to their needs, pricings preference, brand awareness and the volume and function of the products. In addition, comments from other consumers who have made online purchase of products, which are generally easily visible in internet retailing, have a strong influence on the purchase interest of other online customers. Another emerging distribution channel is specialised mother & baby store. As young parents usually need advice and pointers on taking care of their kids, professional advice on children care from these speciality stores is often a value-add to them.

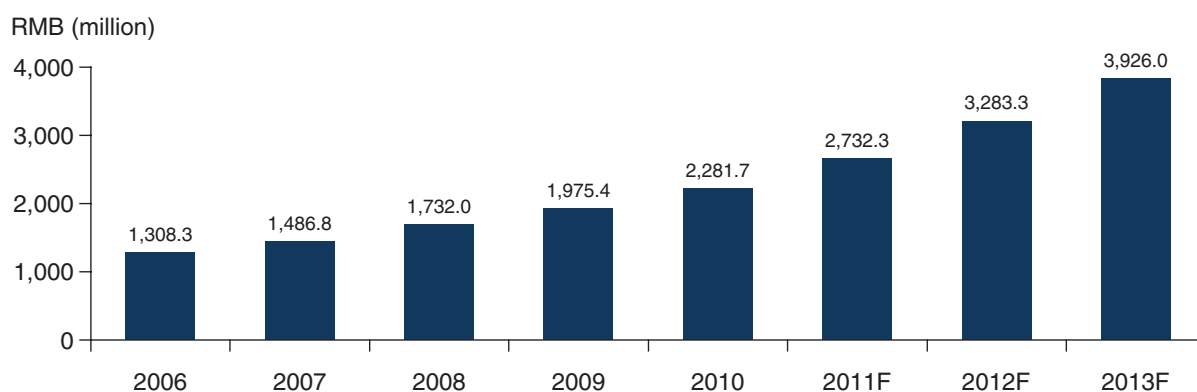
BABY AND CHILDREN MOISTURISING LOTIONS MARKET IN CHINA

Baby and children moisturising lotion is the largest product category in the overall baby and children care products market in China, which accounted for approximately 39.3% of the market in 2010.

Children moisturising lotions market in China

The children moisturising lotions market in China has experienced rapid growth in recent years. According to Euromonitor, the retail sales value of the children moisturising lotions market in China increased from RMB1,308.3 million in 2006 to RMB2,281.7 million in 2010, representing a CAGR of 14.9% and is projected to grow at a CAGR of 19.9% from RMB2,732.3 million in 2011 to RMB3,926.0 million in 2013. The chart below sets forth the historical and forecast retail sales value of the children moisturising lotions market in China.

Retail sales value of children moisturising lotions market in China



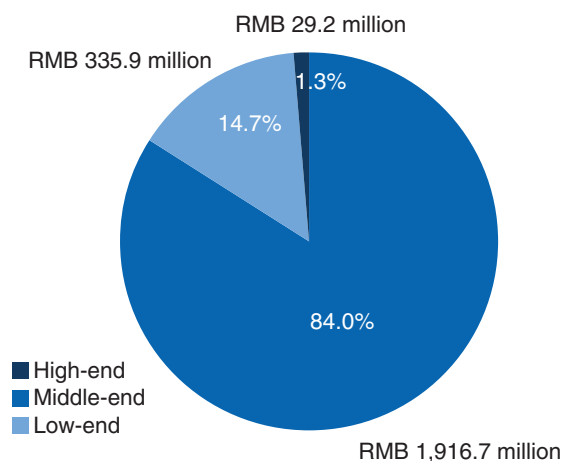
Source: Euromonitor

According to Euromonitor, the children moisturising lotions market in China is dominated by middle-end brands, with the retail selling price between RMB6.0 and RMB22.0 for a unit of moisturising lotion weighing 50 grams. The middle-end brands accounted for approximately 84.0% of the children moisturising lotions market in terms of retail sales value in 2010. High-end products, whose retail selling prices are above RMB22.0 for a unit of moisturising lotion weighing 50 grams and low-end products, whose retail selling prices are below RMB6.0 for a unit of moisturising lotion weighing 50 grams, accounted for approximately 1.3% and 14.7% of the

INDUSTRY OVERVIEW

market in terms of retail sales value in 2010, respectively. Euromonitor estimates that the share of middle-end brands will increase to approximately 85.0% in 2013, mainly taking shares from low-end brands.

The chart below illustrates the market size of children moisturising lotions in China by price segments in 2010.



Source: Euromonitor

According to Euromonitor, the children moisturising lotions market in China is dominated by domestic brands, with eight out of the top ten brands being domestic brands in 2010. Johnson's Baby, Frog Prince and Yumeijing have been ranked as the top three brands in terms of market share in 2008, 2009 and 2010.

Although Johnson's Baby remains to be the leader in children moisturising lotions market in 2008, 2009 and 2010, some domestic brands have achieved rapid growth in the past few years. With strong growth in its sales performance, Frog Prince, the leading domestic brand, has successfully increased its market share from 17.8% in 2008 to 23.1% in 2010, according to Euromonitor.

INDUSTRY OVERVIEW

The table below sets forth the retail sales value and market share of the top ten children moisturising lotions brands in China from 2008 to 2010.

Top ten brands of the children moisturising lotions market in China

Unit: RMB million

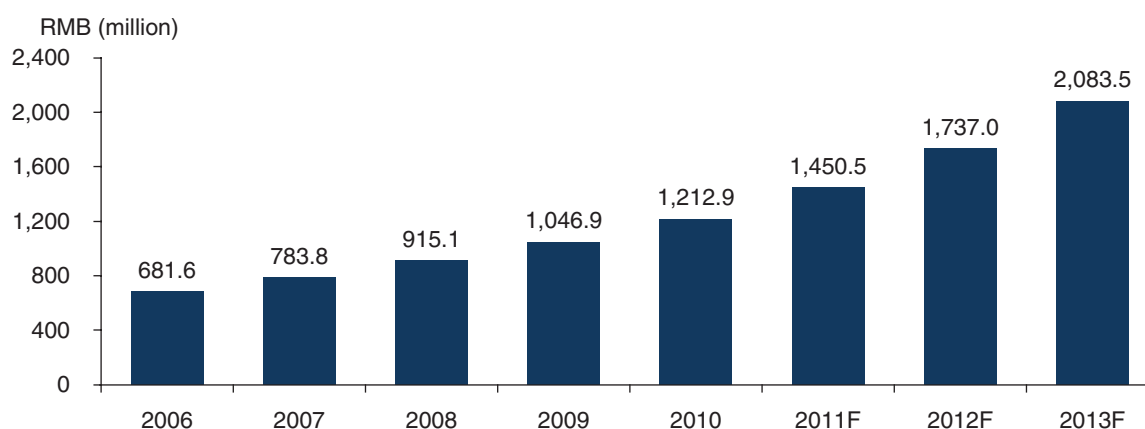
	International/ Domestic	Retail sales value			Market share		
		2008	2009	2010	2008	2009	2010
Johnson's Baby/強生嬰兒	International	475.7	505.9	550.1	27.5%	25.6%	24.1%
Frog Prince/青蛙王子	Domestic	308.7	381.0	527.2	17.8%	19.3%	23.1%
Yumeijing/鬱美淨	Domestic	153.4	199.4	249.2	8.9%	10.1%	10.9%
Pipedog/皮皮狗	Domestic	74.7	89.7	106.7	4.3%	4.6%	4.7%
Haiermian/孩兒面	International	65.8	85.8	99.6	3.8%	4.3%	4.4%
Coati/小浣熊	Domestic	57.7	69.2	82.4	3.3%	3.5%	3.6%
Big eyes/大眼睛	Domestic	56.6	61.3	64.5	3.3%	3.1%	2.8%
Omnibaby/歐米娃	Domestic	46.4	54.6	63.9	2.7%	2.8%	2.8%
Elsker/嫵呵	Domestic	14.6	16.2	18.2	0.8%	0.8%	0.8%
Xiaobailin/小百羚	Domestic	13.8	15.5	17.4	0.8%	0.8%	0.8%
Others		464.6	496.8	502.5	26.8%	25.1%	22.0%
Total		1,732.0	1,975.4	2,281.7	100.0%	100.0%	100.0%

Source: Euromonitor

Baby moisturising lotions market in China

The baby moisturising lotions market in China increased from RMB681.6 million in 2006 to RMB1,212.9 million in 2010 in terms of retail sales value, representing a CAGR of 15.5% and is projected to grow at a CAGR of 19.9% from RMB1,450.5 million in 2011 to RMB2,083.5 million in 2013. The chart below sets forth the historical and forecast retail sales value of baby moisturising lotions market in China from 2006 to 2013.

Retail sales value of baby moisturising lotions market in China



Source: Euromonitor

INDUSTRY OVERVIEW

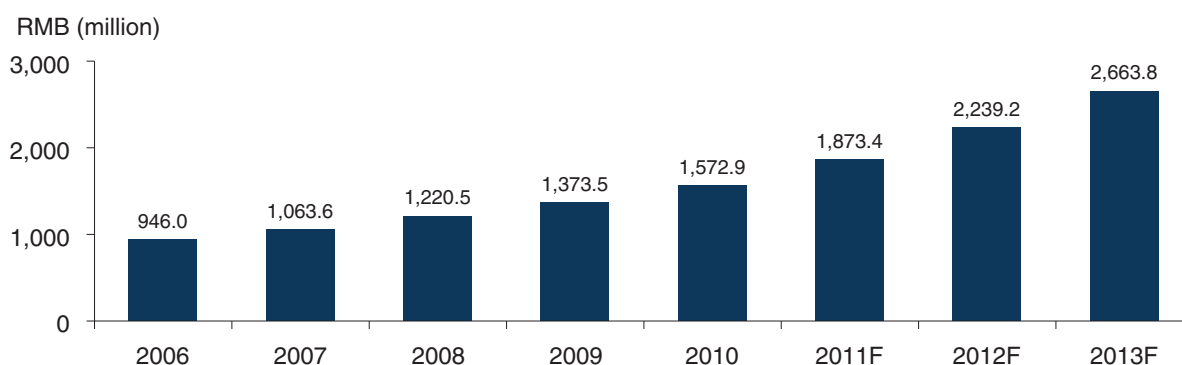
BABY AND CHILDREN BATH AND SHAMPOO PRODUCTS MARKET IN CHINA

Baby and children bath and shampoo is another main product category of the overall baby and children care products market in China, representing approximately 31.2% of the market in 2010.

Children bath and shampoo products market in China

The children bath and shampoo products market in China has experienced rapid growth in recent years. The retail sales value of this market increased from RMB946.0 million in 2006 to RMB1,572.9 million in 2010, representing a CAGR of 13.6% and is projected to grow at a CAGR of 19.2% from RMB1,873.4 million in 2011 to RMB2,663.8 million in 2013, according to Euromonitor. The chart below sets forth the historical and forecast retail sales value of children bath and shampoo products market in China from 2006 to 2013.

Retail sales value of children bath and shampoo products market in China

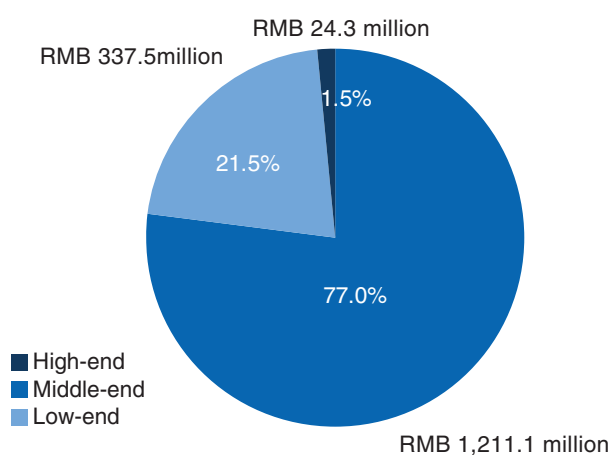


Source: Euromonitor

According to Euromonitor, the children bath and shampoo market in China is dominated by middle-end brands, with the retail selling price between RMB6.0 and RMB20.0 for a unit of bath or shampoo with the volume of 200 millilitres. The middle-end brands accounted for approximately 77.0% of the children bath and shampoo market in terms of retail sales value in 2010. High-end products, whose retail selling prices are above RMB20.0 for a unit of bath or shampoo with the volume of 200 millilitres and low-end products, whose retail selling prices are below RMB6.0 for a unit of bath or shampoo with the volume of 200 millilitres, accounted for approximately 1.5% and 21.5% of the market in terms of retail sales value in 2010, respectively. Euromonitor estimates that the share of middle-end segment will increase to approximately 80.0% in 2013, mainly taking shares from low-end brands.

INDUSTRY OVERVIEW

The chart below illustrates the market size of children bath and shampoo products in China by price segments in 2010.



Source: Euromonitor

According to Euromonitor, the children bath and shampoo products market in China is dominated by domestic brands. Out of the top ten brands, seven are domestic brands. Although Johnson's Baby is the leading player in the market, leading domestic players, such as Frog Prince, have achieved rapid growth of their market shares in the market.

The following table sets forth the retail sales value and market share of the top ten children bath and shampoo brands in China from 2008 to 2010.

Top ten brands of the children bath and shampoo products market in China

Unit: RMB million

	International/Domestic	Retail sales value			Market share		
		2008	2009	2010	2008	2009	2010
Johnson's Baby/強生嬰兒	International	373.0	389.6	429.5	30.6%	28.4%	27.3%
Frog Prince/青蛙王子	Domestic	69.6	114.5	157.9	5.7%	8.3%	10.0%
Yumeijing/鬱美淨	Domestic	65.7	85.5	106.8	5.4%	6.2%	6.8%
Haiermian/孩兒面	International	61.7	72.8	86.8	5.0%	5.3%	5.5%
Coati/小浣熊	Domestic	55.2	69.6	82.6	4.5%	5.1%	5.3%
Pipedog/皮皮狗	Domestic	47.6	57.1	69.7	3.9%	4.2%	4.4%
Omnibaby/歐米娃	Domestic	42.2	49.5	62.0	3.5%	3.6%	4.0%
Big eyes/大眼睛	Domestic	45.6	49.4	53.3	3.7%	3.6%	3.4%
Elsker/暖呵	Domestic	11.4	12.8	14.7	0.9%	0.9%	0.9%
Pigeon/貝親	International	5.7	7.6	10.7	0.5%	0.5%	0.7%
Others		442.8	465.1	498.9	36.3%	33.9%	31.7%
Total		1,220.5	1,373.5	1,572.9	100.0%	100.0%	100.0%

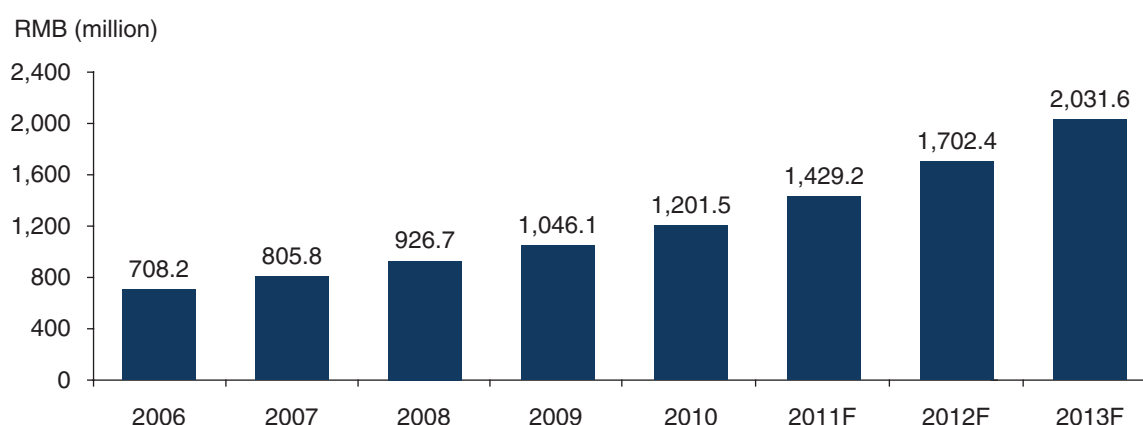
Source: Euromonitor

INDUSTRY OVERVIEW

Baby bath and shampoo products market in China

The baby bath and shampoo products market in China has also experienced rapid growth in recent years. The retail sales value of this market increased from RMB708.2 million in 2006 to RMB1,201.5 million in 2010, representing a CAGR of 14.1% and is projected to grow at a CAGR of 19.2% from RMB1,429.2 million in 2011 to RMB2,031.6 million in 2013. The chart below sets forth the historical and forecast retail sales value of baby bath and shampoo products market in China from 2006 to 2013.

Retail sales value of baby bath and shampoo products market in China

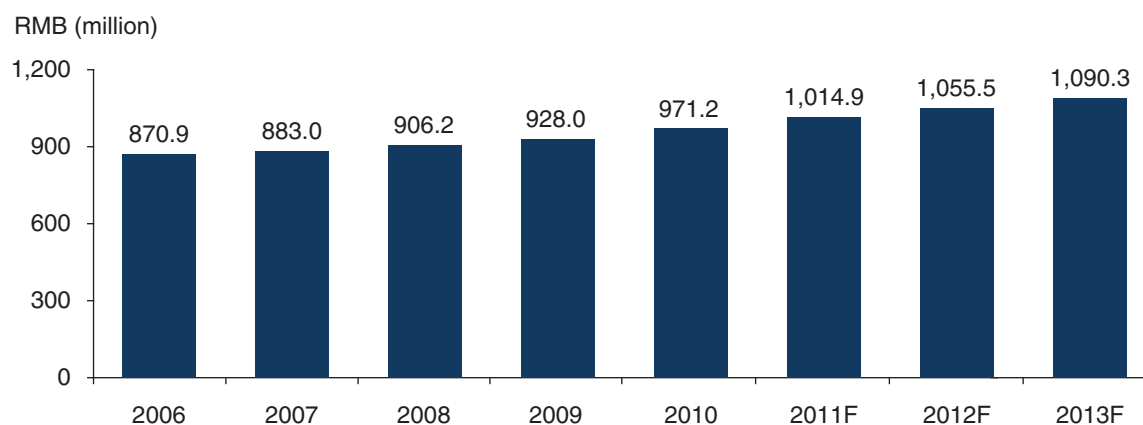


Source: Euromonitor

CHILDREN ORAL CARE PRODUCTS MARKET IN CHINA

Children oral care products comprise toothbrush and toothpaste. According to Euromonitor, the retail sales value of the children oral care products market in China increased from RMB870.9 million in 2006 to RMB971.2 million in 2010, representing a CAGR of 2.8% and is projected to grow at a CAGR of 3.6% from RMB1,014.9 million in 2011 to RMB1,090.3 in 2013 as illustrated by the chart below.

Retail sales value of children oral care products market in China



Source: Euromonitor

INDUSTRY OVERVIEW

The children oral care products in China is dominated by the top five brands which accounted for 60.0% of the market in 2010. Among the top ten brands in 2010, eight are domestic. Frog Prince is the leading domestic brand with a market share of 14.6% in 2010.

The following table shows the retail sales value and market share of the top ten children oral care products brands in China from 2008 to 2010.

Top ten brands of children oral products market in China

Unit: RMB million

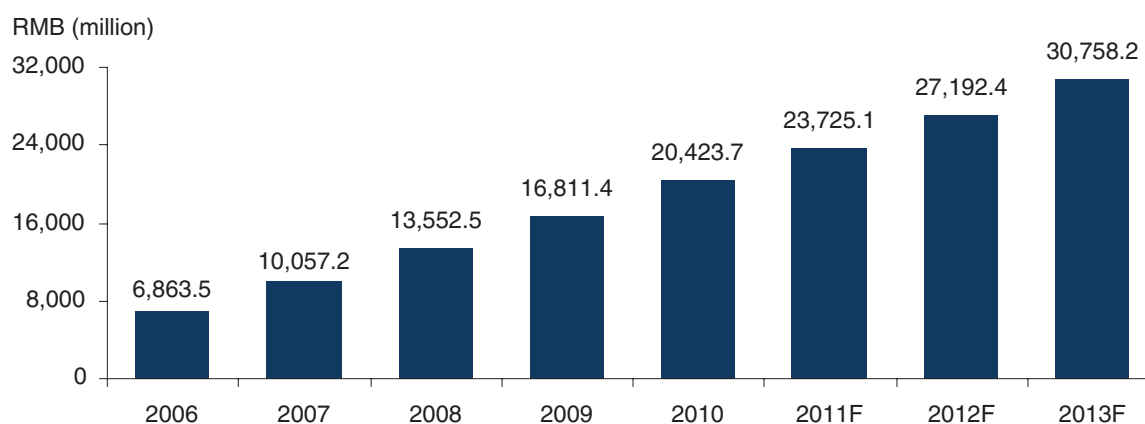
	International/ Domestic	Retail sales value			Market share		
		2008	2009	2010	2008	2009	2010
Colgate/高露潔	International	141.7	147.2	152.9	15.6%	15.9%	15.7%
Frog Prince/青蛙王子	Domestic	105.6	136.3	141.5	11.7%	14.7%	14.6%
Cnice/納愛斯牙樂	Domestic	107.7	115.3	125.7	11.9%	12.4%	12.9%
Darlie/黑人寶貝兔	International	91.7	97.2	102.1	10.1%	10.5%	10.5%
Xiaobaitu/小白兔	Domestic	55.5	57.8	61.0	6.1%	6.2%	6.3%
Coati/小浣熊	Domestic	49.9	52.0	54.9	5.5%	5.6%	5.7%
Yumeijing/鬱美淨	Domestic	40.0	45.6	50.2	4.4%	4.9%	5.2%
Xiaodingdang/小叮噹	Domestic	38.5	37.0	35.6	4.3%	4.0%	3.7%
Heimei/黑妹QQ兔	Domestic	27.4	30.9	33.0	3.0%	3.3%	3.4%
Tianqi/田七娃娃	Domestic	28.4	29.1	30.5	3.1%	3.1%	3.1%
Others		219.8	179.6	183.8	24.3%	19.4%	18.9%
Total		906.2	928.0	971.2	100.0%	100.0%	100.0%

Source: Euromonitor

BABY DIAPERS / NAPPIES MARKET IN CHINA

The baby diapers / nappies market in China has experienced rapid growth in recent years. According to Euromonitor, the retail sales value of the baby diapers / nappies market in China increased from RMB6,863.5 million in 2006 to RMB20,423.7 million in 2010, representing a CAGR of 31.3% and is projected to grow at a CAGR of 13.9% from RMB23,725.1 million in 2011 to RMB30,758.2 million in 2013 as illustrated by the chart below.

Retail sales value of baby diapers/nappies market in China



Source: Euromonitor

INDUSTRY OVERVIEW

The major factors contributing to the growth of the baby diapers / nappies market in China include the following:

Firstly, increasing hygiene awareness and rising urbanisation process have driven the consumption of nappies and diapers. Urban families, especially those in First-tier Cities, use nappies/diapers more widely and replace them more frequently than rural families. According to Euromonitor, the urbanization process in China has increased the penetration rate of baby diapers/ nappies from approximately 9.0% in 2004 to approximately 39.0% in 2009 nationally.

Secondly, parents, especially those in the relatively developed regions, are more willing to purchase higher quality pants-type nappies. This is more evident in top tier cities such as Beijing and Shanghai, since parents in these cities in general have higher income level and purchasing power. The market preference towards more superior products and the shift of demand from pads-type nappies to pants-type nappies and from newborn nappies/diapers to junior nappies/diapers have all resulted in higher overall average unit prices.

Benefiting from the first mover advantage, international brands have a larger share in the baby diapers / nappies market in China and have focused primarily on top tier cities. Domestic brands, on the other hand, have mainly focused on lower-tier cities.

According to Euromonitor, trade sources indicate that baby diapers / nappies market in top tier cities such as Beijing and Shanghai is close to saturation as evidenced by a penetration rate as high as 80%. Lower tier cities will be the area with vast growth potential.

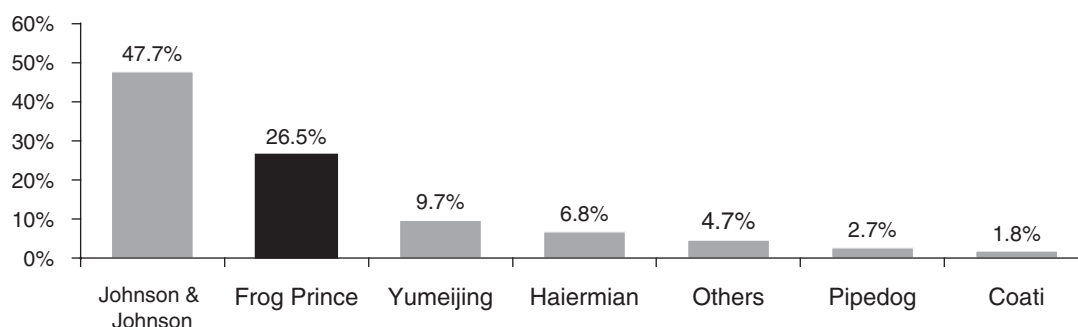
Consumers in lower tier cities have lower income level and hence lower purchasing power in general and babies in lower tier cities are often taken care of by their grandparents who are still more inclined to using traditional non-disposable diapers. However, increasing affluency, accelerating urbanization process and increasing awareness and consciousness in hygiene and comfort will drive the demand for diapers and nappies in lower-tier cities. Those market players who have already established a strong baby and children care products distribution network in these areas will benefit from this emerging trend as they are able to more effectively and efficiently launch new product lines, including diapers and nappies, via their distribution networks.

INDUSTRY OVERVIEW

BRAND AWARENESS OF BABY AND CHILDREN CARE PRODUCTS

The following charts set forth the ranking of brand awareness of baby and children care products in China.

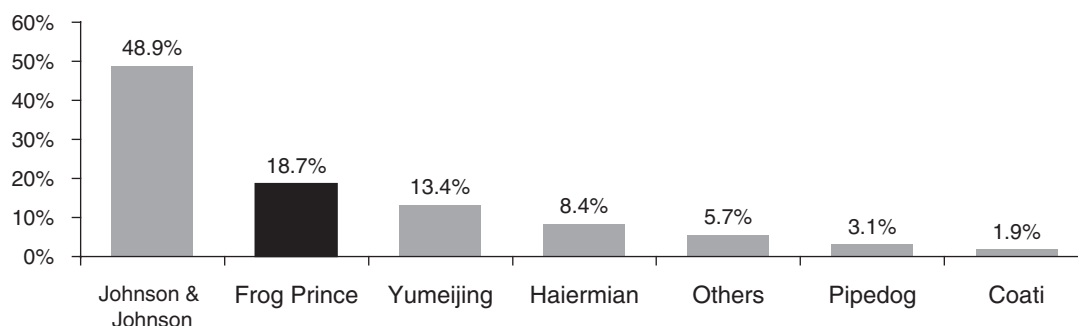
Top of mind



Note: Top of mind means the percentage of respondents who, without prompting, name a specific brand or product first when asked to list all the brands they recall seeing in a general product category. It is used to describe the first brand name that a respondent mentions in answer to an appropriate question.

Source: Frost & Sullivan

First choice



Note: First choice means the percentage of respondents who, without prompting, name a specific brand which he or she will choose when buying certain kind of products. It is used to describe the first choice that a respondent mentions in answer to an appropriate question.

Source: Frost & Sullivan

THE INSECTICIDE AND AIR FRESHENERS MARKETS IN CHINA

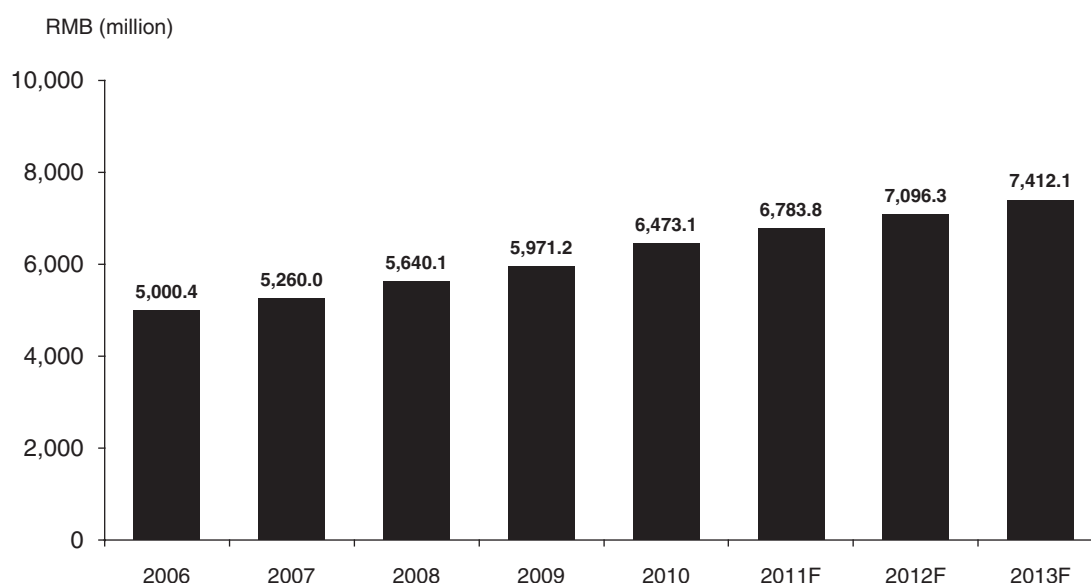
The Insecticide Market in China

According to Euromonitor, the insecticide market in China is at a relatively mature stage. The retail sales value of the market grew from RMB5,000.4 million in 2006 to RMB6,473.1 million in 2010, representing a CAGR of 6.7%.

Euromonitor estimates that the insecticide market in China will continue to grow at a moderate rate with the retail sales value expected to grow from RMB6,783.8 million in 2011 to RMB7,412.1 million in 2013, representing a CAGR of 4.5%.

INDUSTRY OVERVIEW

The chart below sets forth the historical and forecast retail sales value of insecticide market in China from 2006 to 2013.



Source: Euromonitor

Being a relatively matured market, the insecticide products market in China is dominated by the top ten players with an aggregate market share of 77.7% in 2010, eight of which are domestic brands.

The table below sets forth the retail sales value and market share of top ten brands in the insecticide market in China from 2008 to 2010.

Top ten brands of insecticide market in China

Unit: RMB million

	International / Domestic	Retail sales value			Market share		
		2008	2009	2010	2008	2009	2010
Lanju/榄菊	Domestic	991.2	1,044.4	1,110.6	17.6%	17.5%	17.2%
Raid/雷达	International	642.5	700.0	774.8	11.4%	11.7%	12.0%
Lizi/李字	Domestic	648.6	697.2	759.1	11.5%	11.7%	11.7%
Gunner/枪手	Domestic	484.5	518.9	579.1	8.6%	8.7%	8.9%
Superb/超威	Domestic	375.3	459.8	500.4	6.7%	7.7%	7.7%
Heimaoshen/黑猫神	Domestic	346.9	364.0	387.6	6.1%	6.1%	6.0%
Shuangfeijian/双飞剑	Domestic	122.8	177.5	302.5	2.2%	3.0%	4.7%
Mie Hailing/滅害靈	Domestic	245.2	262.5	294.0	4.3%	4.4%	4.5%
Pest Rest/全無敵	International	155.0	169.4	184.2	2.7%	2.8%	2.9%
Rainbow/彩虹	Domestic	117.5	125.6	138.0	2.1%	2.1%	2.1%
Others		1,510.6	1,451.9	1,442.8	26.8%	24.3%	22.3%
Total		5,640.1	5,971.2	6,473.1	100.0%	100.0%	100.0%

Source: Euromonitor

According to Euromonitor, the leading brands in the insecticide market in China demonstrated stagnant performance in the past few years. However, brands that have been able to leverage on an expanded sales network and increasing brand recognition have recorded rapid

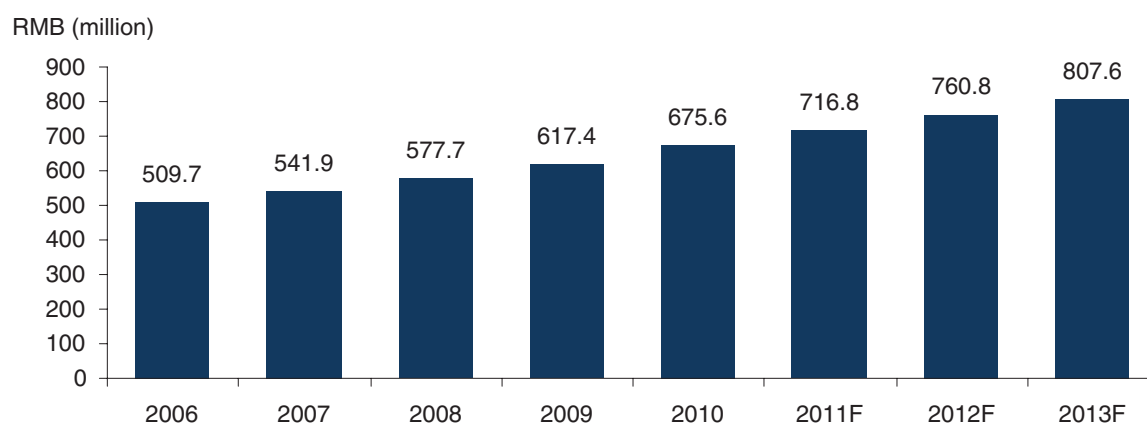
INDUSTRY OVERVIEW

growth. The “Shuangfeijian” brand of the Company has achieved rapid growth with its market share increasing from 2.2% in 2008 to 4.7% in 2010.

The Air freshener Market in China

The air freshener market in China has experienced steady growth in recent years. According to Euromonitor, retail sales value of the air freshener market in China grew from RMB509.7 million in 2006 to RMB675.6 million in 2010, representing a CAGR of 7.3%. Euromonitor forecasts that the air freshener market in China will continue the moderate growth with the retail sales value expected to grow from RMB 716.8 million in 2011 to RMB807.6 million in 2013, representing a CAGR of 6.1%.

The chart below sets forth the historical and forecast retail sales value of air refreshener market in China from 2006 to 2013.



Source: Euromonitor

Being a relatively matured market, the air freshener products market in China is dominated by the top ten players with an aggregate market share of 78.2% in 2010, seven of which are foreign brands. The “Shenhuxi” brand of the Company is the second largest domestic brand in this market in 2010.

INDUSTRY OVERVIEW

The table below sets forth the retail sales value and market share of the top ten brands in the air freshener market in China from 2008 to 2010.

Top ten brands of air refreshener market in China

Unit: RMB million

	International / Domestic	Retail sales value			Market share		
		2008	2009	2010	2008	2009	2010
Glade/佳麗	International	142.9	156.2	172.2	24.7%	25.3%	25.5%
All Joy	International	111.0	121.2	129.7	19.2%	19.6%	19.2%
Aestar/凱達	Domestic	78.1	84.6	93.4	13.5%	13.7%	13.8%
Sawaday/爽花蕾	International	33.5	36.6	39.5	5.8%	5.9%	5.8%
Shenhuxi/深呼吸	Domestic	31.4	22.5	26.9	5.5%	3.6%	4.0%
Green Meadow/安利綠草如茵	International	21.3	22.6	23.7	3.7%	3.7%	3.5%
Houdy/好迪	Domestic	16.6	17.4	20.0	2.9%	2.8%	3.0%
Sakura/櫻花	International	9.9	10.3	11.5	1.7%	1.7%	1.7%
Ambi-Pur/香必飄	International	NA	NA	6.5	NA	NA	0.9%
Bagus	International	4.6	4.8	5.2	0.8%	0.8%	0.8%
Others		128.4	141.2	147.0	22.2%	22.9%	21.8%
Total		577.7	617.4	675.6	100.0%	100.0%	100.0%

REGULATORY OVERVIEW

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group’s operation and business.

ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by the Company Law of PRC (中華人民共和國公司法) (the **“Company Law”**), which was adopted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and took effect from 1 July 1994. It was last amended on 27 October 2005 and took effect from 1 January 2006. Under the Company Law, companies are generally classified into two categories — limited liability companies and companies limited by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a WFOE are regulated by the Wholly Foreign-owned Enterprise Law of PRC (中華人民共和國外資企業法) (the **“Wholly Foreign-owned Enterprise Law”**), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which were promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in PRC conducted by foreign investors and foreign-owned enterprises is governed by The Catalogue of Industries for Guiding Foreign Investment (外商投資產業指導目錄) (the **“Catalogue”**), which was amended and promulgated by the Ministry of Commerce of PRC (中華人民共和國商務部) and the National Development and Reform Commission of PRC (中華人民共和國國家發展和改革委員會) on 31 October 2007, and took effect from 1 December 2007. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the rules of entry according to the categories of encouraged industries, restricted industries and prohibited industries. Industries not listed in the Catalogue are generally open to foreign investment unless specifically barred by other PRC laws and regulations. WFOEs are often permitted to establish in encouraged industries. However, some encouraged industries and restricted industries are limited to Sino-foreign equity or contractual joint ventures, with the Chinese investor in some cases required to be the majority shareholder. Restricted industry projects are also subject to higher-level government approvals. Prohibited industries are closed to foreign investment.

MANUFACTURE AND SALE OF COSMETICS AND PESTICIDES

Pursuant to the Regulations on The Hygiene Supervision Over Cosmetics (化妝品衛生監督條例), which was promulgated on 13 November 1989, and took effect from 1 January 1990, and Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics (化妝品衛生監督條例實施細則), which was last amended on 20 May 2005 and took effect from the same date, the hygiene license system is implemented by the State in the hygiene supervision of cosmetics production enterprises. The provincial health administration department shall be responsible for the approval and issuance of Hygiene License for Cosmetics Production Enterprise (化妝品生產企業衛生許可證) with a validity period of four years from the date of its issuance. No entity is permitted to engage in the production of cosmetics products without a hygiene license for cosmetics production enterprise. Furthermore, where a cosmetics production

REGULATORY OVERVIEW

enterprise changes the location of its factory, establishes a branch factory or a workshop off-site, it shall apply to the health administrative department of the province, autonomous region or municipality directly under the Central Government for a Hygiene License for Cosmetics Production Enterprises. The branch (workshop) shall be indicated on the Hygiene License for Cosmetics Production Enterprise. Furthermore, the following procedures are required to be completed to obtain approval to manufacture special cosmetic products in PRC: firstly the health administrative department of each province, autonomous region or municipality directly under the Central Government shall conduct and complete a preliminary examination within three months as of the next day upon receipt of all declaration materials from the applicant, and work out a reply on whether or not to report it to the Ministry of Health for re-examination. Once a positive reply is obtained, the human trial or patch test of special cosmetics shall be conducted by an entity as approved by the health administrative department under the State Council on the relevant products. The entity shall issue a final report within one month upon conclusion of the human trial or patch test as entrusted by an enterprise, and submit it to the Ministry of Health with a copy to the entrusting entity. The health administrative department under the State Council shall then convene an appraisal group for re-examination of the safety of cosmetics within six months upon receipt of preliminary examination materials and the report on human trial or patch test, and issue a final decision on the application within two months after the re-examination. Besides, persons (including a temporary worker) directly engaged in the production of cosmetics shall be subject to annual physical check-ups and only those who obtain health certificates issued by the health administrative department are qualified for engagement in the cosmetics production. Furthermore, raw materials, accessorial materials as well as containers and packaging materials which are directly exposed to the cosmetics shall conform to the national health standards.

In accordance with the Regulations on The Hygiene Supervision Over Cosmetics (化妝品衛生監督條例) as well as the Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics (化妝品衛生監督條例實施細則), the cosmetics production enterprises shall subject its products to hygienic inspections in accordance with the health standards of the State regarding cosmetics before the qualified ones are permitted into the market. In addition to that, within two months after the cosmetics products are put into the market, the enterprise that produces non-special cosmetics shall provide the prescribed materials and samples, and report to the health administrative department of the province, autonomous region or municipality directly under the Central Government for archival filing.

Under the Regulations on The Hygiene Supervision Over Cosmetics (化妝品衛生監督條例) as well as Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics (化妝品衛生監督條例實施細則), the use of new raw materials (natural or synthetic materials used in the production of cosmetics for the first time within PRC) for the production of cosmetics shall be subject to approval by the health administrative department under the State Council. Similarly, the production of special cosmetics products shall only be conducted upon the approval by the health administrative department under the State Council. Besides, those who intend to import the cosmetics into PRC for the first time shall apply to the health administrative department under the State Council for approval before entering into any contract for the relevant import.

Pursuant to the Administrative Regulations of PRC on the Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例), which was promulgated on 9 July 2005 and took effect from 1 September 2005, and the Implementing Measures for the Regulations for Administration of Production License of Industrial Products of PRC (中華人民共和國工業產品生產許可證管理條例實施辦法), which was last amended on 21 April 2010 and

REGULATORY OVERVIEW

became effective from 1 June 2010, only enterprises granted with the Production License are eligible to produce the important industrial products for which a production licensing system is implemented by the State. Similarly, entities or individuals are required to obtain the Production License for the sale or use of any such product in commercial activities. The period of validity of Production License is five years, other than for Production Licenses for food processing enterprises, for which the period of validity is three years. Where, during the period of validity of a Production License, there is any change in the relevant standards and requirements for the product,, the competent authorities may organise a further examination and inspection in accordance with the provisions of relevant Regulations. If during the period of validity of a Production License, there is a change in the production conditions, inspection method, production technology or technique of the enterprise, the enterprise shall file an application with the relevant authorities, and the competent authorities shall organise a further examination and inspection in light of the provisions of the relevant Regulations.

In accordance with the Regulations on Pesticide Administration (農藥管理條例) as well as Management of the Pesticides Production(農藥生產管理辦法), an applicant must obtain the Registration Certificate for Pesticide prior to applying for the approval documents for pesticides production.

An applicant shall provide pesticide samples to the relevant central agricultural authority in PRC or provide pesticide samples to the relevant provincial agricultural authority which in turn will pass those samples to the relevant central agricultural authority in PRC for examination. Such an applicant additionally needs to submit the relevant application materials to the central agricultural authority in PRC, including information regarding the chemical and toxicological properties, efficacy, residue and effects on the environment as well as labels of the pesticides. Such materials shall, after being examined and signed with written comments respectively by the administrative departments of agriculture, licensing administration of industrial products, public health and environmental protection of the State Council and the All-China Federation of Supply and Marketing Cooperatives, be appraised by the review and adjudication board of pesticide registration regarding the chemical and toxicological properties, efficacy, residue and the pesticides' effects on the environment. Based on the appraisal of the review and adjudication board, those pesticides that are up to the qualifications shall be issued a Registration Certificate for Pesticide by the competent administrative department of agriculture of the State Council.

The applicant enterprise should prepare the necessary materials as statutory required, and submit the application to the provincial administration to obtain approval for pesticides production. The provincial administration shall, in addition to conduct an initial examination on the application materials provided by the enterprise, be responsible for the organization of on-site examination and product quality sample test, and should accurately complete the Production Condition Examination Chart of the Certificate of Production for Pesticides and then submit the application materials which have passed the initial examination together with the production condition examination chart of the certificate of production for pesticides to the central competent authority which should complete the examination and make a decision within 20 working days after receiving the application materials. If a decision cannot be made within 20 days, an extension of 10 days can be obtained upon the approval of the central competent authority. For the enterprises that have passed the examination, the certificate of production will be issued and publicized.

According to the Administrative Regulations on Cosmetics Labeling (化妝品標識管理規定), which was promulgated on 27 August 2007 and took effect from 1 September 2008, cosmetics

REGULATORY OVERVIEW

labeling shall be authentic, accurate, scientific and legal. Relevant items such as the descriptions of cosmetics, the actual production and processing place of cosmetics, the name and the addresses of the producers, the production dates and the term of use as well as a table showing all ingredients are required to be marked on the cosmetics labels. For cosmetics those may cause harm to or those may endanger physical health and safety due to improper use or conservation and those that are applied on special people such as children, information requiring attention, warning instructions in Chinese and the conservation conditions complying with the term of use and safety shall be further marked on the cosmetics labels. Besides, cosmetics labels shall be directly marked on the smallest sales unit (packing) of the cosmetics. Where cosmetics carry instructions, the instructions shall be enclosed in the smallest sales unit (packing) of the products. Cosmetics labels shall not be separated from the cosmetics wrappings (containers).

FOREIGN-INVESTMENT IN COMMERCIAL FIELD

Pursuant to the Measures for The Administration On Foreign Investment In Commercial Field (外商投資商業領域管理辦法), which were promulgated on 16 April 2004 and took effect from 1 June 2004, all foreign-invested commercial enterprises (see below) must meet the following conditions: (A) the minimum registered capital must accord with the relevant provisions as stated in the Company Law; (B) the relevant provisions as to the registered capital and total investment of the foreign-invested enterprises must be complied with; (C) the period of operation of a foreign-invested commercial enterprise must not exceed 30 years in general, and the term of operation of a foreign-invested commercial enterprise established in the middle and western areas must not exceed 40 years in general. Foreign-funded commercial enterprises refer to enterprises with foreign investment engaged in commission agency, wholesale, retail or franchising.

According to the Circular of the MOFCOM on Delegating Matters Concerning the Examination and Approval of Foreign-invested Commercial Enterprises (商務部關於下放外商投資商業企業審批事項的通知), which was promulgated and took effect from 12 September 2008, the establishment of commercial enterprises with foreign investment and changes in the relevant registration details as to the established foreign-invested commercial enterprises shall be examined and verified by the commercial departments at provincial level, except that the MOFCOM shall continue to examine and approve the establishment and changes in the relevant items as to the foreign-invested enterprise that engaged in non-store retailing through television, telephone, mail order, Internet, vending machines, etc. or which deal with the wholesale of audio-visual products or the sale of books, newspapers and periodicals.

According to the Circular of the Foreign Trade and Economic Cooperation Department of Fujian Province on Delegating Matters Concerning The Examination and Approval of Foreign-invested Enterprises in Encouraged Industries and Foreign-invested wholesale Enterprises (福建省對外貿易經濟合作廳關於下放外商投資鼓勵類及商業批發企業審批事項的通知), which was promulgated on 29 December 2008 and took effect from the same date, the establishment of foreign-invested enterprises with an investment amount of less than USD100 million and which engage in the wholesale of general commodities in encouraged and permitted industries, and the expansion of the business scope of foreign-invested enterprises to undertake the wholesale of the aforesaid commodities, as well as the establishment of enterprise to engage in the wholesale of the aforesaid commodities by foreign-invested enterprises shall be subject to examination and approval by Foreign Trade and Economic Cooperation Departments in cities. While the Foreign Trade and Economic Cooperation Department of Fujian Province is still in charge of the examination and approval of the establishment and relevant registration details of foreign-invested commercial enterprises which engage in the wholesale of commodities in restricted industries, that conduct

REGULATORY OVERVIEW

sales through television, telephone, mail order, internet or vending machines or that engage in other non-store sales, the establishment of commercial enterprises by way of merger as well as the investment in commercial enterprises in restricted industries by foreign-invested enterprises.

IMPORT AND EXPORT OF GOODS

Pursuant to the Foreign Trade Law of PRC (中華人民共和國對外貿易法) (the “**Foreign Trade Law**”), which was revised on 6 April 2004 and took effect from 1 July 2004, foreign trade dealers engaged in the import and export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorised bodies unless the laws and regulations and the authority responsible for foreign trade under the State Council do not so require. Where foreign trade dealers fail to register as required, the customs authority shall not process the procedures of declaration, examination and release of the imported and exported goods.

According to the Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Right to Foreign Trade by Foreign-funded Enterprises(商務部關於外商投資企業外貿權備案登記有關問題的通知), which was promulgated and took effect from 17 August 2004, where foreign-funded enterprises duly established apply for the addition of any import/export business to their approved scope of business, they must, in accordance with the Measures for the Record-keeping and Registration by Foreign Trade Dealers(對外貿易經營者備案登記辦法), complete the formalities of adding business items to the enterprises' business licenses and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration (note: no formalities of change are required in regard to the approval certificate for its establishment) on the strength of the approval certificate for its establishment, business license with the additional business, and any other documents as required under the Measures for the Record-keeping and Registration. The registration authorities shall affix a stamp indicating “business of distribution of import goods excluded” on the registration form.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by PRC Customs Authorities(中華人民共和國海關對報關單位註冊登記管理規定), which was promulgated on 31 March 2005 and took effect from 1 June 2005, consignors or consignees of import or export goods (as defined below) shall go through registration formalities with their local customs authorities in accordance with the applicable provisions. After going through the registration formalities with customs authorities, consignors or consignees of import or export goods (as defined below) may handle their own declarations at any customs port or any other places where customs supervisory affairs are concentrated within the customs territory of PRC. A PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of 3 years. “Consignor or consignee of export or import goods” means any legal person, other organisation or individual that directly imports or exports goods within the territory of PRC.

TAXATION

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the “**FIE Tax Law**”) promulgated on 9 April 1991

REGULATORY OVERVIEW

and took effect from 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on (a) foreign-invested enterprises established in Special Economic Zones, (b) foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations and (c) foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the new Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法) (the “New Tax Law”), which was promulgated on 16 March 2007 and took effect from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. The Implementation Rules To the New Tax Law (中華人民共和國企業所得稅法實施條例) (the “Implementation Rules”) was promulgated on 6 December 2007 and took effect from 1 January 2008. The New Tax Law provides certain relief during the transition period to enterprises that were established prior to 16 March 2007: (i) if foreign-invested enterprises enjoy reduced tax rates under the old laws and regulations, the tax rate will be gradually increased to the new tax rate within five years starting from 2008; and (ii) if foreign-invested enterprises enjoy tax holidays for a fixed period under the old laws and regulations, such foreign-invested enterprises can continue the holiday until its expiry. However, if an enterprise has not started to enjoy the tax holiday due to the lack of profit, 2008 will be regarded as the first profit-making year and the enterprise should start to enjoy the tax holiday as from 2008.

Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of PRC (中華人民共和國增值稅暫行條例), last amended on 5 November 2008 and took effect from 1 January 2009, and its implementation rules which were revised on 15 December 2008 and took effect from 1 January 2009, all entities or individuals in PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the import of goods are required to pay value-added tax (“VAT”). The amount of VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% for those engaging in the sale or import of goods except as otherwise provided by paragraph (2) and paragraph (3) of Article 2 of the Provisional Regulations on Value-added Tax of PRC. The tax rate is also 17% for those providing processing services, repairs and replacement services.

Consumption tax

Pursuant to the Tentative Regulations of PRC on Consumption Tax (中華人民共和國消費稅暫行條例), last amended on 5 November 2008 and took effect from 1 January 2009, institutions or individuals that manufacture, subcontract the processing of, or import consumer goods specified and other institutions or individuals that are recognised by the State Council as engaged in selling consumer goods specified are required to pay consumption tax. The consumption tax is computed on the basis of the value, volume or the combination of the value and

REGULATORY OVERVIEW

volume of the goods. Cosmetics the Taxable Item of Consumption Tax and the tax payable is the product of the value of the cosmetics and the tax rate as 30% of the value of the cosmetics.

Urban Maintenance and Construction Tax and Education Surtax

According to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which was promulgated and took effect from 18 October 2010, from 1 December 2010, the Tentative Regulations of PRC on Urban Maintenance and Construction Tax promulgated in 1985 and the Tentative Provisions on the Collection of Educational Surtax promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the Tentative Regulations of PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例), which was promulgated on 8 February 1985 and took effect from 1985, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知), which was promulgated on 12 March 1994 and took effect from 1 January 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be paid simultaneously with payment of the consumption tax, value-added tax and business tax. The rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, a county town or town and a place other than a city, county town or town respectively.

In accordance with the Tentative Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定), which was last revised on 20 August 2005 and took effect from 1 October 2005, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of the value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with payment of the value-added tax, business tax and consumption tax.

FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of PRC (中華人民共和國外匯管理條例) (the **"Foreign Exchange Administration Rules"**). They were promulgated by the State Council of PRC (中華人民共和國國務院) on 29 January 1996 and took effect from 1 April 1996 and were amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans, unless with prior approval by the competent authorities for the administration of foreign exchange is obtained.

REGULATORY OVERVIEW

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (board resolutions, tax certificates, etc.), or for trade and services related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency to satisfy foreign exchange liabilities, subject to a cap approval by SAFE. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities and derivative products abroad are subject to registration with the competent SAFE and approval or filings with the relevant governmental authorities (if necessary).

Dividend distribution

Before the promulgation of the New Tax Law, the principal regulations governing the distribution of dividends paid by WFOEs include the Wholly Foreign-owned Enterprise Law, the FIE Tax Law and their respective Implementation Regulations.

Under these laws and regulations, WFOEs in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this exemption is revoked by the New Tax Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The Implementation Rules reduced the rate from 20% to 10%, effective from 1 January 2008.

PRC and the government of Hong Kong SAR signed the Arrangement between the Mainland of PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the “**Arrangement**”). According to the Arrangement, the withholding tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and took effect from 2 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax treaty agreement needs to be entitled to such tax treaty agreement treatment as being taxed at a tax rate specified in the tax treaty agreement for the dividends paid to it by a Chinese resident company: a) such a fiscal resident who obtains dividends should be a company as provided in the tax treaty agreement; b) the equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reached a percentage specified in the tax treaty agreement.

In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) (the “**Administrative Measures**”) which came into force on 1 October 2009, where a non-resident enterprise (as defined under PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy

REGULATORY OVERVIEW

the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without the approval, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties.

PRODUCT QUALITY

The principal legal provisions governing product liability are set out in the Product Quality Law of PRC (中華人民共和國產品品質法) (the “**Product Quality Law**”), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within PRC. The producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

According to the Product Quality Law, consumers or other victims who suffer personal injury or property losses due to product defects may claim compensation from the producers as well as the sellers. Where the responsibility for product defects lies with the producer, the seller may, after settling the compensation, recover such compensation from the producer, and vice versa.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend operation and its business license may be revoked. Criminal liability may be incurred in serious cases.

CONSUMER PROTECTION

The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law of PRC (中華人民共和國消費者權益保護法) (the “**Consumer Protection Law**”), which was promulgated on 31 October 1993 and took effect from 1 January 1994.

According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

ANTI-MONOPOLY LAW

Pursuant to the Anti-Monopoly Law of PRC (中華人民共和國反壟斷法) (the “**Anti-Monopoly Law**”), which was promulgated on 30 August 2007 and became effective from 1 August 2008, “dominant market position” refer to a position where an operator may manipulate the price, volume and other trade conditions of commodity in relevant market, or may obstruct or otherwise effect the entrance of other operators into relevant markets. Operators who hold a dominant market position shall be prohibited from engaging in such practices which may be classified as an abuse of dominant position including the following: a) selling products at unfairly high or buying products at unfairly low prices; b) selling products at a price lower than cost without legitimate grounds; c) refusing to trade with the other trading party without legitimate grounds; d) forcing

REGULATORY OVERVIEW

the other trading party to trade only with said operator or other operators specified by the said operator without legitimate grounds; e) conducting tie-in sales or adding other unreasonable conditions to a deal without legitimate grounds; f) discriminating trading parties of the same qualifications with regards to trade price, etc. without legitimate grounds; or g) engaging in other practices recognised by the anti-monopoly law enforcement authorities as abuse of dominant market position. Where an operator violates the provisions of the Anti-Monopoly Law by abusing dominant market position, the anti-monopoly law enforcement authorities shall order cessation of the offending behaviour, confiscate the illegal earnings, and impose a fine of 1-10% of the previous year’s sales revenue.

COMPETITION LAW

Competitions among the business operators are generally governed by the Law of PRC for Anti-Unfair Competition (中華人民共和國反不正當競爭法) (the “**Anti-Unfair Competition Law**”). According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with the result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order, shall constitute unfair competition. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it or he may institute proceedings in a people’s court. Where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, it or he shall bear the responsibility for compensating damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement by virtue of the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

PRICE LAW

Pursuant to the Price Law of PRC (中華人民共和國價格法) (the “**Price Law**”), which was promulgated on 29 December 1997 and took effect from 1 May 1998, the operators shall, in determining prices, abide by the principle of fairness, be in conformity with law, honesty and credibility. Production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

The operators shall, in selling, procuring commodities and providing services, display clearly the marked price in accordance with the provisions of the competent departments of price of the government. The operators shall not sell commodities with additional price other than the marked price and shall not collect any fee not indicated. Furthermore, the operators shall not commit such unfair price acts such as manipulating market price to the detriment of the lawful rights and interests of other operators or consumers. Any operator who commits any of the unfair price acts prescribed in the Price Law shall be ordered to make a rectification, confiscation of the illegal gains and may be concurrently imposed a fine of not less than five times of the illegal gains. Where the circumstances are serious, an order shall be issued for the suspension of business operations, or the business license revoked by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay additional price in an illegal price acts should refund the portion overpaid. Where damage has been caused, liability for compensation shall be borne according to law. And any operator who

REGULATORY OVERVIEW

violates the provision relating to clearly marked prices shall be ordered to make a rectification, confiscation of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

INTELLECTUAL PROPERTY RIGHTS

Copyright

According to the Copyright Law of PRC (中華人民共和國著作權法) (the “**Copyright Law**”), which was amended in 2010 and took effect from 1 April 2010, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, offer an apology, pay damages, etc.

Trademark

Pursuant to the Trademark Law of PRC (中華人民共和國商標法) (the “**Trademark Law**”), which was revised on 27 October 2001 and took effect from 1 December 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counting from the date the registration is approved. And it can be extended upon obtaining the extension approved by related authorities. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. Where a dispute arises after a party commits any of the acts infringing upon another party’s exclusive right to use a registered trademark as enumerated in the Trademark Law, the parties involved shall settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with the People’s Court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

Patent

Pursuant to the Patent Law of PRC (中華人民共和國專利法) (the “**Patent Law**”), which was revised on 27 December 2008 and took effect from 1 October 2009, the term “invention” used in it refers to any new technical solution relating to a product, a process or improvement thereof, and the term “utility model” used therein refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use, while the term “design” used therein refers to any new design of the shape, pattern or their combination and the combination of colour and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or

REGULATORY OVERVIEW

use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

The duration of patent right for inventions shall be twenty years and the duration of patent right for utility models and designs shall be ten years, both commencing from the date of application. Furthermore, where a dispute arises as a result of the exploitation of a patent without the authorisation of the patentee, that is, the infringement of the patent right of the patentee, it shall be settled through consultation by the parties. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings with the People’s Court, or request the administrative authority for patent affairs to handle the matter.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (中國互聯網域名管理辦法), which was promulgated on 5 November 2004 and became effective from 20 December 2004, “domain name” refers to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. The principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. The holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write off the domain name and notify the holder of the domain name in writing.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), which was promulgated and took effect from 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor and be responsible for the treatment of the pollution.

The purposes of the Environmental Protection Law are to protect and enhance the living environment, prevent and cure contamination and other public hazards, and safeguard human health. The Ministry of Environmental Protection of PRC (中華人民共和國環境保護部) implements the uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at

REGULATORY OVERVIEW

county level and above are responsible for the environmental protection in their jurisdictions. Government authorities shall impose different penalties on persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

According to the Regulations on The Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), which were promulgated on and took effect from 29 November 1998, PRC practices a system that evaluates the environmental impact of a construction project. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that necessitates no feasibility study pursuant to relevant state provisions, the construction unit should, prior to the start of the construction of the construction project, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. Besides, the construction unit should, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

Pursuant to the Law of PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), which was revised on 29 December 2004 and took effect from 1 April 2005, an entity discharging dangerous wastes shall, pursuant to state provisions, work out a plan for managing dangerous wastes, and declare the types, production quantity, flow direction, storage, treatment and other relevant materials to the environmental protection departments of the local people's governments at or above the county level. The plan for managing dangerous wastes shall be reported to the environmental protection department of the local people's government at or above the county level for archival filing. Furthermore, the entities discharging, collecting, storing, transporting, using or treating dangerous wastes shall work out measures for keeping away and prepare contingency plans against accidents, report them to the environmental protection administrative department of the local people's government at or above the county level for archival filing; and the environmental protection administrative department shall carry out the inspection on it. An entity that discharges dangerous wastes shall dispose of dangerous wastes according to relevant provisions of the State, and shall not dump or pile up such wastes without approval.

Whoever transfer dangerous wastes shall, according to relevant State regulations, fill in duplicate forms for transferring dangerous wastes and apply to the environmental protection administrative departments of the local people's governments at or above the level of city divided into districts where the dangerous waste is to be moved out, which can approve the transfer of the said dangerous wastes after consulting and obtaining permission from the environmental protection administrative departments of the local people's governments at or above the level of city divided into districts where the dangerous waste is to be moved in. No transfer may be conducted until such transfer is approved. Where it is necessary to transfer dangerous wastes by way of

REGULATORY OVERVIEW

administrative areas other than the areas where the dangerous waste is to be moved out or in, the environmental protection administrative departments of the local people’s governments at or above the level of city divided into districts where the dangerous waste is to be moved out shall timely notify the environmental protection administrative departments of the local people’s governments at or above the level of city divided into districts where the dangerous waste is to pass through.

LABOUR CONTRACTS

Pursuant to PRC Labour Contract Law (中華人民共和國勞動合同法), which was adopted by the Standing Committee of the National People’s Congress on 29 June 2007 and took effect from 1 January 2008, to establish a labour relationship, a written labour contract should be concluded. In the event that no written labour contract is concluded at the time when a labour relationship is established, such a written contract should be concluded within one month from the date when the employer employs the employee. Where the employer fails to conclude a written labour contract with the employee for more than one month but less than a year from the date it starts employing him, it shall pay the employee two times his salary for each month. In addition, if the employer fails to conclude a written labour contract with the employee within one year as of the date when it employs the employee, it shall be deemed to have concluded an open-ended contract with the employee.

SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

According to the Provisional Regulations on Collection and Payment of Social Insurance Premium(社會保險費徵繳暫行條例), which was promulgated on and took effect from 22 January 1999, enterprises including foreign invested enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance (collectively referred to as “social insurance”) for their employees. The enterprises shall, within 30 days from the date of their establishment, apply for social insurance registration at the local social insurance agencies which may be the taxation departments or the social insurance agencies established by the administrative department of labour security according to the provisions of the State Council, based on the enterprises’ business license, registration certificate or other such relevant certificates. After verification, the social insurance agencies shall issued them a social insurance registration certificate. Furthermore, these enterprises shall, on a monthly basis, report to the social insurance agency the amount of the social insurance premiums payable and, after assessment by the social insurance agency, pay their social insurance premiums fully and timely within the prescribed time period.

Pursuant to the Regulations on Work-Related Injury Insurances (工傷保險條例), which was promulgated on 27 April 2003 and took effect from 1 January 2004, all types of enterprises including foreign-invested enterprises and sole traders that hire workers (hereafter refer to “Employer(s)”) shall purchase work-related injury insurance and pay work-related injury insurance premiums for all of the staff and workers or hired workers in their work unit (hereafter refer to “Employee(s)”) in accordance with the provisions hereof. Employers shall pay work-related injury insurance premiums on time while Employees shall not pay work-related injury insurance premiums themselves. The amount of work-related injury insurance premium payable by an Employer shall be the product of the total payroll of the Employees of the work unit and the payable premium rate. As to the rate of the payable premium, the State shall determine premium rate differentials between industries according to the degree of risks of work-related injuries in different industries, and shall determine several tiers of premium rates within each industry according to circumstances such as the use of work-related injury insurance premiums and the

REGULATORY OVERVIEW

frequency of occurrence of work-related injuries. The Agency for a region under comprehensive arrangement (統籌地區) shall determine the work unit payable premium rate for an Employer on the basis of such circumstances such as use of work-related injury insurance premiums and frequency of occurrence of work-related injuries of the Employer, and the corresponding premium rate tier applicable to the industry to which the Employer belongs.

According to the Social Insurance Law of PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and will take effect from 1 July 2011, employees shall participate in basic pension insurance and basic medical insurance schemes. Basic pension and medical insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the Social Insurance Law of PRC, if an employer fails to pay work-related injury insurance contributions in accordance with law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with The Social Insurance Law of PRC.

Furthermore, as to the unemployment insurance, employers shall provide unemployed individuals with certification of the expiry or termination of their employment relations in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing their former employers' certification of the expiry or termination of employment relations. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall make registration with the local social insurance agency in accordance with the provisions of the Social Insurance Law of PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant bank(s) and other financial institution(s) in which the employer has an account; and may apply with the relevant administrative department above the county level for an administrative order to allocate and transfer the unpaid social insurance contributions and notify the relevant bank or other financial institution in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fail to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the

REGULATORY OVERVIEW

property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

The Provisional Measures on Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法), which were promulgated on 14 December 1994 and took effect from 1 January 1995, applies to enterprises in cities and towns and their employees. According to the Measures, while employees shall not pay maternity insurance premium themselves, the enterprises shall pay a certain percentage of their payroll to social insurance agencies for the establishment of the maternity insurance fund. The local people's government shall decide the percentage of the payroll in light of the number of births within the plan, the maternity allowance to pay and other costs such as the medical fees related thereto. The percentage of the payroll may be adjusted timely by the government according to the expenditure actually occur, the maximum of which shall not exceed one percent of the payroll. The enterprises shall pay the maternity insurance premiums on schedule. Where the enterprises fail to pay the premiums within the prescribed time limit, 0.2% of the overdue amount shall be demanded and collected daily as the overdue penalty. Such overdue penalty shall be included into the maternity insurance fund. In addition, where the enterprises delay or reject the payment of the maternity allowance, or the medical fees related to, the labour administrative department shall order the payment by the enterprises within a stipulated period. Where harm is caused to the employees due to the non-payment, the enterprises should bear the liability for compensation.

The Regulations on Management of Housing Provident Fund (住房公積金管理條例), revised on and took effect from 24 March 2004, are applicable to enterprises with foreign investment. Enterprises are required to pay housing provident fund for their employees. Enterprises shall register with the relevant housing provident fund management center within 30 days from the date of establishment, and open housing provident fund accounts with designated bank on behalf of their employees within 20 days from the date of the registration with the verified documents of the housing provident fund management center. When employing new employees, enterprises shall register with the housing provident fund management center within 30 days from the date of the employment of such employees, and open housing provident fund accounts for such employees at the designated bank with the verified documents of the housing provident fund management center. Furthermore, the housing provident fund to be paid and deposited by an employee shall be withheld from his/her salary by the enterprise, and the enterprise itself shall pay and deposit housing provident fund on schedule and in full, and may not cause any delay in the payment and deposit or underpay the housing provident fund. The payment and deposit rate for housing provident fund (either for the employee or for the enterprise) shall not be less than 5% of the average monthly salary of the employee concerned in the previous year.

PRODUCTION SAFETY

Pursuant to the Production Safety Law of PRC (中華人民共和國安全生產法), which was promulgated on 29 June 2002 and took effect from 1 November 2002, in respect of special equipment that affects the safety of life or is dangerous, the containers of hazardous substances, or transportation tools that any production and business operation entity uses must, according to the relevant provisions of the State, be manufactured by specialised production entities, and may only be put into use after it has passed the detections and tests of those detecting and testing institutions that have been equipped with the professional qualifications for which a certificate for safe use or a mark of safety has been obtained. In addition, the production, business operation, transportation, storage, and use of any dangerous substances or the disposal of or abandonment of

REGULATORY OVERVIEW

dangerous substances shall be subject to the examination and approval as well as the supervision and administration of the relevant administrative departments according to the provisions of the relevant laws and regulations, national standards, or industrial standards.

Pursuant to the Regulations on Safety Supervision of Special Equipment (特種設備安全監察條例), promulgated on 11 March 2003 and took effect from 1 June 2003 (amended on 14 January 2009 and with effect from 1 May 2009), “special equipment” used in the regulations refers to boilers, pressure vehicles (including gas cylinders, same below), pressure pipelines, elevators, lifting alliances, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by the Regulations, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position of the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices (referred to as the “operators of special equipment”) shall not engage in corresponding operation or management until they have passed the examination organised by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment with a nationally unified formula.

Pursuant to the Regulations on Safety Administration of Dangerous Chemicals (危險化學品安全管理條例), which was promulgated on 26 January 2002 and took effect from 15 March 2002, “dangerous chemicals” used in the regulations refer to explosive, pressure gas, liquefied gas, inflammable liquid, inflammable solid, spontaneous combustible articles, combustible materials. The State carries out the system of registration of dangerous chemicals. Enterprises engaging in manufacturing or storage dangerous chemicals and units using hyper-toxic chemicals and other dangerous chemicals that constitute serious hazard sources in quantity shall register dangerous chemicals with competent department. Furthermore, a unit that manufactures, stores, or makes use of hyper-toxic chemicals shall conduct safety evaluation of its own manufacturing or storage installations once a year. A unit that manufactures, stores, or makes use of other dangerous chemicals shall conduct the safety evaluation of its own manufacturing or storage installations once every two years. The safety evaluation report shall be submitted to the administrative department in charge of the overall work for the supervision and administration of safety of dangerous chemicals of the people’s government at the municipality level (with districts) for record.

Pursuant to the Measures for the Prevention and Control of Environment Pollution by Discarded Dangerous Chemicals (廢棄危險化學品污染環境防治辦法), which was promulgated on 30 August 2005 and took effect from 1 October 2005, the importers, sellers and users of dangerous chemicals shall be responsible for entrusting any entity that has the corresponding class of business and business scale and holds the permit for operation of dangerous wastes to recycle, utilise and dispose of discarded dangerous chemicals. Any entity that brings about discarded dangerous chemicals shall report information such as the kinds of discarded dangerous chemicals, their names, components or composition, character, volume of production, flow direction, storage, utilisation, disposal, and safety data sheet for chemicals to the local environmental protection department at or above the county level at its locality. In case there is any material change in the aforesaid matters, the enterprise shall file an alteration report in a timely manner.

HISTORY AND REORGANISATION

OUR COMPANY

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 January 2011 in anticipation of the [●]. Our Group is principally engaged in the design and provision of a broad range of children care products, including skin care products, body and hair care products, oral care products and diaper products under our own brands in China. Leveraging on the sales network established by our 青蛙王子 (Frog Prince) brand, we also distribute our other products, such as household hygiene products under 雙飛劍 (Shuangfeijian) brand and 深呼吸 (Shenhuxi) brand. For further details of our products, please refer to the section headed “Business — Our Brands and Products” of this document.

OUR ORIGIN

Our 青蛙王子 (Frog Prince) brand is a leading domestic brand of children care products in China with the largest market shares in terms of retail sales value in moisturising lotion products, bath and shampoo products and oral care products among all domestic brands in China in 2010. For further details, please refer to the section headed “Business — Overview” of this document. Our history can be traced back to 1995 when Fujian Shuangfei was registered under Xindi residents’ committee (新堤居民委員會) as a collective enterprise in PRC with an initial registered capital of RMB68,000 invested by Mr. Li, Mr. Xie and Mr. Chen Yaohua, Mr. Xie’s brother-in-law. At the time of the establishment of Fujian Shuangfei, Mr. Li, Mr. Xie and Mr. Chen Yaohua contributed 50.0%, 25.0% and 25.0% of the registered capital of Fujian Shuangfei, respectively. Fujian Shuangfei was engaged in the production and sales of adult care products when it was established in 1995. As part of the Reorganisation, Fujian Shuangfei transferred its baby care business, children care business, adult care business and OEM business to Prince Frog (China). For further details, please refer to the paragraphs headed “History and Reorganisation — Reorganisation and Financial Investments” in this section of this document.

In 1999, Fujian Shuangfei began to develop children care products with a view to capture the increasing market demand for children care products in the PRC. Our 青蛙王子 (Frog Prince) brand was registered as a trademark by Fujian Shuangfei in the PRC in 2000. Our children care products are distributed via a network of distributors, through which the products are distributed to their sub-distributors and/or ultimate retailers. We increased the number of our distributors steadily throughout the years since 1995, starting from about five in 1995 to 173 as at the Latest Practicable Date.

Leveraging on our market position and the sales network established by our 青蛙王子 (Frog Prince) brand, we also started to distribute other products by launching our insecticide products under 雙飛劍 (Shuangfeijian) brand in 2005, air freshener products under our 深呼吸 (Shenhuxi) brand in 2006, oral care products series under our adult care products categories under our 青蛙王子 (Frog Prince) brand in 2006, and diaper products series under our 青蛙王子 (Frog Prince) brand in 2009. We also started to conduct OEM business from 2004 for our overseas sales.

We implemented a series of marketing and promotional campaigns for our children care products. In order to capture the market for products based on popular cartoon series in the PRC, in 2005, Fujian Shuangfei created an animation series based on the 青蛙王子 (Frog Prince) character of our brand. The first season of the animation series was televised on about 50 major domestic television channels, including the CCTV Children Channel, from 2006 to 2008. Leveraging on the success of the first season of this animation, we produced and later broadcasted our second season in 2010. Our Directors believe the strategy to produce our own animation series to promote our brand recognition differentiates us from our competitors, and has contributed to our success of

HISTORY AND REORGANISATION

being the top domestic brand of children care products in terms of brand awareness and consumer preference in China.

Set out below are the major milestones of our Group’s business since the establishment of Fujian Shuangfei:

1995	Fujian Shuangfei was established as a collective enterprise in China by Mr. Li, Mr. Xie and Mr. Chen Yaohua.
1999	Fujian Shuangfei launched our 青蛙王子 (Frog Prince) brand of children care products in China.
2003	Fujian Shuangfei started to construct our own production lines with a gross floor area of approximately 14,000 square meters and completed the construction in 2004.
2004	Fujian Shuangfei started its overseas sales to expand to overseas market and started to produce OEM products for its overseas customers.
2005	Fujian Shuangfei created and produced an animation series based on a cartoon character named 青蛙王子 (Frog Prince). The first season of the 青蛙王子 (Frog Prince) animation series was televised on about 50 major domestic television channels, including the CCTV Children Channel, from 2006 to 2008.
	Fujian Shuangfei launched 雙飛劍 (Shuangfeijian) brand of insecticide products.
2006	Fujian Shuangfei launched our 深呼吸 (Shenhuxi) brand of air freshener products.
2009	Prince Frog (China) started to construct new production lines and office premises (three phases in total) with a gross floor area of approximately 144,000 square meters. The first phase of the new production lines with a gross floor area of 55,854 square meters was completed in March 2011 and put into operation in May 2011.
	Fujian Shuangfei was recognised as one of the provincial enterprise technology centres in Fujian (省級企業技術中心).
	Our Group underwent the Reorganisation and Prince Frog (China) became our operating subsidiary afterwards.
	We launched our 青蛙王子 (Frog Prince) brand of diaper products.
2010	The second season of the 青蛙王子 (Frog Prince) animation series was televised on CCTV Children Channel and Jiangsu Satellite TV Animation Channel in China and was awarded a prize for being one of the outstanding domestic animation in 2010 by the State Administration of Radio, Film and Television.
	CCBIAM, Joyful and Paramount invested in our Group as investors.

SHAREHOLDING HISTORY

(1) Shareholding history of Fujian Shuangfei

Fujian Shuangfei was registered under Xindi residents’ committee (新堤居民委員會) on 19 January 1995 as a collective enterprise in PRC with an initial registered capital of RMB68,000 invested as to 50.0% by Mr. Li, 25.0% by Mr. Xie and 25.0% by Mr. Chen Yaohua. According to the capital verification report issued by Zhangzhou Xiangcheng Auditing Firm (漳州鄉城審計事務所) (“**Xiangcheng Auditing Firm**”) on 8 December 1994, the registered capital of RMB68,000 of Fujian Shuangfei was fully paid by Mr. Li, Mr. Xie and Mr. Chen Yaohua as of 8 December 1994.

Pursuant to a capital investment agreement (集資協議書) dated 11 June 1995 entered into among Mr. Li, Mr. Xie, Mr. Chen Yaohua and Xindi residents’ committee (新堤居民委員會), the registered capital of Fujian Shuangfei was increased from RMB68,000 to RMB386,000 on

HISTORY AND REORGANISATION

16 August 1995. After such increase, Fujian Shuangfei was held 50.0% by Mr. Li, 25.9% by Mr. Xie and 24.1% by Mr. Chen Yaohua. According to the capital verification report issued by Xiangcheng Auditing Firm on 6 July 1995, the increase in the registered capital of Fujian Shuangfei was fully paid by Mr. Li, Mr. Xie and Mr. Chen Yaohua as of 6 July 1995.

Pursuant to an agreement entered into by Mr. Xie and Mr. Chen Yaohua on 12 February 2001, Mr. Chen Yaohua agreed to transfer his equity interests in Fujian Shuangfei to Mr. Xie at a consideration of RMB93,000. The consideration was determined with reference to the then appraised value of Fujian Shuangfei and was paid by Mr. Xie to Mr. Chen Yaohua in February 2001. As confirmed by Mr. Xie and Mr. Chen Yaohua, the aforesaid transfer was requested by Mr. Chen Yaohua to enable him to obtain funding for his investment in other business and Mr. Chen Yaohua agreed to transfer his equity interests in Fujian Shuangfei at a consideration determined with reference to the then appraised value of Fujian Shuangfei. According to the assets appraisal report issued by Zhangzhou Dexin Assets Appraisal Company Limited (漳州德信資產評估報告有限公司) dated 7 March 2001, the net assets of Fujian Shuangfei as at 31 December 2000 were RMB386,349. After the completion of such transfer, Fujian Shuangfei was owned as to 50% by Mr. Li and 50% by Mr. Xie.

With a view to conduct business through a limited liability company, pursuant to a shareholders’ resolution passed on 2 February 2001, Fujian Shuangfei was converted into a limited liability company and its registered capital was increased from RMB386,000 to RMB1.0 million on 18 May 2001 as evidenced by a business license issued by Administration for Industry & Commerce of Zhangzhou (漳州市工商行政管理局). According to the capital verification report issued by Zhangzhou Dexin Certified Public Accountant Firm (漳州德信有限責任會計師事務所) (“**Zhangzhou Dexin CPA**”) on 10 May 2001, the increase in the registered capital of Fujian Shuangfei was fully paid by Mr. Li and Mr. Xie as of 8 May 2001.

On 31 July 2003, the registered capital of Fujian Shuangfei was further increased from RMB1.0 million to RMB5.0 million. According to the capital verification report issued by Zhangzhou Dexin CPA on 28 July 2003, the increase in the registered capital of Fujian Shuangfei was fully paid by Mr. Li and Mr. Xie as of 28 July 2003 in proportion to their respective equity interests in Fujian Shuangfei.

On 6 September 2006, the registered capital of Fujian Shuangfei was further increased from RMB5.0 million to RMB20.0 million. According to the capital verification report issued by Zhangzhou Dexin CPA on 28 August 2006, the increase in the registered capital of Fujian Shuangfei was fully paid by Mr. Li and Mr. Xie as of 28 August 2006 in proportion to their respective equity interests in Fujian Shuangfei.

Pursuant to a share transfer agreement dated 27 May 2009 entered into by Mr. Li and Mr. Xie, Mr. Xie agreed to transfer 1% equity interest in Fujian Shuangfei to Mr. Li at a consideration of RMB200,000. The consideration was determined with reference to the then registered capital of Fujian Shuangfei. After the completion of such transfer on 22 June 2009 and as at the Latest Practicable Date, Mr. Li and Mr. Xie owned 51% and 49% of the equity interests in Fujian Shuangfei, respectively. During the Track Record Period, Mr. Li and Mr. Xie were acting in concert with each other in exercising the voting rights in respect of the equity interests in Fujian Shuangfei owned by each of them. As confirmed by Mr. Li and Mr. Xie, following the [●], they will not act in concert with each other in exercising the voting rights of the Shares.

HISTORY AND REORGANISATION

(2) Shareholding history of our subsidiaries

(a) *Prince Frog (HK)*

Prince Frog (HK) is a limited liability company incorporated under the laws of Hong Kong on 5 July 2002 and had been owned as to 51% by Mr. Li and as to 49% by Mr. Xie from its incorporation until 25 May 2010 (the “**Relevant Period**”). At the time of its incorporation and during the Relevant Period, the issued share capital of Prince Frog (HK) was HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each, of which 5,100 shares were held by Mr. Li and 4,900 shares were held by Mr. Xie. During the Relevant Period, Mr. Li and Mr. Xie were acting in concert with each other in exercising the voting rights in respect of the shares of Prince Frog (HK) held by each of them. As confirmed by Mr. Li and Mr. Xie, following the [●], they will not act in concert with each other in exercising the voting rights of the Shares. As part of the Reorganisation, on 25 May 2010, pursuant to a share transfer agreement entered into by Mr. Li, Mr. Xie and Prince Frog International on 12 April 2010, Mr. Li and Mr. Xie transferred 5,100 shares and 4,900 shares, respectively, representing all of the issued shares of Prince Frog (HK), to Prince Frog International. After such transfer, Prince Frog (HK) became a wholly-owned subsidiary of Prince Frog International.

On 6 January 2011, pursuant to a share transfer agreement entered into by Prince Frog International and Prince Frog Investment, Prince Frog International agreed to transfer its equity interests in Prince Frog (HK) to Prince Frog Investment. After such transfer and as at the Latest Practicable Date, Prince Frog (HK) became a wholly-owned subsidiary of Prince Frog Investment.

The principal activity of Prince Frog (HK) since its incorporation was investment holding to hold 100% equity interests in Prince Frog (China) and it did not conduct other investment activities since its incorporation.

(b) *Prince Frog (China)*

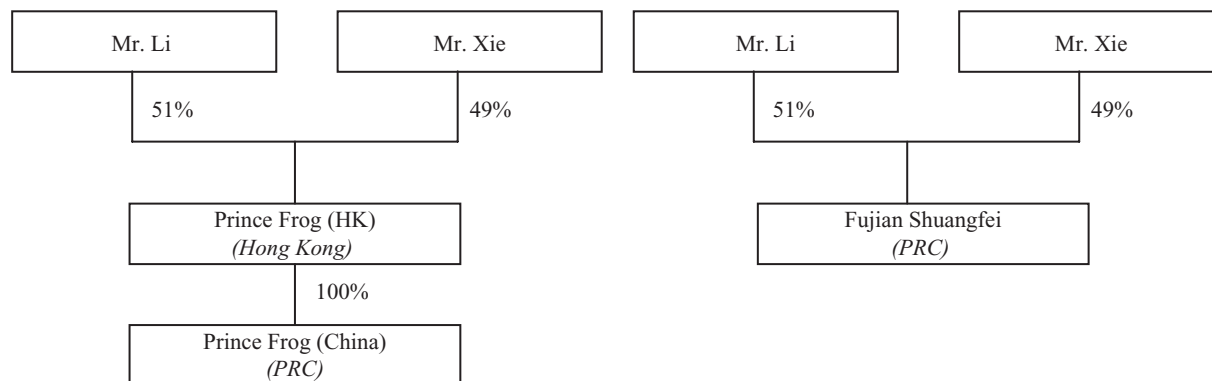
Prince Frog (China) was established on 28 February 2005 as a WFOE with an initial registered capital of US\$65,000 by Prince Frog (HK). The establishment of Prince Frog (China) was approved by the Bureau of Foreign Trade and Economic Cooperation of Longwen District, Zhangzhou City (漳州市龍文區對外貿易經濟合作局) on 21 January 2005.

On 23 June 2008, the Management Committee of the Lantian Economic Development Zone, Zhangzhou City, Fujian Province (福建省漳州藍田經濟開發區管理委員會) approved an increase in the registered capital of Prince Frog (China) from US\$65,000 to US\$10 million and an increase in the total investment amount of Prince Frog (China) from US\$65,000 to US\$25.0 million. According to the capital verification report issued by Xiamen Chenglianxing Certified Public Accountants Co., Ltd. (廈門誠聯興會計師事務所有限公司) (“**Xiamen Chenglianxing CPA**”) on 11 August 2009, the first installment of US\$2.0 million of the registered capital of Prince Frog (China) was paid as of 4 August 2009 by Prince Frog (HK). According to the capital verification report issued by Xiamen Chenglianxing CPA on 30 August 2010, the increase in the registered capital of Prince Frog (China) was fully paid up to US\$10.0 million by Prince Frog (HK) as of 26 August 2010. Prince Frog (China) was unable to obtain the land use rights for the construction of its production facilities as expected until 2009 due to a change of urban planning by relevant local government, therefore it did not carry on any business after its establishment until the construction of its own production facilities in 2009 and entering into the relevant arrangement under the Business Restructuring Agreements (as defined below) with Fujian Shuangfei, which is part of the Reorganisation. For further details, please refer to “Reorganisation and Financial Investments — Reorganisation” in this section of the document.

HISTORY AND REORGANISATION

(3) Group structure before the Reorganisation

Set out below is the shareholding structure of our Group immediately prior to the Reorganisation:



REORGANISATION AND FINANCIAL INVESTMENTS

Reorganisation

The companies comprising our Group underwent a Reorganisation. As a result, our Company became the holding company of our Group. The Reorganisation involved the following steps:

(1) Onshore restructuring

In order to use the 青蛙王子 (Frog Prince) brand in lieu with the company name of Prince Frog (China), further expand the children care product business through Prince Frog (China) and obtain additional financial resources from overseas investors, Prince Frog (China) and Fujian Shuangfei entered into a series of agreements (together, the “**Business Restructuring Agreements**”), pursuant to which the business operated by Fujian Shuangfei (the “**Transferred Operations**”) would be assumed by Prince Frog (China) starting from 1 January 2010 save as the business retained by Fujian Shuangfei as described below. Our Directors have confirmed that since then, Fujian Shuangfei has ceased to carry on all the Transferred Operations. Fujian Shuangfei’s principal remaining activities are the leasing of the relevant properties, equipments and vehicles under the lease arrangement between Fujian Shuangfei and Prince Frog (China), the holding of certain intangible assets which are under the process of being transferred to Prince Frog (China) and used by our Group and the production of sunscreen, air freshener and insecticide products under the process outsourcing arrangements between Fujian Shuangfei and Prince Frog (China). Since Fujian Shuangfei has ceased and will not carry on any Transferred Operations, it is not included as one of the companies now comprising our Group.

The assets retained by Fujian Shuangfei mainly include property, plant and machinery with a book value of RMB14,364,000 and cash and cash equivalents of RMB108,392,000 as at 1 January 2010. As at 1 January 2010, the book value of the plant and machinery retained by Fujian Shuangfei was approximately RMB3,413,000. For further information, please refer to Appendix I “Accountants’ Report” to this document. As confirmed by our Directors, the unaudited net profit of Fujian Shuangfei for the year ended 31 December 2010 was approximately RMB4.33 million.

HISTORY AND REORGANISATION

We entered into the Business Restructuring Agreements, rather than acquiring the 100% equity interests of Fujian Shuangfei, for the following reasons:

(i) *Limited site area of Fujian Shuangfei’s premises*

The land with a site area of approximately 14,700 square metres currently occupied by Fujian Shuangfei would not be able to support our future expansion need.

Our Directors believe that the limited site area would not allow our Group to put in place more advanced production lines and would interfere with our Group’s move towards optimising management and production efficiencies. The inability of our Group to optimise management and production could affect the production cost and competitiveness of our Group’s products. Therefore, in 2009 when we planned for the expansion of our production capacities for our core products, such as children care products and baby care products, we decided to construct our new production facilities located in Longwen Industrial Development Zone, Zhangzhou, Fujian, with a site area of approximately 64,700 square metres which will allow us to introduce more advanced production lines to satisfy our expansion need for those products.

For our other products, such as household hygiene products, sunscreen products and air freshener products, we also consider that the limited site area of the land of Fujian Shuangfei will not satisfy the expansion need in tandem with our expected growth of those products in the future. As a result, it is the current intention of our Directors to identify new land located near our new production facilities to build an independent standalone production facility to produce household hygiene products (including the air freshener products, the production of which uses the same production facilities as for the insecticide products) and our OEM products in the future.

(ii) *Inefficiency due to separate site locations*

The location of the current production facilities of Fujian Shuangfei is separated from our new plant. We believe that maintaining two separate production premises will affect the efficiency of our production, management, logistics arrangement and allocation of human resources. As a result of the separate locations, we may need to maintain separate warehouses and increase logistical support cost, and impede the sharing of management and production resources. All of the above factors could ultimately lead to inefficiency in our overall operation and utilisation of financial resources.

(iii) *Obsolete production lines of Fujian Shuangfei*

The production lines currently installed in Fujian Shuangfei were becoming obsolete and would not be able to satisfy our need to improve our production efficiency. We have purchased and installed more advanced production lines in the first phase of our new plant and will continue to install new production lines into our new plant in line with its construction progress. For the reasons stated in (i) and (ii) above, we do not believe it to be commercially acceptable to direct our financial resources to replace the production lines in Fujian Shuangfei. As our business expands and our quality requirements continue to increase, Fujian Shuangfei’s current production facilities will not be able to conform to our requirements and our outsourcing relationship with Fujian Shuangfei is expected to cease by 31 December 2012.

Having considered the reasons above, we decided not to acquire the current production lines and facilities from Fujian Shuangfei and did not request for an option to purchase the land or the production facilities currently held by Fujian Shuangfei.

HISTORY AND REORGANISATION

Our Directors have also confirmed that, save for the above commercial reasons, the decision to carry out the Reorganisation and to enter into the Business Restructuring Agreements, instead of the acquisition of the equity interest in Fujian Shuangfei, was not due to any legal impediment and was not for the purpose of circumventing any laws and regulations or any potential disputes or liabilities. As at the Latest Practicable Date, there were no legal or arbitration proceedings, pending or threatened, against Fujian Shuangfei that could have a material adverse effect on its financial condition or results of operation. As advised by the Company’s PRC legal advisers, Jingtian & Gongcheng, and concurred by the [●]’ PRC legal advisers, Commerce & Finance Law Offices, (i) there is no legal impediment for the Reorganisation of our Group under PRC laws, and (ii) as at the Latest Practicable Date, Fujian Shuangfei was not subject to any outstanding tax disputes. For details relating to the legality of our Reorganisation, please refer to paragraphs headed “History and Reorganisation — PRC Legal Compliance” in this section of this document.

Details of the Business Restructuring Agreements are set out below:

(i) *Transfer of intellectual property rights from Fujian Shuangfei to Prince Frog (China)*

Pursuant to the patent application transfer agreement, the patent transfer agreements, the domain name transfer agreement dated 31 December 2009 and entered into by Prince Frog (China) and Fujian Shuangfei and the Trademark Transfer Agreements, Fujian Shuangfei agreed to transfer 73 trademarks (among which 68 are registered in PRC and five are registered outside PRC), 36 trademark applications (among which 35 were made in PRC and one was made outside PRC), 16 patents, one patent application and 12 domain names owned or applied for by Fujian Shuangfei to Prince Frog (China) at nil consideration (except the “深呼吸” trademarks which were transferred at a consideration of RMB160,000 and the “BODY & EARTH” and “GREEN CANYON SPA” trademarks which were transferred at a consideration of US\$500,000 (equivalent to approximately RMB3,428,000), all of which were determined with reference to the acquisition cost of these trademarks by Fujian Shuangfei at relevant time and were fully settled by Prince Frog (China) to Fujian Shuangfei by the end of 2010). Among those 73 trademarks and 36 trademark applications under transfer, 82 are related to our 青蛙王子 (Frog Prince) brand. Before the completion of such transfer from Fujian Shuangfei to Prince Frog (China), Prince Frog (China) has the right to use these trademarks free of charge.

The trademarks “BODY & EARTH” and “GREEN CANYON SPA” were originally acquired by Fujian Shuangfei from an Independent Third Party in the U.S. and were brands of adult care products. With a view to focus on the children care products production and taking into consideration that such brands were only used in the U.S. for adult care products which will not be part of our Group’s business, the “BODY & EARTH” and “GREEN CANYON SPA” trademarks were transferred back to Fujian Shuangfei from Prince Frog (China) at the same consideration in December 2010. The considerations for such “BODY & EARTH” and “GREEN CANYON SPA” trademarks had been paid by Fujian Shuangfei to Prince Frog (China) before the [●].

As at the Latest Practicable Date, the transfers of six trademarks (excluding the two “BODY & EARTH” and “GREEN CANYON SPA” trademarks which were transferred back to Fujian Shuangfei), 16 patents, one patent application and 12 domain names, being all the patents, patent application and domain names transferred by Fujian Shuangfei to Prince Frog (China), were completed. All those six transferred trademarks are related to our 青蛙王子 (Frog Prince) brand. As at the Latest Practicable Date, out of the 35 PRC trademark applications, one trademark application has been rejected, two trademark applications are pending and 32 trademark applications have been accepted and registered as trademarks of Fujian Shuangfei. The rejected

HISTORY AND REORGANISATION

trademark application was applied under 有機護理 (Greencare), and was rejected by relevant PRC authority based on the reasons that “Greencare” was already registered by an individual before Fujian Shuangfei applied and “有機護理” indicates the function of products on which the trademark is to be used, which does not comply with the relevant requirements under PRC laws and regulations. Our Directors have confirmed that as it is our first attempt at applying for the mark as a trademark, and as we have not previously used it on our products, the rejection of this particular trademark application will not have any impact on our business and financial position.

As advised by our PRC legal advisers, Jingtian & Gongcheng, the transfer of registered trademarks is subject to the approval by the Trademark Office of The State Administration For Industry & Commerce of PRC (中華人民共和國國家工商行政管理總局商標局). When a transfer is approved, an announcement will be made accordingly and the transferee will be entitled to the trademark proprietary right starting from the date of announcement. However, neither the Trademark Law of PRC (中華人民共和國商標法) nor its implementation rules prescribe a definite time limit for the Trademark Office to examine the applications and to grant approvals thereafter. Nevertheless, our Directors estimate that all the transfers of trademarks from Fujian Shuangfei to Prince Frog (China) will be completed within one year from our [●] based on their experience. Our PRC legal advisers, Jingtian & Gongcheng, have further advised us that there is no legal impediment for the transfers of the remaining 94 trademarks (including the trademarks newly registered according to the trademark applications transferred by Fujian Shuangfei to Prince Frog (China)) and two trademark applications under PRC laws. Our Controlling Shareholders, Mr. Xie and Jinlin Investment undertake that if Fujian Shuangfei fails to transfer these trademarks and trademark applications to Prince Frog (China), our Controlling Shareholders, Mr. Xie and Jinlin Investment will procure Fujian Shuangfei to grant Prince Frog (China) an exclusive and perpetual license to use these trademarks without any fee or charge. Furthermore, our Directors have confirmed that our Group neither has encountered nor expects to encounter any difficulty in respect of the three pending trademark applications.

(ii) *Arrangement for the copyright of Fujian Shuangfei*

Fujian Shuangfei created and produced an animation series based on the 青蛙王子 (Frog Prince) character of our brand. As at the Latest Practicable Date, there are two seasons of the animation series. The first season of the animation series was televised on about 50 major domestic television channels, including CCTV Children Channel, from 2006 to 2008. Our Directors believe that our success in brand-building is attributable to such animation series.

As part of the Reorganisation, pursuant to the development and cooperation agreement for the animation of 青蛙王子 (Frog Prince) dated 1 January 2010 and entered into by Prince Frog (China) and Fujian Shuangfei (the “**Cooperation Agreement**”), Fujian Shuangfei agreed to grant Prince Frog (China) exclusive rights to use the existing 青蛙王子 (Frog Prince) animation series. Prince Frog (China) will be responsible for the fees and expenses for the future development of the 青蛙王子 (Frog Prince) animation. Before such development and cooperation, Prince Frog (China) will pay fees pursuant to the fee budget for the production, issue and broadcasting of the 青蛙王子 (Frog Prince) animation. As confirmed by our Directors, no fee was required to be paid by Prince Frog (China) to Fujian Shuangfei before such development and cooperation. Fujian Shuangfei also agreed to cooperate with Prince Frog (China) for the future development of animation series and Prince Frog (China) will be responsible for the fees and expenses incurred for such development.

Pursuant to the Copyrights Assignment Agreement, Fujian Shuangfei agreed to assign all the copyrights and other rights relating to such copyrights of the 青蛙王子 (Frog Prince) animation series to Prince Frog (China) at a consideration of RMB7,120,000, which was determined with

HISTORY AND REORGANISATION

reference to the production cost and other cost and expenses incurred by Fujian Shuangfei for the existing 青蛙王子 (Frog Prince) animation series, and the Cooperation Agreement was terminated accordingly.

(iii) *Lease of buildings, production facilities and vehicles*

(a) *Lease of buildings located at No. 8, North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou, Fujian from Fujian Shuangfei*

As part of the Reorganisation, pursuant to a building lease agreement dated 1 January 2010 and a supplemental agreement dated 26 January 2011, both entered into by Fujian Shuangfei and Prince Frog (China) (together, the “**Fujian Shuangfei Lease Agreement**”), Prince Frog (China) agreed to lease certain office premises and factory buildings from Fujian Shuangfei for the production of baby and children care products and OEM products. The Fujian Shuangfei Lease Agreement is for a term of three years from 1 January 2010 to 31 December 2012.

(b) *Lease of buildings located at No. 8, North Huancheng, Longwen Industrial Development Zone, Zhangzhou, Fujian from Mingxin and Fujian Shuangfei*

Pursuant to a tripartite agreement dated 31 December 2009, 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, an agreement between Fujian Shuangfei and Prince Frog (China) dated 1 January 2010 (collectively, the “**Mingxin Lease Agreement**”), all the rights and obligations under the lease agreement dated 24 November 2004 entered into between Mingxin and Fujian Shuangfei (the “**Original Lease Agreement**”) will be assigned to Prince Frog (China) by Fujian Shuangfei. Pursuant to the Original Lease Agreement, Mingxin agreed to lease to Fujian Shuangfei its land (including office premises and warehouse) with a total area of approximately 12,255 square meters. For details of the above lease of buildings, production facilities and vehicles, please refer to the section headed “Connected Transactions” of this document. Since Prince Frog (China) has constructed the first phase of its new production facilities and such production facilities could satisfy the projected needs of our production once all the construction is completed, our Directors do not expect to renew the Mingxin Lease Agreement. For further details of our production capacity, please refer to the paragraph headed “Business — Production — Production Premises and Production Capacity” of this document.

(c) *Lease of equipment and vehicles from Fujian Shuangfei*

Prince Frog (China) entered into an equipment and vehicles lease agreement with Fujian Shuangfei on 1 January 2010 (the “**Equipment and Vehicles Lease Agreement**”), pursuant to which Prince Frog (China) agreed to lease certain production facilities and vehicles from Fujian Shuangfei which were originally used by Fujian Shuangfei for business of baby care products, children care products and OEM products other than sunscreen, air freshener and insecticide products before the Reorganisation. The Equipment and Vehicles Lease Agreement will expire on 31 December 2012 and we do not expect to renew it after the expiry.

(iv) *Outsourcing of the production of our certain products to Fujian Shuangfei*

Pursuant to the Process Outsourcing Agreement, Fujian Shuangfei agreed to produce relevant products according to the purchase orders given by Prince Frog (China). The processing

HISTORY AND REORGANISATION

fee should be paid on a monthly basis and should be settled within the first 10 days of the next month.

As confirmed by our Directors, currently Prince Frog (China) outsources sunscreen, air freshener and insecticide products to Fujian Shuangfei. Prince Frog (China) needs to obtain necessary production licenses from the relevant PRC governmental authorities before it can produce sunscreen and insecticide products. As part of our application for the sunscreen products approval, Shanghai Municipal Centre for Disease Control and Prevention accepted our sunscreen product samples on 26 April 2011 and will issue a sample examination report on or before 15 July 2011. However, based on the experience of our Directors, it may take more than one year for this approved application to be processed, as the human trial or patch test for special cosmetics is time-consuming and the testing of the relevant products must be conducted by an entity approved by the health administrative department under the State Council before an appraisal group is organised for the safety of cosmetics for re-examination. Our Directors estimate that our Group may obtain this approval within one year after the [●]. In respect of our application for the Registration Certificate for Pesticide, we are currently in the process of applying for such certificate, and since the application materials shall be examined and signed with written comments respectively by multified authorities before the grant of Registration Certificates for Pesticides and Permit for Production of Pesticide, our Directors estimate that it will take more than one year to obtain this certificate after our [●], based on their experience and our Directors expect that we shall be able to obtain such certificate before 31 December 2012. For further details of the procedures for such applications, please refer to the section headed “Regulatory Overview — Manufacture and Sale of Cosmetics and Pesticides” of this document.

In addition, as the production facilities of insecticide products can also be used for the production of air freshener products, currently Prince Frog (China) also outsources air freshener production business to Fujian Shuangfei.

Fujian Shuangfei and Prince Frog (China) agreed that the process outsourcing arrangement shall be limited to the production of sunscreen, air freshener and insecticide products for a term of three years. Fujian Shuangfei also undertakes that it will only carry on such business for the purpose of supplying the products to our Group pursuant to the process outsourcing arrangement and shall not produce any such products for its own sales to any other third party.

Prince Frog (China) once also distributed other relevant products. For further details of the transactions and the details relating to the non-compliance by Prince Frog (China), please refer to the section headed “Business — Litigation and Compliance” of the document, respectively.

(v) *Transfer of inventories, trade receivables and trade payables*

Pursuant to the inventory transfer agreement dated 31 December 2009 and entered into between Prince Frog (China) and Fujian Shuangfei, the raw materials and packaging materials, semi-finished products and finished products of Fujian Shuangfei were transferred to Prince Frog (China). The total consideration of approximately RMB35,376,000 for the transfer of inventory was determined with reference to its book value plus corresponding value-added tax. As of 31 December 2010, the consideration for the transfer of such inventory had been settled by Prince Frog (China).

Pursuant to the receivables transfer agreement dated 31 December 2009 and entered into by Prince Frog (China) and Fujian Shuangfei, Fujian Shuangfei agreed to transfer the trade

HISTORY AND REORGANISATION

receivables as of 31 December 2009 to Prince Frog (China). The consideration of approximately RMB84,939,000 for the transfer of trade receivables was determined with reference to its book value as of 31 December 2009 and Prince Frog (China) had settled such consideration before 31 December 2010. Fujian Shuangfei was appointed by Prince Frog (China) as its agent to collect these trade receivables without any fee charge.

Pursuant to the payables transfer agreement dated 31 December 2009 and entered into by Fujian Shuangfei and Prince Frog (China), Fujian Shuangfei agreed to transfer the trade payables as of 31 December 2009 to Prince Frog (China). The consideration of approximately RMB31,608,000 for the transfer of trade payables was determined with reference to its book value as of 31 December 2009 and Fujian Shuangfei had settled such consideration before 31 December 2010. Fujian Shuangfei was appointed by Prince Frog (China) as its agent to pay these trade payables without any fee charge.

As of 31 December 2010, the settlement of the payables and receivables were completed.

(vi) *Entering into new labour contracts with employees of Fujian Shuangfei*

As part of the Reorganisation, Prince Frog (China), Fujian Shuangfei and the original employees of Fujian Shuangfei (except those engaged in the production of the products outsourced by Prince Frog (China) to Fujian Shuangfei under the process outsourcing arrangement between them) entered into the tripartite labour contracts, pursuant to which such employees with a total number of 571 were transferred from the employment with Fujian Shuangfei to the employment with Prince Frog (China) and all of these employees terminated their employment relationship with Fujian Shuangfei and became employees of Prince Frog (China) accordingly. Pursuant to an agreement dated 31 December 2009 entered into among Mr. Li, Mr. Xie, Prince Frog (China) and Fujian Shuangfei, the rights and obligations of Fujian Shuangfei under these employment agreements were transferred to Prince Frog (China). For any compensation payable to these employees as a result of the termination or rescission of their employment agreements, Prince Frog (China) will be responsible for the compensation for the employment period after 1 January 2010. In addition, pursuant to such agreement, Prince Frog (China) will make compensation for and on behalf of Fujian Shuangfei as should be paid by it for the employment period before 1 January 2010. Fujian Shuangfei shall repay to Prince Frog (China) within five days upon written notice from Prince Frog (China) for the payment made by Prince Frog (China) to such employees on behalf of Fujian Shuangfei. Mr. Li and Mr. Xie agreed to provide joint and several guarantee for the compensation that has to be paid by Fujian Shuangfei.

After the Reorganisation, Fujian Shuangfei ceased to be part of our Group and it has since been engaged in the production of the products outsourced by Prince Frog (China) under the Process Outsourcing Agreement. As advised by our PRC legal advisers, Jingtian & Gongcheng, Prince Frog (China) needs to obtain relevant approvals or licenses before it can start the production of insecticide products and sunscreen products. Therefore such business will not be transferred to Prince Frog (China) by Fujian Shuangfei before our Group obtains such approvals or licenses for the production of insecticide products and sunscreen products in Fujian Shuangfei's relevant premises. We do not need to obtain additional approvals or licences other than the expansion of the business scope of Prince Frog (China) for the production of air freshener products. As the production facilities of insecticide products can also be used for the production of our air freshener products, Prince Frog (China) currently also outsources such production to Fujian Shuangfei. We intend to expand the business scope of Prince Frog (China) to include the production and sale of air freshener products by 31 December 2012. To the best knowledge of our

HISTORY AND REORGANISATION

Directors, by experience, the applications for such approvals or licenses for the production of insecticide generally will take more than one year. Our Directors expect that our Group may be able to obtain the approval for our sunscreen products and expansion of its business scope accordingly by no later than 30 June 2012 and the Registration Certificate for Pesticide for our insecticide products and expansion of its business scope accordingly by no later than 31 December 2012. For further details, please refer to the section headed “Business — Litigation and Compliance” of this document. Our PRC legal advisers, Jingtian & Gongcheng, have also advised us that there is no legal impediment for our applications for such approvals or licenses upon the satisfaction of conditions and procedures required by relevant PRC laws and other requirements that may be raised by PRC government authorities.

(2) Incorporation of certain offshore companies and acquisition of shares of Prince Frog (HK)

Zhenfei Investment was incorporated in BVI with limited liability on 10 March 2010 with an authorised share capital of US\$5,000 divided into 50,000 shares with a par value of US\$0.1 each. On 18 March 2010, one share in Zhenfei Investment was allotted and issued, credited as fully paid, to Mr. Li.

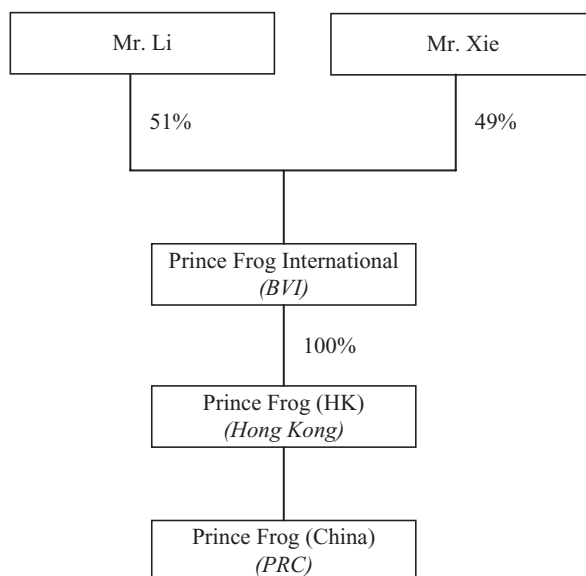
Jinlin Investment was incorporated in BVI with limited liability on 10 March 2010 with an authorised share capital of US\$5,000 divided into 50,000 shares with a par value of US\$0.1 each. On 18 March 2010, one share in Jinlin Investment was allotted and issued, credited as fully paid, to Mr. Xie.

Prince Frog International was incorporated in BVI with limited liability on 12 March 2010 with an authorised share capital of US\$5,000 divided into 50,000 shares with a par value of US\$0.1 each. On 18 March 2010, 51 shares and 49 shares in Prince Frog International were allotted and issued, credited as fully paid, to Zhenfei Investment and Jinlin Investment, respectively. On 13 August 2010, the authorised share capital of Prince Frog International was increased to US\$20,000 divided into 200,000 shares with a par value of US\$0.1 each.

Pursuant to a share transfer agreement dated 12 April 2010 entered into by Mr. Li, Mr. Xie and Prince Frog International, Mr. Li and Mr. Xie agreed to transfer 5,100 shares and 4,900 shares, respectively, representing all of the issued shares of Prince Frog (HK), to Prince Frog International. As the consideration for the acquisition of such shares, Prince Frog International agreed to issue 50,949 shares and 48,951 shares to Zhenfei Investment and Jinling Investment, respectively.

HISTORY AND REORGANISATION

Set out below is the shareholding structure of our Group following the transfer of shares of Prince Frog (HK) to Prince Frog International:



(3) Various Investments by CCBIAM, Joyful and Paramount

(a) Investments made by CCBIAM, Joyful and Paramount in 2010

To further finance our Group’s operations such as brand promotion and marketing activities, to improve corporate governance of our Group and finance the construction of our Group’s new production lines, CCBIAM, Joyful and Paramount invested in Prince Frog International in July 2010 as investors. Pursuant to the terms of the share purchase agreements all dated 29 July 2010 and all entered into by Prince Frog International, Prince Frog (HK), Prince Frog (China), Mr. Li, Mr. Xie, Zhenfei Investment and Jinlin Investment with each of CCBIAM, Joyful and Paramount (together, the “**Share Purchase Agreements**”), CCBIAM, Joyful and Paramount subscribed for 10,785 shares, 1,618 shares and 2,157 shares in Prince Frog International at a consideration of US\$10 million, US\$1.5 million and US\$2.0 million, respectively, and such considerations were fully paid in August 2010. The considerations were determined on an arm’s length basis with reference to the estimated financial performance of Prince Frog (China) for the financial year of 2009. After such subscription, CCBIAM, Joyful and Paramount held approximately 9.42%, 1.41% and 1.88% equity interests in Prince Frog International, respectively.

The substantial part of the proceeds from such investments were injected into Prince Frog (China) as its registered capital and were mainly used for the construction of the first phase of its production facilities.

(b) Background of CCBIAM, Joyful and Paramount

CCBIAM is a company incorporated in Hong Kong and is a wholly-owned subsidiary of CCB International (Holdings) Limited. The ultimate beneficial owner of CCBIAM is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939). CCBIAM has invested in a number of pre-IPO projects in PRC and Hong Kong as well as Hong Kong listed companies,

HISTORY AND REORGANISATION

covering such sectors as healthcare, energy and resources, infrastructure, consumer retail, media and real estate. To the best knowledge of our Directors, CCBIAM is an Independent Third Party.

Joyful was a limited liability company incorporated in BVI on 4 June 2009 under the laws of BVI and wholly owned by Mr. Jie Liao, an Independent Third Party. It principally engages in investment holding and specializes in growth venture and private equity investment. It follows a long term value driven investment philosophy and is actively seeking strategic investment opportunities in the greater China region with good growth potential and solid business sentiment.

Paramount was a limited liability company incorporated in BVI on 26 May 2010 under the laws of BVI and wholly owned by Mr. Wan Chi Keung, an Independent Third Party. It is a venture capital institutional investor and primarily focuses on long and medium term investment.

(c) Principal rights of the 2010 investments made by CCBIAM, Joyful and Paramount

Following the execution of the Share Purchase Agreements, Prince Frog International, Prince Frog (HK), Prince Frog (China), Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, CCBIAM, Joyful and Paramount entered into a shareholders’ agreement on 18 August 2010 (the “Shareholders’ Agreement”).

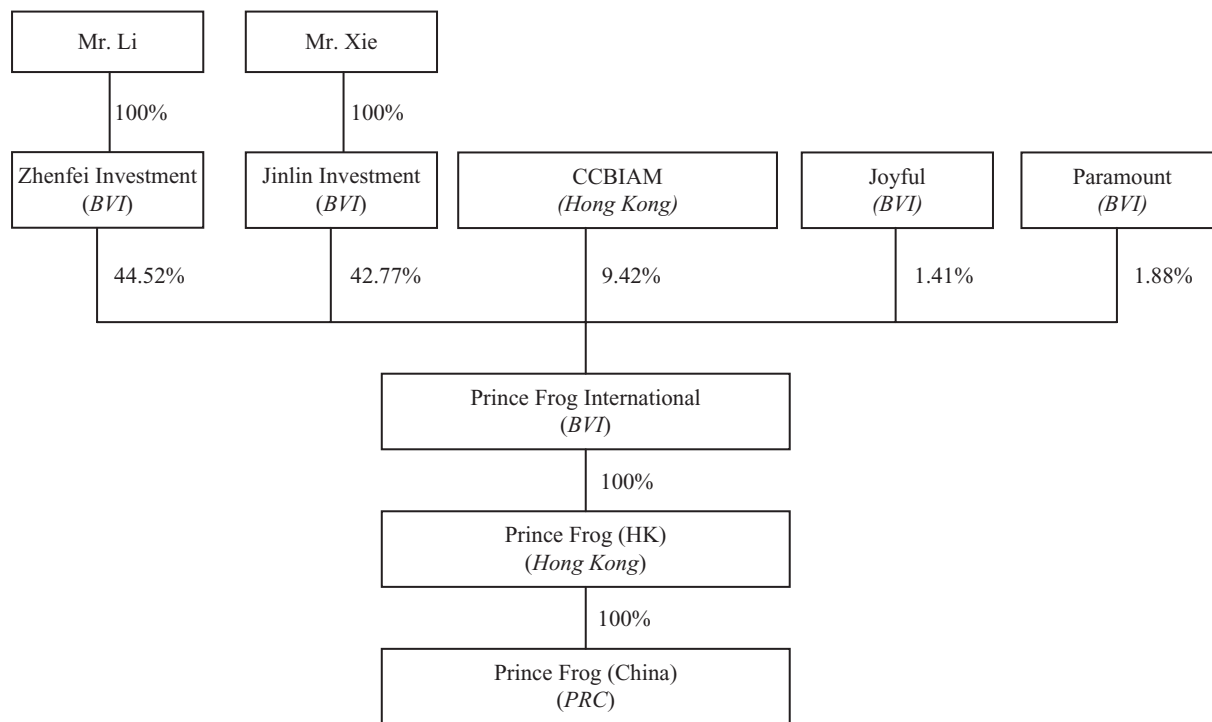
Pursuant to the Shareholders’ Agreement, CCBIAM, Joyful and Paramount enjoy rights which include board representation right (one Director to be appointed by CCBIAM), information right, right of first refusal, anti-dilution right, other minority protection rights and conditional right to dividend. All these special rights will lapse upon [●]. CCBIAM exercised the board representation right and appointed a representative to represent it on the Board. Such representative will be eligible for re-election at the next annual general meeting of the Company and his appointment is subject to Shareholders’ approval in accordance with the Articles of Association. In addition, pursuant to the Share Purchase Agreements, CCBIAM, Joyful and Paramount have the right to adjust the investment cost per share of Prince Frog International downward and Zhenfei Investment and Jinlin Investment shall transfer to CCBIAM, Joyful and Paramount shares of Prince Frog International on a pro-rata basis if our Group’s net profit for 2009 and 2010 are less than RMB90 million and RMB115 million, respectively.

As confirmed by our Directors, the above performance guarantees based on our Group’s net profit for 2009 and 2010 have been met, and therefore, no shares had been transferred by Zhenfei Investment and Jinlin Investment to CCBIAM, Joyful and Paramount in 2009 and 2010 pursuant to the Shareholders’ Agreement.

HISTORY AND REORGANISATION

(d) Group structure after investment by CCBIAM, Joyful and Paramount

Set out below is the shareholding structure of our Group immediately following the investment by CCBIAM, Joyful and Paramount:



(4) Incorporation of our Company and Prince Frog Investment

Prince Frog Investment was incorporated in BVI with limited liability on 3 December 2010 with an authorised share capital of US\$5,000 divided into 50,000 shares with a par value of US\$0.1 each. On the same day, 100 shares in Prince Frog Investment were allotted and issued, credited as fully paid, to Prince Frog International. As at the Latest Practicable Date, Prince Frog Investment is the direct wholly-owned subsidiary of our Company.

As part of the Reorganisation, on 6 January 2011, Prince Frog International and Prince Frog Investment entered into a share transfer agreement, pursuant to which Prince Frog International agreed to transfer its equity interests in Prince Frog (HK) to Prince Frog Investment. As the consideration of such transfer, Prince Frog Investment agreed to issue additional 100 shares to Prince Frog International.

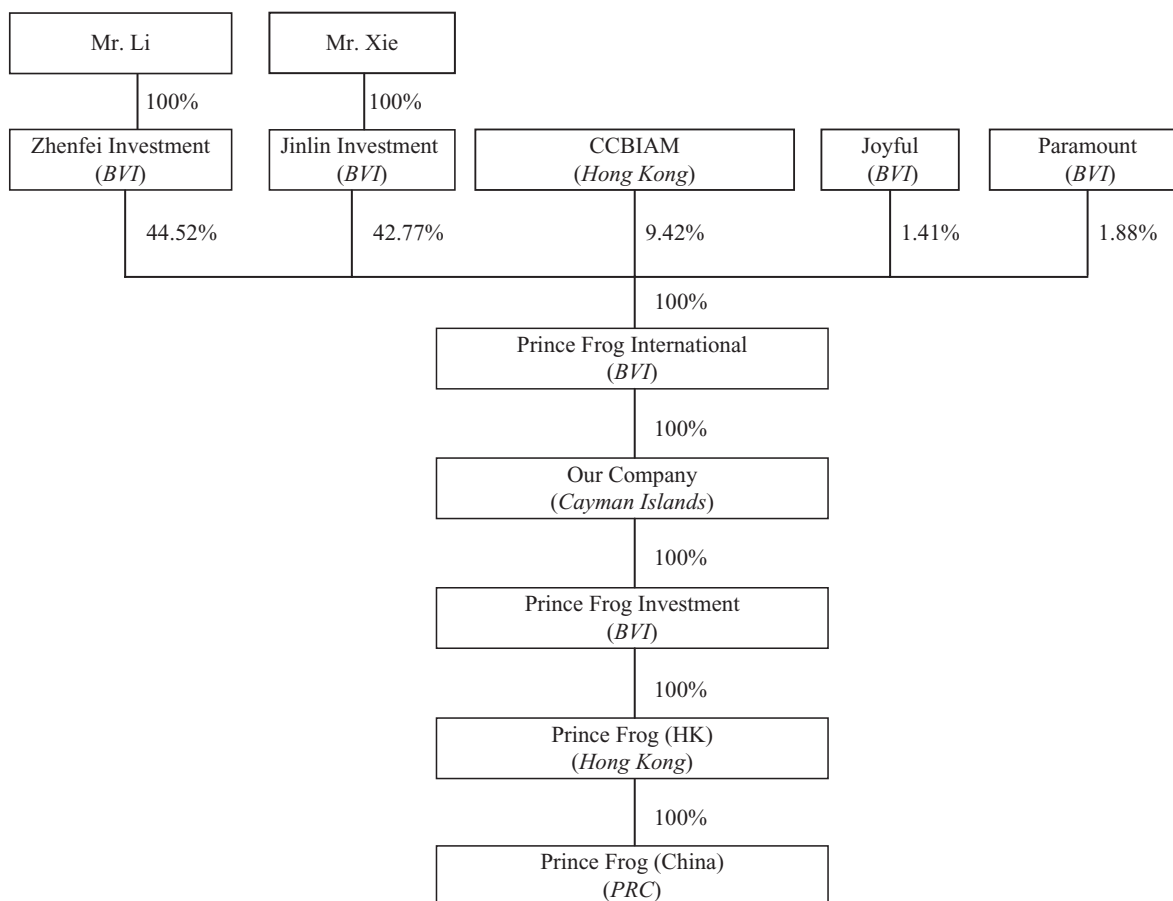
Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 January 2011 to act as the ultimate holding company of the subsidiaries in our Group. On 11 January 2011, one nil-paid Share was issued to Codan Trust Company (Cayman) Limited and such Share was transferred to Prince Frog International on the same day. On 11 January 2011, an additional 99 nil-paid Shares were issued to Prince Frog International. As of the date of incorporation of our Company, its authorised share capital was HK\$50,000 divided into 5,000,000 shares of HK\$0.01 par value each.

On 22 February 2011, pursuant to a share transfer agreement entered into between our Company and Prince Frog International, Prince Frog International agreed to transfer its entire

HISTORY AND REORGANISATION

equity interests in Prince Frog Investment to our Company. As the consideration of such transfer, our Company agreed to (i) allot and issue 445,100 shares, all credited as fully paid, to Prince Frog International and (ii) credit as fully paid at par the 100 nil-paid Shares held by Prince Frog International. After such transfer, Prince Frog Investment became a wholly-owned subsidiary of our Company.

Set out below is the shareholding structure of our Group immediately following the acquisition of Prince Frog Investment by our Company:



On 13 June 2011, pursuant to the share swap agreement entered into between our Company, Prince Frog International, Zhenfei Investment, Jinlin Investment, CCBIAM, Joyful and Paramount, each of Jinlin Investment, CCBIAM, Joyful and Paramount transferred all the shares held by them in Prince Frog International to Zhenfei Investment in consideration of Prince Frog International procuring our Company to issue and allot 427,700 Shares, 94,200 Shares, 14,100 Shares, and 18,800 Shares to each of Jinlin Investment, CCBIAM, Joyful and Paramount at nominal value of HK\$4,277, HK\$942, HK\$141 and HK\$188, respectively. Upon completion of the above share swaps, each of Jinlin Investment, CCBIAM, Joyful and Paramount ceased to have any interest in Prince Frog International and Prince Frog International became wholly-owned by Zhenfei Investment. At the same time, each of Jinlin Investment, CCBIAM, Joyful and Paramount became a direct shareholder of our Company.

In order to capitalise the fund raised by Prince Frog International from CCBIAM, Joyful and Paramount (the “**Investors Fund**”), which was utilised by Prince Frog (HK) by way of

HISTORY AND REORGANISATION

increasing the registered capital of Prince Frog (China) and was therefore due to Prince Frog International, on 20 June 2011, our Company entered into a share subscription agreement with Prince Frog International, Prince Frog Investment and Prince Frog (HK), pursuant to which (i) our Company (as the indirect holding company of Prince Frog (HK)) has agreed to issue and allot, credited as fully paid, one Share to Prince Frog International at a consideration of HK\$104,750,461.29 (equivalent to the amount of the fund raised by Prince Frog International from CCBIAM, Joyful and Paramount), (the “**Share Allotment Consideration**”); (ii) each of our Company, Prince Frog International, Prince Frog Investment and Prince Frog (HK) has agreed that the Investors Fund shall be set-off by the Share Allotment Consideration such that after the issue of the one Share to Prince Frog International, the liability of Prince Frog (HK) to pay the Investors Fund to Prince Frog International will be released and discharged in full; (iii) in consideration of the issue and allotment by our Company of the one Share to Prince Frog International at the Share Allotment Consideration which set-off the Investors Fund on behalf of Prince Frog (HK), Prince Frog (HK) agreed to issue and allot 100 shares to Prince Frog Investment at a consideration of HK\$104,750,461.29 which, at the direction of Prince Frog (HK), shall be settled by the issued allotment of 100 shares by Prince Frog Investment to our Company; and (iv) after the issue and allotment of shares by Prince Frog Investment as set out in (iii) above, each of our Company, Prince Frog Investment and Prince Frog (HK) has agreed that the liability of Prince Frog (HK) to pay HK\$104,750,461.29 to our Company will be released and discharged in full. Accordingly, one Share was issued to Prince Frog International by our Company and therefore, the liability of Prince Frog (HK) to settle the Investors Fund was released and discharged in full, and each of Prince Frog (HK) and Prince Frog Investment issued and allotted 100 shares of its respective share capital to Prince Frog Investment and our Company, respectively.

PRC LEGAL COMPLIANCE

The Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors

On 8 August 2006, six PRC governmental and regulatory authorities, including the MOFCOM and the [●], promulgated “關於外國投資者併購境內企業的規定” (the Provisions on the Acquisition of Domestic Enterprises by Foreign Investors) (the “**M&A Rules**”), which became effective on 8 September 2006 and was reissued by the MOFCOM in June 2009. The M&A Rules include provisions that stipulate that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the [●] prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange. The M&A Rules further provide the definition of “takeover of a domestic enterprise by a foreign investor”. According to Article 2 of the M&A Rules, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where a foreign investor purchases the equity interests of a domestic non-foreign-invested enterprise (a “**domestic enterprise**”) or subscribes to the increased capital of a domestic enterprise, and thus changes the domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign-invested enterprise, through which it purchases the assets of a domestic enterprise and operates its assets; or a foreign investor purchases the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets.

HISTORY AND REORGANISATION

Our PRC legal advisers, Jingtian & Gongcheng, have advised us that the M&A Rules are not applicable to our Reorganisation and the [●] does not require the approval of the [●] or any other PRC government authorities under the current PRC laws, regulations and rules for the following reasons:

- (i) Prince Frog (China) was established on 28 February 2005, which was before the promulgation and implementation of the M&A Rules. Therefore the acquisition of assets of Fujian Shuangfei in part or in whole by Prince Frog (China) does not constitute an “asset merger and acquisition” as defined in the M&A Rules and shall not be subject to the M&A Rules. Our Directors have also confirmed that the establishment of Prince Frog (China) was not for the purpose of acquiring the assets owned by domestic enterprises and subsequent operations of such assets; and
- (ii) In case that Prince Frog (China) intends to acquire the equity interests in Fujian Shuangfei, which was a pure domestic enterprise since its incorporation, the legal nature of such acquisition of equity interests will be an investment in a domestic enterprise made by a foreign-invested enterprise established before the implementation of the M&A Rules and therefore such acquisition of the equity interests in Fujian Shuangfei will be governed by the 關於外商投資企業境內投資的暫行規定 (the Tentative Provisions on Domestic Re-investment by Foreign-invested Enterprises) implemented on 1 September 2000 (the “Provisions”) instead of the M&A Rules. The Provisions are not part of the M&A Rules. Save for the procedures under the Provisions, Prince Frog (China) and Fujian Shuangfei shall also comply with other additional regulations, such as the regulations for tax registration due to the change of corporate information that needs to be filed with relevant tax authorities. However, the Provisions, as well as those additional regulations, are only procedural requirements and would not constitute any legal impediment for Prince Frog (China) to complete such acquisition.

In addition, Commerce & Finance Law Offices, concur with the view of our PRC legal advisers above.

On the basis of (i) and (ii) above, our Directors have confirmed that the decision to carry out the Reorganisation, instead of the acquisition of the equity interest or assets of Fujian Shuangfei, was not due to any legal impediment and was not for the purpose of circumventing of any laws and regulations, including the M&A Rules. Such decision was made based on the commercial reasons set out in the section headed “History and Reorganisation — Reorganisation — (1) Onshore restructuring” of this document.

Based on such legal advice from our PRC legal advisers, Jingtian & Gongcheng, our Directors are of the view that the Reorganisation complied with PRC laws. Furthermore, we have obtained a confirmation letter from Foreign Trade and Economic Cooperation Bureau of Zhangzhou City (漳州市對外貿易經濟合作局) on 28 March 2011 to confirm the legality of our Reorganisation in respect of PRC laws and regulations. Our PRC legal advisers, Jingtian & Gongcheng, have advised us that the Foreign Trade and Economic Cooperation Bureau of Zhangzhou City, being the supervisory commerce authority of Prince Frog (China), has the power to issue such confirmation.

SAFE Registration

On 21 October 2005, the SAFE issued the 關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (the Notice of SAFE on Issues Relating to Foreign Exchange

HISTORY AND REORGANISATION

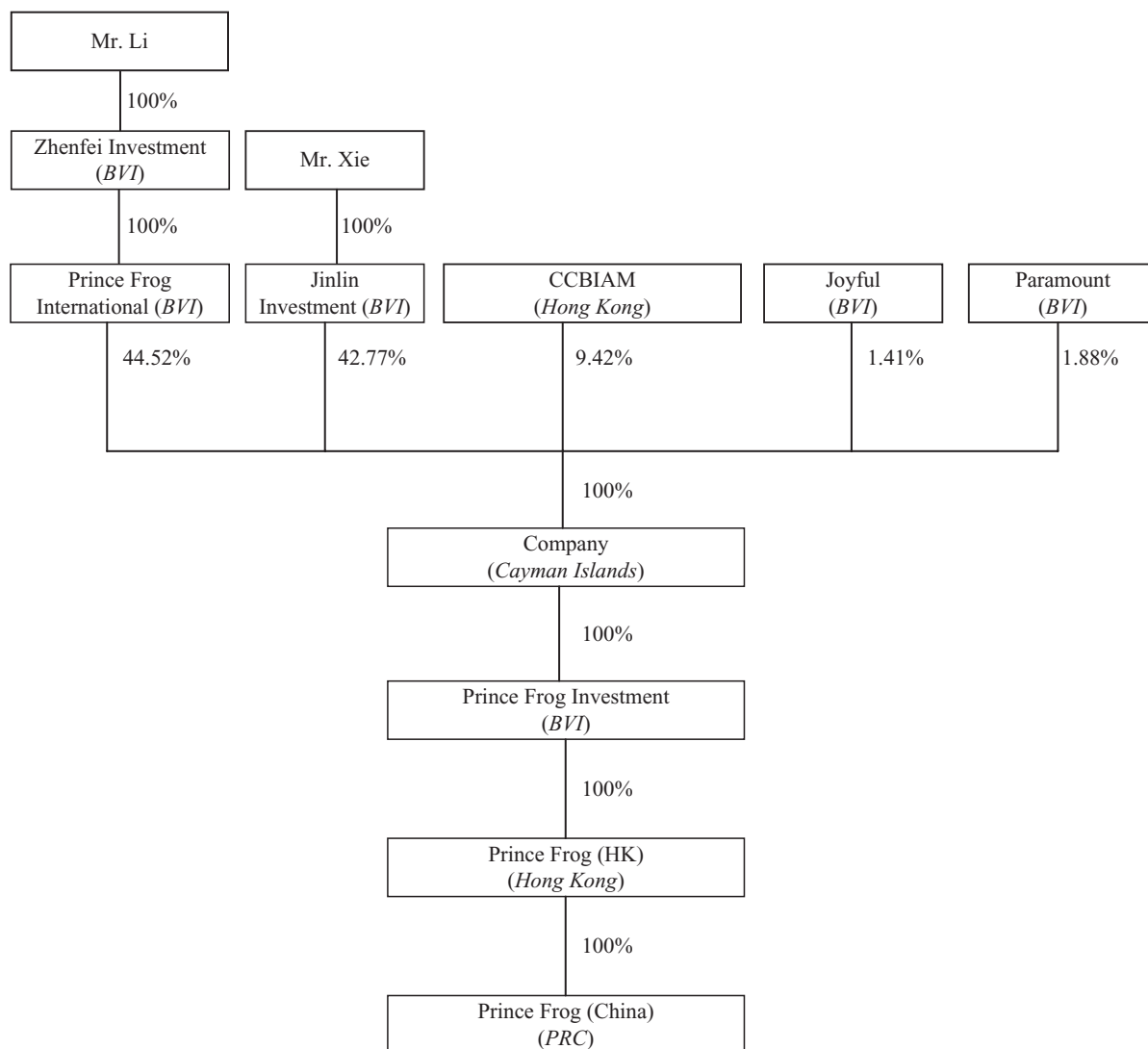
Control on Fund Raisings by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investment) (the “**SAFE Circular No. 75**”), which became effective on 1 November 2005. The SAFE Circular No. 75 requires PRC residents to register with the local SAFE branch before establishing or controlling any company, referred to in the SAFE Circular No. 75 as an “overseas special purpose vehicle”, outside of PRC for the purpose of capital financing with assets or interest in China, and to register again after completing an investment in or acquisition of any operating subsidiaries in PRC, which we refer to herein as a round-trip investment. Also, any material capital alteration, such as capital increase or decrease, merger or division, in such overseas special purpose vehicle involving no round-trip investment shall be registered or filed within 30 days starting from the date of shareholding transfer or capital alteration. Our PRC legal advisers, Jingtian & Gongcheng, have advised that, Mr. Li and Mr. Xie, who are PRC residents and two of the beneficial owners of our Company, have completed the SAFE registration on 12 May 2011 in respect of their investment in our Group before 12 May 2011 in accordance with PRC laws. Mr. Li and Mr. Xie undertake that they will complete relevant filing and/or registration pursuant to the SAFE Circular No. 75 for any alteration required by the relevant PRC laws.

HISTORY AND REORGANISATION

Our PRC legal advisers, Jingtian & Gongcheng, have also confirmed that we have obtained all approvals and permits, if required, under PRC laws and understandings of relevant PRC authorities in connection with each stage of the Reorganisation.

HISTORY AND REORGANISATION

Set out below is the shareholding structure of our Group immediately following the Reorganisation:



BUSINESS

OVERVIEW

Our 青蛙王子 (Frog Prince) brand is a leading domestic brand of children care products in China with the largest market shares in terms of retail sales value in moisturising lotion products, bath and shampoo products and oral care products, among all domestic brands in China in 2010¹.

We primarily design and provide a broad range of children care products under our own brand, including skin care products, body and hair care products, oral care products and diaper products, which are tailored for the mid-end market segment in China. In addition to children care products, we also provide baby care products, household hygiene products and adult care products under our own brand names and manufacture OEM products.

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

We believe the recognition for the quality of our products and the goodwill of our 青蛙王子 (Frog Prince) brand are also crucial to our success. We place great emphasis on the quality and safety of our products and implement stringent quality control measures throughout our whole production process. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)² to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products³; and (ii) Pony⁴ to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the relevant national standards in China⁵. Since our establishment in 1995, we had not announced any product recalls nor had we experienced any returns or exchanges of products or made any compensation payment due to reasons related to perceived side effects or existence of harmful chemicals or substances nor had we received any complaints about quality and safety problems which had caused a material adverse impact on our business or reputation.

Notes:

1. According to Euromonitor, our children moisturising lotion products, children bath and shampoo products and children oral care products under our 青蛙王子 (Frog Prince) brand had the market shares in those three market segments of approximately 23.1%, 10.0% and 14.6%, respectively, in 2010. Our 青蛙王子 (Frog Prince) brand has the second largest market shares in terms of retail sales value in the children moisturising lotions products, children bath and shampoo products and children oral care products among all international and domestic brands in 2010. The total retail sales value of our children moisturising lotion products, bath and shampoo products and oral care products accounted for approximately 15.5% of the total retail sales value of children care products market in China in 2010.
2. A testing laboratory accredited by Hong Kong Accreditation Service, the United Kingdom Accreditation Service and China National Accreditation Service for Conformity Assessment and an Independent Third Party.
3. As of 18 February 2011.
4. A testing organisation accredited by China National Accreditation Service for Conformity Assessment and an Independent Third Party.
5. As of 16 February 2011.

BUSINESS

With quality of our products as the foundation of our Group’s success, we have also successfully built our brand image and enhanced our brand recognition among our customers. We created and produced our own animation series based on the 青蛙王子 (Frog Prince) character of our brand. The first season of the animation series was broadcasted nationwide in China from 2006 to 2008. Leveraging on the success of the first season of this animation series, we produced and later broadcasted our second season in 2010. We believe the strategy to produce our own animation series to promote our brand recognition differentiates us from other competitors, and has contributed to our success of being the top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China⁶. As both the first and second seasons of the animation series were broadcasted on CCTV Children Channel and other top television channels such as Jiangsu Satellite TV Animation Channel, we believe we have effectively promoted our 青蛙王子 (Frog Prince) brand to a wide group of audience that has contributed to our increase in sales over the years.

Due to the rise in disposable income and the improvement in living standard, parents in China have become more conscious of the quality and safety of the products used by their children and thus more willing to purchase quality children care products that are safe and tailored to children’s specific need. According to Euromonitor, there is a surging demand for children care products and the market size for children care products increased from RMB3,325.4 million in 2006 to RMB5,336.6 million in 2010, representing a CAGR of 12.6%. By the end of 2013, the expected market size will reach RMB8,679.4 million, representing a CAGR of 17.6% from that of 2011. Leveraging on our brand recognition, product development capability and our established nationwide sales network, we are well positioned to capture the booming children care products market in China. For the three years ended 31 December 2008, 2009 and 2010, our children care products under our 青蛙王子 (Frog Prince) brand had achieved significant growth in sales from approximately RMB320.3 million in 2008 to RMB578.9 million in 2010, representing a CAGR of 34.4%.

In 2009, we expanded our product portfolio to provide baby diaper products under our 青蛙王子 (Frog Prince) brand in order to capture the significant market demand for baby diaper products in China. Since their launch in 2009, we have distributed our diaper products in 26 provinces, including Fujian, Henan, Hunan, Hubei, Jiangxi, Shandong, Sichuan and Yunnan, and will continue to leverage on our existing and future sales network to expand the distribution of our diaper products throughout China. Since the launch of our diaper products in 2009, our turnover from the sales of diaper products were RMB8.8 million and RMB20.2 million for the two years ended 31 December 2009 and 2010 respectively.

Our household hygiene products under the brand names of 雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi) are not our core business segment. However, as we have been able to effectively distribute such products via the sales network established by the 青蛙王子 (Frog Prince) brand, turnover from this household hygiene business segment has also shown significant growth without any material promotion or marketing efforts from us. We expect the turnover of household hygiene products to continue to increase in tandem with the expansion of the sales network of our Group. Our household hygiene products recorded a turnover of RMB84.3 million, RMB109.4 million and RMB180.0 million for the three years ended 31 December 2008, 2009 and 2010 respectively, representing a CAGR of 46.1%.

Note:

6. As of 31 December 2010 according to Frost & Sullivan.

BUSINESS

Other products produced by us during the Track Record Period include baby care products, adult care products and OEM products.

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

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

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

COMPETITIVE STRENGTHS

We believe our success and future prospects are attributable to a combination of our competitive strengths as set out below:

Top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China

Our 青蛙王子 (Frog Prince) brand is ranked as the top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China according to Frost & Sullivan. Our success in brand-building is attributable to the creation and production of our animation series based on the 青蛙王子 (Frog Prince) character of our brand. We believe that broadcasting these animation series is cost effective and has a positive and long-lasting effect to the audience through the positive character and message instilled in the animation series. The first season of the animation series was televised in over 50 major domestic television channels, including CCTV Children Channel and Jiangsu Satellite TV Animation Channel in China from 2006 to 2008. Leveraging on the success of the first season, we produced and later broadcasted the second season in CCTV Children Channel and Jiangsu Satellite TV Animation Channel in 2010. The second season of our animated series of 青蛙王子 (Frog Prince) production was awarded a prize for being one of the outstanding domestic animation series in 2010 by the State Administration of Radio, Film and Television. By using the animation series to promote our 青蛙王子 (Frog Prince) character, we believe we have effectively and quickly gained nationwide recognition of our brand and are able to further reinforce our brand image and recognition among our targeted consumers which in turn will facilitate the marketing and distribution of our existing and new products in the future.

BUSINESS

Leading market position to capture the fast-growing baby and children care products market in PRC

According to Euromonitor, our moisturising lotion products, bath and shampoo products and oral care products under our 青蛙王子 (Frog Prince) brand had the largest market shares, in terms of retail sales value in those three market segments among all domestic brands in China in 2010.

We operate in a fast-growing baby and children care products market. The number of children aged four to twelve was approximately 130.3 million in China in 2010. It is expected that the total market size of children care products will increase from RMB5,336.6 million in 2010 to RMB8,679.4 million in 2013. We believe that the large children population provides a huge potential market for our products.

In addition, continual rise in disposable income, improvement in living standard and the implementation of the “one-child” policy in China also lead to the increasing consciousness of the quality of children care products, as Chinese parents are more willing to give their only child the best for his/her comfort and to ensure their healthy growth. We believe all these fuel the demand for such products, and we, being a leading brand in the children care products market in China, will benefit from this booming market.

Nationwide and well-established sales network

The continual expansion of our sales network during the Track Record Period has accelerated the penetration of our brand and strengthened the sales of our products, in particular in the Second, Third and Fourth-tier Cities in China where we have established a strong market position and derived the major share of our total sales in recent years. We expect that the First-tier Cities will have an increasing contribution to our total sales in the future. The Second, Third and Fourth-tier Cities in China contain over 600 cities in total and contributed the most to the overall children care products market accounting for approximately 64.0% of the overall market size in 2010. Based on these figures, we believe that our strategy to focus the development of our sales network in the Second, Third and Fourth-tier Cities and gradually expand to the First-tier Cities aligns with the market trend and is one of our winning factors for our success during the Track Record Period. As at the Latest Practicable Date, we had 173 distributors, covering all provinces, autonomous regions and municipalities in China, through which we distribute our broad range of products to various types of retail stores, such as hypermarkets, supermarkets, mother and children products specialty stores and convenience stores.

We place great emphasis on the efficiency of our sales network. We implement management and assessment systems for our sales network to ensure we have efficient communication with our distributors and our distributors conform to our sales strategies and policies.

We believe that the strength and depth of our sales network coupled with the systematic management of our sales network allows us to enhance the efficiency of our sales network and facilitate our market penetration to different regions in China and the marketing of our existing and new products in the future.

Broad and diversified product offerings

We have a diversified product portfolio consisting of a wide range of product series, including skin care products, body and hair care products, oral care products and diaper products. We believe that our broad and diversified product offerings have contributed to the success of our

BUSINESS

business. During the Track Record Period, we have introduced 248 new products. With our wide product portfolio, we are able to satisfy the changing needs and trend of consumers and thereby reinforce the brand loyalty among our customers. An expanded product series will also reduce our reliance on a particular product series and hence minimise the impact of seasonality of a particular product series on our overall sales and also allow us to increase the products offered to our customers and improve our negotiation power with our customers.

Outstanding product quality

Chinese parents have become more conscious of the quality and safety of children care products, we therefore place great emphasis on the quality and safety of our products. We have a dedicated quality control team comprising 46 staff responsible for implementing our stringent quality control measures in selecting our raw and packaging materials and throughout our whole production process. We believe the ability to provide high quality product is essential to our long-term development in the children care products industry. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)¹ to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products; and (ii) Pony² to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the relevant national standards in China.

We believe our emphasis on product quality and safety has contributed to our success in gaining our customers’ confidence in our products and establishing our leading position in the children care products market in China.

Experienced and dedicated management team

We believe our key management team’s experience and knowledge in the Chinese children care products industry have enabled us to achieve rapid growth during the Track Record Period. Our chairman, chief executive officer and executive Director, Mr. Li, has over 16 years’ experience in Chinese personal care products industry and extensive knowledge in management, strategic planning, and business development. Mr. Li has also held major positions in a number of industry organisations. He is the president of Fujian Daily Chemicals Import and Export Association (福建省日用化學品進出口商會) and was the vice president of “Brand Alliances” of the 14th and 15th China Beauty Expo (Shanghai CBE) (第14、15屆中國美容博覽會(上海CBE)「品牌聯盟」副主席). Our executive Director and the vice general manager of our production department, Mr. Xie, has over 16 years’ experience in production, procurement and product logistics in the personal care products market in China. Our executive Director and the vice president of our domestic sales department, Mr. Ge Xiaohua, has over 10 years’ experience in sales and marketing in the daily chemical products market. We believe that our management team is able to adopt appropriate production, marketing and sales strategies to accommodate the changing market environment and possesses the vision required to anticipate changes in consumer tastes, market trend and develop new products to ensure our future growth.

Notes:

1. As of 18 February 2011.
2. As of 16 February 2011.

BUSINESS

STRATEGIES

With the aim of maintaining our leading position in the domestic children care products market in China, further developing our business and continuing our growth, we plan to pursue the following strategies:

Continue to strengthen and develop the image of our 青蛙王子 (Frog Prince) brand

Our marketing and promotion strategy has been a crucial component of our success. It has effectively enhanced our brand image and recognition, which in turn helps promote various products that carry the brand. Benefiting from the success of production and broadcast of our 青蛙王子 (Frog Prince) animation series, we will continue to adopt and further enhance this successful promotion strategy to further build upon the strong brand image and popularity of our 青蛙王子 (Frog Prince) brand. The second season of the 青蛙王子 (Frog Prince) animation series was televised on CCTV Children Channel and Jiangsu Satellite TV Animation Channel in 2010 and we expect it will be further broadcasted by another 31 satellite television channels across the country by the end of the third quarter of 2011. The series will be broadcasted on other television channels as and when it can be arranged. We intend to produce the third season of the animation to build on the success of the earlier series and expect to continue to create new series for as long as we believe that the marketing strategy is effective.

We also intend to strengthen the advertising of our products on television and other media, such as television commercials on children channel and books and magazines for children as well as their parents. We will also continue to strengthen our marketing efforts in conducting in-store marketing and promotional activities to increase the brand recognition and promote our corporate image.

In addition, we are in the process of setting up a dedicated brand promotion department and will recruit talent to enhance our ongoing brand promotion and marketing strategies for our 青蛙王子 (Frog Prince) brand in the future. The brand promotion department will be responsible for coordinating the production of new animation series, organising advertising campaigns, conducting other in-store marketing and promotional activities, and identifying ways to further leverage on our 青蛙王子 (Frog Prince) brand to create additional business opportunities for our Group.

Further enrich and expand our product offerings

As a result of the increasing need for quality products with more specific functions, the children care products in China, like those in other developed markets, are becoming more diversified in order to cater to the specific needs of various consumers. To strengthen the overall competitiveness of our products and meet this market trend, we will continue to expand our product offerings by introducing new product series and offering new products under existing product series. To achieve this, we are implementing the following product development plans:

青蛙王子 (Frog Prince) brand

- we will introduce an upscale product line (“**KA Product Line**”) with enhanced quality and packaging to target the consumer group of international and major domestic hypermarket chains in China, which will have 43 new products, including 16 skin care products, 21 body and hair care products, four oral care products and two gift sets comprising different products;

BUSINESS

- to further minimise the impact of seasonality of our products on our business, we will strengthen the promotion of our oral care products which we believe has more stable demand throughout the year. We will upgrade the current product portfolio of our oral care products by replacing some old products and introducing 36 new toothbrush products with enhanced quality and functions, among which 18 new products will be targeted at children. After launching those new products, we will have 62 products under our oral care product series, including 23 types of children toothbrush and eight types of children toothpaste;
- we will enhance the range of our baby care products and increase marketing of such products;
- we will further enrich our product offerings in diaper products series by introducing (i) baby nappy pants for different genders with enhanced functions, higher quality and premium pricing; (ii) baby diapers for price-conscious consumers; (iii) baby wipers; and (iv) adult diapers;

雙飛劍 (Shuangfeijian) brand

- we will further enhance the quality of our insecticide products and introduce products with different fragrance to satisfy the different requirements of our consumers;

深呼吸 (Shenhuxi) brand

- we will continuously review the product portfolio of our air freshener products and upgrade the packaging as and when necessary.

We believe the expansion of our product series will further increase our market share in the baby and children care products market and household hygiene products market in China.

Further penetrate into different regions in China and enhance our sales network

We believe that our leading market position in the Second, Third and Fourth-tier Cities in China is mainly attributable to our success in establishing an extensive sales network with distributors located throughout China. Leveraging on our proven sales network, we plan to further penetrate and gain more market share in different regions in China in line with our strategy to enrich and expand our product offerings.

We plan to enhance our penetration to the market in the First-tier Cities, such as Beijing and Shanghai, and the coastal areas, such as Guangdong, Jiangsu and Zhejiang and will also establish a new sales centre in Shanghai. To achieve this, we aim to strengthen the sale of our products in the international and major domestic hypermarket or supermarket chains, which we believe are the major sales channels in these regions. Therefore, we believe the introduction of our KA Product Line to these sales channels will enable us to capture the growing demand of the children care product and increase our market share in these regions. As at the Latest Practicable Date, we had introduced our products, including our KA Product Line, to more than 18 international and major domestic hypermarket or supermarket chains, located in Beijing, Shanghai, 10 other provinces and one autonomous region.

BUSINESS

During the Track Record Period, we have achieved significant growth in sales in southern China. In view of the economic development in this region, we believe there exists plenty of opportunities for further expansion of our business. In order to further increase our market share, we plan to leverage on our established market position in this region and knowledge in the local market to identify additional flagship products in our body and hair care product series. We will strengthen the promotion of such products in this region as we believe there is a greater market demand for such products in the sub-tropical area.

In addition to the specific market strategies to be adopted in different regions in China, we will further strengthen and optimise our existing sales network in the Second, Third and Fourth-tier Cities by improving the efficiency of our distributors. To achieve this, we will continue to enhance the management and reporting system of our distributors by (i) optimising our distributors and replacing those distributors who cannot align with our marketing and development strategies; (ii) providing financial and human resources assistance to our distributors to help them extend their sub-distribution networks and points of sales; and (iii) providing training on marketing skills and helping organise promotional and marketing activities for our distributors to increase sales. We believe that the expansion and improvement of our sales network in China will enable us to enhance our brand recognition nationwide and thus increase our sales and profits.

Continue to expand production capacity and improve production efficiency

We believe that expanding our annual production capacity is essential to meet our long-term development strategy. To satisfy the increasing demand for our products due to market growth and our business development, we have expanded our production capacity by constructing a new plant with a gross floor area of 55,854 square meters during its first phase. Construction of the first phase of the expansion plans has completed and we have obtained all necessary licenses and approvals for commencing the operation of the first phase of our new plant. We have commenced the operation of the first phase of our new plant in May 2011. We have also enhanced our production efficiency by installing more advanced equipments and 46 production lines for the production of skin care and body and hair care products in the new plant. We expect to commence construction of the second and third phase of the expansion plan by the third quarter of 2011 with operation expected to commence during the third quarter of 2013. We believe that the expansion of production area, the installation of additional more advanced equipments and the new production lines will allow us to increase our annual production capacity to approximately 80,000 metric tons for our skin care, body and hair care and oral care products and 1.5 billion pieces for our diaper and paper products by the end of 2013.

Continue to strengthen our product research and development capabilities

Our long-term success and growth will largely depend on our ability to improve our existing products and develop new products which meet consumers’ needs and the changing market trend. In order to further enhance our research and development capabilities, we plan to establish a new research and development centre in Shanghai with advanced testing equipments and recruiting new technical specialists to enhance research and development of baby and children care products. The operation of our new research and development centre is expected to commence in September 2011.

In addition, we will continue to increase our funding on our research and development activities and strengthen our cooperation with universities in China. We have signed a products development agreement with South China University of Technology (華南理工大學) on the

BUSINESS

improvement of preservative formula to enhance the safety of our products. Benefiting from the further improvement of our product design capabilities, we expect to be able to design and develop new products that are tailored to our consumers’ needs and lead market trends, which in turn will increase our sales and profits.

OUR BRANDS AND PRODUCTS

We focus on marketing and selling our baby and children care products under our 青蛙王子 (Frog Prince) brand. In addition, we provide household hygiene products under our 雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi) brands. We also provide OEM and other products.

青蛙王子 (Frog Prince)

Our 青蛙王子 (Frog Prince) brand was ranked as the top domestic brand of baby and children care products in terms of brand awareness and consumer preference in China according to Frost & Sullivan. During the Track Record Period, we offered children care products with diversified product series under our 青蛙王子 (Frog Prince) brand. Leveraging on our successful brand image of our 青蛙王子 (Frog Prince) brand, we launched our new baby diaper products and adult oral care products under the same brand. The following table sets out details of our product series under our 青蛙王子 (Frog Prince) brand:

Product categories	Product series	Number of products <i>(Note)</i>	Key products	Year of first launch	Sample product picture
Children care products	Skin care products	79	Moisturisers	1999	
			Sunscreens	2004	
			Lip balms	2002	
			Facial cleansers	2000	

BUSINESS

Product categories	Product series	Number of products <i>(Note)</i>	Key products	Year of first launch	Sample product picture
			Florida waters	2003	
			Baby powders	1999	
	Body and hair care products	33	Bath gels	1999	
			Shampoos	1999	
	Oral care products	37	Toothpastes	2001	
			Toothbrushes	2004	
	Diaper products	48	Diapers	2009	
			Nappy pants	2009	
Adult care products	Oral care products	66	Toothbrushes	2006	

Note: The number of our products offered under each product series as at the Latest Practicable Date.

BUSINESS

雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi)

We market and sell our household hygiene products under our 雙飛劍 (Shuangfeijian) and 深呼吸 (Shenhuxi) brands. The following table sets forth our household hygiene product series and key products under these brands:

Brand	Product categories	Product series	Number of products (Note)	Key products	Year of first launch	Sample product picture
雙飛劍 (Shuangfeijian)	Household hygiene products	Insecticide products	42	Mosquito-repellent incense products	2005	
				Insecticide products	2005	
深呼吸 (Shenhuxi)	Household hygiene products	Air freshener products	19	Solid air freshener products	2006	
				Aerosol based air freshener products	2006	

Note: The number of our products offered under each product series as at the Latest Practicable Date.

Others

Apart from marketing and selling our baby and children care products and household hygiene products under our own brands, we also engage in the manufacture of OEM products for our overseas customers. After receiving purchase orders from our overseas customers, we then manufacture the OEM products according to their specifications, which are later marketed and sold overseas under their own brands. Our OEM products primarily include adult skin care products and body care products. Currently, all our OEM products are sold overseas. Our revenue generated from the sales of our OEM products represented approximately 13.4%, 12.1% and 9.0% of our total revenue for the three years ended 31 December 2008, 2009 and 2010, respectively. In order to maintain our relationships with our OEM customers, we will continue our OEM business and will accept orders if it is in the interest of the Group.

Development of our products

We believe the success of our products is attributable to (i) our diversified product lines and product offerings that provide different functionalities; (ii) the introduction of products that

BUSINESS

contain natural ingredients that are mild, non-stimulus and that are suitable for children; and (iii) the diversified packaging of our products that suits the needs of end-consumers.

During the Track Record Period, we have developed 248 new products. With our wide product portfolio, we believe that we are able to satisfy the changing needs and trend of consumers and thereby enhance the brand loyalty among our customers. We have also introduced children bath and shampoo products and moisturising lotions that contain natural ingredients, such as olive oil, extracts from plants, coconut oil, aloe vera or vitamin E which we believe are the keys to attract the parents of our end-consumers who have become more health-conscious. Moreover, we have also improved the packaging of our products such as adopting a more standardised packaging to promote the image of our products under the same brand, improving the design of the packaging of our products so that they are more user-friendly and using more modern packaging materials. We have also introduced family sets and gift sets to suit the different needs of our end-consumers.

The following table sets forth the breakdown of our revenue by each brand, their product categories and respective product series for the three years ended 31 December 2008, 2009 and 2010 respectively:

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

Note: Others refer to our OEM products and our adult oral care products and skin care products under other brands of our Group.

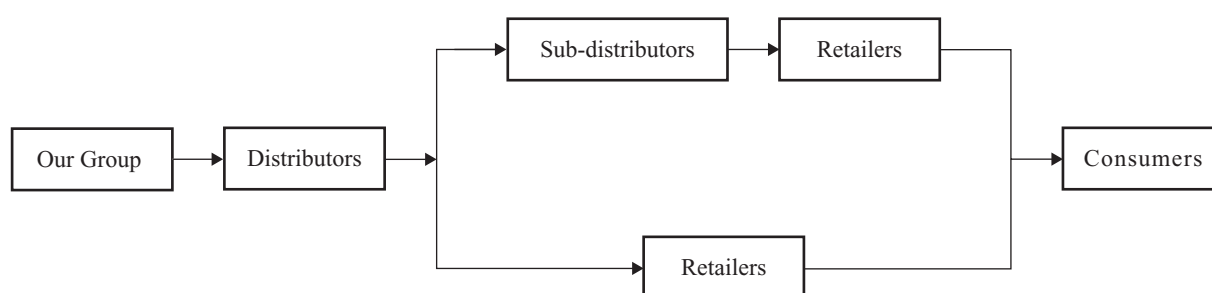
BUSINESS

SALES NETWORK

Our customers consist of (i) our distributors who purchase our own-branded products and resell them in China; and (ii) the overseas customers or local OEM customers who purchase our OEM products and resell them overseas. For the three years ended 31 December 2008, 2009 and 2010, our revenue contributed by our top five customers was approximately RMB58.3 million, RMB99.2 million and RMB145.1 million, respectively, representing 12.3%, 15.9% and 17.3% of our total revenue, respectively.

Own branded products

We sell all our own branded products through our distributors. Our distributors then distribute and resell our products to their sub-distributors and/or ultimate retailers. The following diagram illustrates our distribution and retail model:



Prior to 2009, our sales network also included a number of regional supermarkets, to whom we directly sold our own branded products. We decided to cease our direct sales to these ultimate retailers in early 2009 as we considered that engaging distributors to distribute our products is a more cost-effective and efficient way to manage our sales network based on the scale of our operations at the relevant time. Following the cessation of such direct sales to regional supermarkets, we have engaged distributors to take over the distribution of our products in all such regions.

From 2008 to 2010, the total number of our distributors increased from 107 as at 31 December 2008 to 160 as at 31 December 2010. As at the Latest Practicable Date, we had 173 distributors located throughout China, through which our products were distributed to various types of retail stores, such as hypermarkets, supermarkets, mother and children products specialty stores and convenience stores, across China.

BUSINESS

The following diagram sets out the geographical coverage of our current distributors and the number of our distributors (shown in brackets) in each municipality, province and autonomous region in China:



Note: We authorise the same distributor to handle our sales in both Sichuan and Chongqing.

OEM

Different from our products under our own brands which are sold domestically, all our OEM products are sold to our overseas customers. We either export those OEM products to our overseas customers on our own or through export agents engaged by us. Insofar as the Directors understand, our overseas customers own the brands of those OEM products and then sell the products to their retailers or sub-distributors outside China. During the Track Record Period, all our overseas customers and export agents engaged by us were Independent Third Parties, except for Shuangfei (USA). For further details of the supply of our OEM products to Shuangfei (USA), please refer to the section headed “Connected Transactions” of this document.

BUSINESS

Distributors

We enter into a separate distribution agreement with each of our distributors. We adopt a standard distribution agreement and therefore the principal terms for our cooperation with each of them are identical. The standard distribution agreement usually has a term of 12 months and is renewable with the agreement of both parties on an annual basis.

In order to avoid direct competition among our distributors and to enhance their incentive to promote our products, each of our distributors is granted an exclusive distribution right over a designated geographical area or specified distribution channels within a designated geographical area under its distribution agreement with us. In the event that a distributor fails to comply with the major terms of the distribution agreement, such as failing to achieve the prescribed sales target, selling our products beyond its designated geographical area or specified distribution channel, or selling any counterfeit of our products, we shall have the right to terminate the distribution agreement. During the Track Record Period, we had terminated the distribution agreements with certain distributors who breached the terms of their distribution agreements, such as failure in achieving their sales targets. However, such terminations had not caused any material adverse effect on the sales, operation and reputation of our Group.

During the Track Record Period, all our distributors were Independent Third Parties and none of our Directors or their respective associates, and none of our existing Shareholders who (to the knowledge of our Directors) own more than five per cent of our issued share capital, had any interest in any of our five largest distributors and we do not have any outstanding material disputes with our existing distributors. Most of our distributors mainly engage in the distribution of, among others, personal care products and household products and do not carry on retail sales. Most of our top 10 distributors in the year of 2010 have been engaged by us as our distributors for more than 5 years.

When choosing our distributors, we assess their overall suitability based on a number of factors, such as the size of their existing distribution networks and the number of their sub-distributors and/or retailers, warehouse facilities, product delivery capabilities, financial conditions, creditworthiness, business reputations and compatibility with our business strategies.

We generally allow our distributors to exchange defective products with us. In order to enable our distributors to accommodate the change in demand in their respective local markets and the market response to our newly launched products, we also allow our distributors to return and exchange their unsold and non-defective products to us before expiry of such products at an agreed discount from the original sales prices. For the three years ended 31 December 2008, 2009 and 2010, the total amount of products returned and exchanged were approximately RMB1.3 million, RMB1.5 million and RMB2.7 million, respectively, representing 0.27%, 0.24% and 0.32% of our total revenue, respectively and we had not recorded any returns of defective products from our distributors. Products returns and exchanges are recognised when incurred. No provisions for products returns and exchanges were made during the Track Record Period as we estimated that the effect would not be material.

Since our establishment in 1995, we had not announced any product recalls nor had we experienced any returns or exchanges of products or made any compensation payment due to reasons related to quality defects, perceived side effects or existence of harmful chemicals or substances nor had we received any complaints about quality and safety problems which had caused a material adverse impact on our business or reputation.

BUSINESS

Management of our Sales Network

Sales departments at headquarters

We have a domestic sales department and an international sales department both located at our headquarters in Fujian for the overall management of our sales.

Our domestic sales department is primarily responsible for the overall management of our domestic sales of our own-branded products in China, including formulation of our sales strategies and annual sales plans, selection and assessment of distributors, coordinating with our production department for sales orders received from our distributors, monitoring the implementation of our sales strategies and plans and evaluating our domestic sales performance. As at the Latest Practicable Date, our domestic sales department comprised of 115 sales personnel at headquarters in Fujian and 210 in our regional sales teams.

Our international sales department is responsible for the overall management and coordination with our customers for the sales of our OEM products overseas. As at the Latest Practicable Date, our international sales department comprised of 53 sales personnel.

Regional sales teams and regions directly managed by our headquarters

Under our domestic sales department, we have the following sales teams covering the stated geographical areas:

<u>Regional sales teams:</u>	<u>Provinces or autonomous regions:</u>
North East	Beijing, Tianjin, Hebei, Liaoning, Jilin and Inner Mongolia
East	Shanghai, Zhejiang, Shandong and Jiangsu
Middle South	Anhui, Hubei and Jiangxi
Middle	Henan
South	Hunan, Guizhou, Hainan, Guangdong, Guangxi and Yunnan
North West	Shanxi, Shaanxi, Ningxia, Gansu, Tibet and Qinghai
<u>Directly managed:</u>	<u>Provinces or autonomous region:</u>
Headquarters	Fujian, Sichuan, Chongqing, Heilongjiang and Xinjiang Uyghur Autonomous Region

BUSINESS

The following table sets forth the breakdown of our sales in the six regional sales teams and regions directly managed by our headquarters for the periods indicated:

	Year ended 31 December									CAGR
	2008			2009			2010			
	No. of distributors during the year	RMB'000	% of sales	No. of distributors during the year	RMB'000	% of sales	No. of distributors during the year	RMB'000	% of sales	
North East	14	57,841	12.2%	32	72,021	11.5%	32	74,702	8.9%	13.6%
East	27	92,874	19.6%	35	107,163	17.2%	40	123,649	14.8%	15.4%
Middle South . . .	16	56,845	12.0%	32	92,945	14.9%	41	166,923	19.9%	71.4%
Middle	11	48,172	10.2%	11	67,230	10.8%	16	83,958	10.0%	32.0%
South	11	37,089	7.8%	31	68,892	11.0%	35	124,250	14.8%	83.0%
North West	8	37,603	7.9%	17	60,142	9.6%	19	79,517	9.5%	45.4%
Headquarters	20	79,913	16.9%	16	80,245	12.9%	7	109,768	13.1%	17.2%
Total in										
China	107	410,337	86.6%	174	548,638	87.9%	190	762,767	91.0%	36.3%
Export sales		63,629	13.4%		75,758	12.1%		75,224	9.0%	8.7%
Total		473,966	100.0%		624,396	100.0%		837,991	100.0%	33.0%

Our sales in China through distributors accounted for 86.6%, 87.9% and 91.0% of our total sales for the three years ended 31 December 2008, 2009 and 2010, respectively. As a result of the expansion of our distribution network in China, our sales in China increased from RMB410.3 million for the year ended 31 December 2008 to RMB762.8 million for the year ended 31 December 2010, representing a CAGR of 36.3% and as indicated above, the average sales per distributor by region also increased in general during the Track Record Period.

We manage our sales network through our regional sales teams who work interactively with our distributors daily under the supervision of our domestic sales department at our headquarters. We assign a dedicated sales manager in our regional sales teams to handle our business with each distributor. Our sales managers visit our distributors from time to time to follow up the purchase orders placed by our distributors and update them with our latest products and sales plans, and meanwhile gather market information from the distributors, such as their inventory level, sales performance, retailers' situation and market trend. In addition, each of our distributors is required to provide us with a monthly sales report since January 2010, which shows the beginning and ending inventory level, the amount of their purchases from us and the amount of their sales during that period. The monthly sales report helps us to analyse the changes of the sales and inventory level of our distributors. Through our efficient communication channel with our distributors, the regular reporting system and monitoring the payment patterns of our distributors over the years, we are able to monitor and find out any unusual sales or stock-piling activities by our distributors and were not aware of any material accumulation of stocks at the distributors' level during the Track Record Period and up to the Latest Practicable Date. We are also able to promptly respond to our distributors' needs and changes in market environment and provide necessary assistance and guidance to them, for example, assisting our distributors in organising promotional activities based on the recent sales of our products in a particular region.

We request our distributors to conform to our sales strategies and plans and our management system of our sales network in order to ensure such strategies and planning would be implemented

BUSINESS

and complied with at the retailers’ level. We set out specific sales requirements, such as sales target and designated geographical areas or specified distribution channels, in our annual distribution agreement with each distributor. To incentivise our distributors to comply with such sales requirements, we provide preset cash rebates to those who reach the sales targets and comply with other sales requirements under the distribution agreements.

We also conduct annual assessment of each distributor based on its performance and capabilities in various respects, such as its compliance with our sales strategies and targets, pricing policy, promotion programs and other management measures, to make reference in determining the renewal of our distribution agreement with a particular distributor. Based on our annual assessments of our distributors, we had terminated our cooperation with certain distributors and replaced them with new distributors during the Track Record Period. The following table sets out the movement in the number of our distributors during the periods indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Number of distributors as at 1 January	98	107	146
Addition during the year	9	94	50
Termination during the year	—	(55)	(36)
Number of distributors as at 31 December	<u>107</u>	<u>146</u>	<u>160</u>

The changes of the number of our distributors during the Track Record Period were primarily due to (i) the rapid expansion of our sales network in both 2009 and 2010; (ii) the replacement of the distributors who could not align with our sales strategies and targets, such as failing to meet the prescribed sales target, to follow our strategies to expand the sub-distributor and retail network, or to comply with the designated geographical sales requirements or specified distribution channel requirements under the distribution agreements; and (iii) the cessation of sales to 37 regional supermarkets in early 2009 as we realigned our sales strategies and planning in early 2009 and decided to engage distributors to distribute our products in such regions that were covered by these regional supermarkets.

For the three years ended 31 December 2008, 2009 and 2010, we awarded cash rebates of RMB10.4 million, RMB10.5 million and RMB17.9 million, respectively. The cash rebates were offset against our revenue in our financial statements.

During the Track Record Period, we were not involved in any legal or arbitration proceedings with any of our distributors.

Pricing Policy

We sell our products to our distributors at uniform prices and we also provide them with suggested sub-distribution prices and suggested retail prices of our products. We adopt a cost-plus approach in determining the prices we sell to distributors. In determining the suggested retail prices, we take into account market demand and supply, consumer preference and the prices of our competitors’ products. Our salespersons conduct inspections at our points of sale in China to ensure that our products are sold in line with our suggested retail prices.

We generally adopt a cost-plus approach in determining the prices we sell to our overseas customers, which will be subject to certain conditions, such as the sales volume and our relationship with overseas customers.

BUSINESS

Credit Policy

We grant a uniform credit term to all of our distributors. As we require our distributors to settle their payments with us at the end of the following month after making their purchases, the actual credit period for each distributor may vary from 30 to 60 days.

We generally request our customers of international sales to (i) pay over 30% deposit of the contract sum before delivery of our products and settle the remaining balance at the delivery of our products, or (ii) make full payments at the delivery of our products or within a period ranging from 30 to 45 days after the delivery of our products, depending on various factors such as the sales volume and their creditworthiness.

During the Track Record Period, we required Shuangfei (USA) to settle its payments with us on open account basis and the actual credit period for each of our transactions with Shuangfei (USA) varied from 65 to 180 days. However, we had ceased such credit policy for Shuangfei (USA) and currently our credit policy for Shuangfei (USA) is the same as our other customers of international sales.

Our distributors and customers of international sales usually settle their balances with us by means of telegraphic transfer. We normally use Renminbi as our settlement currency for our domestic sales and sales to local OEM customers and U.S. dollars as our settlement currency for our sales to international OEM customers directly.

MARKETING AND BRAND PROMOTION

Currently, our marketing and brand promotion strategies are formulated and implemented by the sales and marketing department. Upon the establishment of the brand promotion department as set out in the sub-section headed “Continue to strengthen and develop the image of our 青蛙王子 (Frog Prince) brand”, the brand promotion department will take over the primary responsibility for the formulation and implementation of our marketing and brand promotion strategies from the sales and marketing department.

We undertake different forms of marketing and promotional activities to market our products and promote our brands:

Cartoon Animation Series

Our most successful ongoing marketing and brand promotion activity is the creation and production of our 青蛙王子 (Frog Prince) animation series. The animation series presented the adventure story of its key character 青蛙王子 (Frog Prince) teaching and implanting positive values to children. The image of the 青蛙王子 (Frog Prince) character used in the animation series is the same as our trademarks and logo of our products. Since the broadcasting of the first season from 2006 to 2008 and the second season in 2010 respectively, we have successfully linked the 青蛙王子 (Frog Prince) cartoon character to our brand in the mind of our targeted consumer group and built a positive image of our brand and products among them. We intend to continue building on the success of this animation series by creating subsequent series as long as we believe that this marketing strategy continues to be effective. In order to facilitate the broadcast of the animation series on more television channels and enhance its brand promotion effect, we did not charge, and receive any revenue from, the television channels for broadcasting the first and second seasons of the animation series, and we expect that we will not charge the television channels for the

BUSINESS

broadcast of any subsequent series of the animation series for as long as it aligns with the interests of our Group.

The first and second seasons of the animation series were developed under the name of Fujian Shuangfei with the aim of promoting our 青蛙王子 (Frog Prince) brand. In 2005, Fujian Shuangfei entered into an animation production agreement with a third party production company to outsource the production of the first season, including 100 episodes, of the 青蛙王子 (Frog Prince) animation series. In 2008, Fujian Shuangfei entered into another animation production agreement with the same production company to outsource the production of 52 episodes of the second season. Under the two production agreements, Fujian Shuangfei had the right to determine the themes of the animation series and was entitled to the copyrights and distribution rights in respect of the two seasons of the animation series and their related audio visual products. It was also stipulated that the production company would arrange the broadcast of the second season of the 青蛙王子 (Frog Prince) animation series in CCTV Children Channel in 2010 and 10 other major children television channels in China.

We entered into the Copyright Assignment Agreement with Fujian Shuangfei on 28 February 2011, pursuant to which we have acquired the copyrights and all other intellectual property rights relating to the first and second seasons of the animation series from Fujian Shuangfei at a consideration of RMB7,120,000 as determined based on the actual cost of production for those animation series. Such consideration was fully settled on 10 March 2011 and our Group is currently the legal owner of such copyrights and is entitled to all economic benefits derived from the animation series.

Fairs and Exhibitions

We regularly attend fairs and exhibitions dedicated to promoting personal care products and our brands such as China Beauty Expo (中國美容博覽會). The other fairs and exhibitions that we have attended during the Track Record Period include:

- China Import and Export Fair (中國進出口商品交易會); and
- Hong Kong Houseware Fair (香港家庭用品展)

Promotional Meetings

We regularly organise promotional meetings with our distributors and their sub-distributors and ultimate retailers to inform them of our latest and upcoming product series. We will also inform and discuss with them our marketing and promotional strategies and will note their comments in order to make the necessary changes to the strategies if needed. These promotional meetings allow us to have direct interaction with the sellers of our products and have proved to be an effective forum for us to gauge our end-customers’ concerns and expectations.

Advertisements

We place advertisements through various media and channels, such as television commercials in major television channels such as CCTV Children Channel, billboards and public transportation.

BUSINESS

In-store Promotion Activities

As part of our marketing activities, we also organise in-store promotion activities, such as large scale promotion activities at hypermarkets and chain stores annually on International Children’s Day. These in-store promotion activities are typically carried out during promotion period or for the launch of new products.

For the three years ended 31 December 2008, 2009 and 2010, our total advertising, marketing and promotion expenses were RMB53.4 million, RMB66.6 million and RMB82.3 million and represented 11.3%, 10.7% and 9.8% of our total revenue, respectively.

PRODUCTION

Production Process

The following chart shows the typical production process of our skin care products and body and hair care products:



We participate in every stage of our production process, including (i) procuring and inspecting raw materials and packaging materials; (ii) preparing, mixing and heating raw materials; (iii) quality check of our semi-finished and finished products to ensure they meet our quality standards; (iv) filling our semi-finished products into the containers; (v) packaging of our products; and (vi) delivering our products to our distributors.

The production lead time for (a) our skin care products is approximately two to eight days; and (b) our body and hair care products is approximately four days.

BUSINESS

Production Premises and Production Capacity

We manufacture most of our products, such as skin care products and body and hair care products in our current production premises located in Zhangzhou which we own or lease. The following chart sets out the details of our production premises:

<u>Location</u>	<u>Total floor area (square meters)</u>	<u>Usage</u>	<u>Notes</u>
Northern side of Hengqi Road Longwen Industrial Development Zone Zhangzhou	55,854	Production	Owned
No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou	9,251	Production, storage and office	Leased
No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou	5,560	Production, storage and office	Leased

The following table sets forth the number of production lines, their annual production capacities and utilisation rates relating to the production facilities for our skin care products and body and hair care products during the Track Record Period:

<u>Type of products</u>	<u>Year ended 31 December</u>	<u>Number of production lines</u>	<u>Expected production capacity during the year (metric ton)⁽¹⁾</u>	<u>Actual production during the year (metric ton)</u>	<u>Utilisation rate</u>
Skin care products	2008	6	4,802	2,885	60.0%
	2009	6	4,802	5,120	106.6% ⁽²⁾
	2010	6	4,802	4,831	100.6% ⁽²⁾
Body and hair care products	2008	5	7,882	3,629	46.0%
	2009	5	7,882	4,979	63.2%
	2010	5	7,882	9,314	118.2% ⁽²⁾

Notes:

(1) The expected production capacities were calculated based on 12 hours per day and 302 days per year.

(2) The utilisation rate during this period exceeded 100% due to overtime operation.

We believe that increasing our annual production capacity is essential to meeting our long-term development and marketing strategy. The production premises leased from Fujian Shuangfei were fully utilised in 2010 and our existing production capacities for skin care products and body and hair care products were not able to meet the demand for our expected rapid future growth in the children care products industry and the increasing market demand for our children care products in China. Therefore, we are expanding our production capacity by constructing a new plant with a gross floor area of approximately 144,000 square meters. The new plant is located in

BUSINESS

Longwen District, Zhangzhou, Fujian Province, PRC. The construction of the new plant is divided into three phases, of which the first phase commenced operation in May 2011.

The following table sets forth the details of our expansion plan for our new plant:

	Usage	Floor area (square meters)	Expected production capacity per year	Time of commencement of operation/Expected time to commence operation	Amount of capital expenditure incurred	Amount of capital expenditure expected to be incurred
Phase 1 . . .	Production of skin care products and body and hair care products	55,854	(i) approximately 20,000 metric tons for skin care products; and (ii) approximately 60,000 metric tons for body and hair care products	May 2011	RMB99 million	—
Phase 2 . . .	Office building and production of oral care products	33,350	approximately 990 metric tons for toothpaste products	the third quarter of 2013	—	RMB150 million
Phase 3 . . .	Production of baby diaper products	55,200	approximately 500 million pieces for each of our baby diaper, nappy pants and baby wiper products	the third quarter of 2013	—	RMB150 million

The first phase of construction (comprising gross floor area of 55,854 square meters) was completed at the end of March 2011 and its operation commenced in May 2011. We have installed new automated equipment, and 30 and 16 production lines for the production of skin care products and body and hair care products, respectively, in the first phase of the new plant after its commencement of operation. We expect that all the 11 existing production lines of Fujian Shuangfei will retire by the end of 31 December 2012 upon the full operation of the first phase of our new plant. By that time, the total number of production lines for skin care products and body and hair care products of our Group will be 46 with total expected annual production capacity for our skin care products and body and hair care products of approximately 20,000 metric tons and approximately 60,000 metric tons, respectively representing an increase by 316.5% and 661.2% compared to our expected production capacity in 2010, respectively. The total sales of our children skin care products and body and hair care products increased from RMB246.5 million in 2008 to RMB459.8 million in 2010, representing a CAGR of 36.6%. In view of such increasing market demand for our products and the expected growth in the market, as well as our plan to further expand our sales network and product offerings, we expect that the expansion of our production capacities for our skin care products and body and hair care products are essential for our future growth and development. We believe that the construction of our new plant and the expansion of our production capacities will enhance the competitiveness of our Group, and will not materially increase our production cost as we will be able to reduce our labour cost as a result of installing and using advanced and automated equipment in our new plant, as well as economies of scale enjoyed from the increased production volume.

BUSINESS

We expect to commence construction of the second and the third phase of the expansion plan by the third quarter of 2011 with operation expected to be commenced during the third quarter of 2013. The second phase is planned to be used as the office building and for the production of oral care products, so that we will be able to manufacture such products ourselves and terminate our current outsourced processing arrangement for such products with our outsourced manufacturers in the future. We also plan to procure and install equipments and production lines for the production of baby diaper products upon the completion of the third phase of the construction.

The expected total capital expenditure for the new plant (including without limitation the three phases of the construction, the cost of land and production facilities) is approximately RMB399 million. Such expenditure will be funded by our internal financial resources, investments, bank borrowings and the proceeds from the [●].

Outsourcing Production

Currently, we outsource the production of all our sunscreen products, oral care products, diaper products, insecticide products, air freshener products and part of our OEM products to our selected manufacturers. During the Track Record Period, we had occasionally outsourced the production of our skin care products when we were short of production capacity during the peak production seasons. Since the first phase of the new plant commenced operation in May 2011, we possess sufficient production capacity for the production of skin care products and thus do not expect to outsource such products to other manufacturers under normal circumstances. As at the Latest Practicable Date, we had six outsourcing partners, including Fujian Shuangfei. For details of our outsourcing arrangement with Fujian Shuangfei, please refer to the section headed “History and Reorganisation — Reorganisation and Financial Investments” and “Connected Transactions — Non-exempt Continuing Connected Transactions”. During the three years ended 31 December 2008, 2009 and 2010, (i) the aggregate sales of our insecticide products, air freshener products and sunscreen products which we outsourced the production to Fujian Shuangfei in 2010 pursuant to the Business Restructuring Agreements accounted for approximately 18.3%, 18.4% and 22.6% of our total sales, respectively, and (ii) the aggregate sales of our oral care products and diaper products during the Track Record Period accounted for approximately 15.6%, 16.7% and 14.2% of our total sales, respectively.

The production lead time from placing order to delivery of our outsourced products which includes: (a) sunscreen products; (b) oral care products; (c) insecticide products; (d) air freshener products and (e) diaper products is approximately 30 days.

In order to ensure the quality of our outsourced products, we adopt stringent processes for selecting our outsourcing partners and maintaining quality control over the products manufactured by them. Please refer to the paragraphs headed “Business — Raw materials, packaging materials and suppliers” and “Business — Quality control” of this section of the document for details of such selection and quality control processes.

We maintain good and stable relationships with our outsourcing partners and have generally cooperated with most of them for more than two years. During the Track Record Period, we did not experience any material interruption to the supply of our products due to our outsourcing production. Save for Fujian Shuangfei, all our outsourcing partners were Independent Third Parties.

BUSINESS

For the three years ended 31 December 2008, 2009 and 2010, our outsourcing costs were RMB80.5 million, RMB92.6 million and RMB116.0 million respectively, representing 27.7%, 24.0% and 22.5% of our total cost of sales, respectively.

RESEARCH AND DEVELOPMENT

We have a dedicated research and development team responsible for conducting research and development programs of our new products and improving the quality and design of our existing products. Our research and development team is headed by our chief supervisor, Mr. Wen Wenzhong, who has more than 21 years’ experience in product development in this industry. As at the Latest Practicable Date, our research and development team comprised 35 members. During the Track Record Period, we incurred RMB0.7 million, RMB0.8 million and RMB1.6 million for the Group’s research and development, respectively.

We adopt a market-oriented research and development approach. Our research and development team works closely with our domestic sales department to formulate research and development plan in anticipation of upcoming market trends and consumer needs. We also cooperate with local universities such as South China University of Technology (華南理工大學) (“SCUT”) to develop new products and techniques with the aim of maintaining and strengthening our competitive advantage in product quality and innovation. We entered into a products development agreement with SCUT on 25 February 2011 for a period of three years from March 2011 to February 2014 in relation to the research and development of children care products. Under the arrangement, we will pay SCUT an annual fee of RMB200,000 in two instalments bi-annually. Pursuant to the agreement, among other things, (i) SCUT would provide support to satisfy our products research requirements; (ii) we have the pre-emptive right to acquire from SCUT all of its entitlement or ownership of intellectual rights relating to the design, technology or research results relating to children care products; and (iii) we will exchange market intelligence and research or products development results with SCUT from time to time to satisfy our needs on market research and development of children care products.

We chose to establish a partnership with SCUT primarily due to its strength on the research of natural ingredients for human consumption or other applications. In our recent collaboration with SCUT, SCUT provided us with the formula on natural ingredients that could be used for producing preservatives and we are researching on the application of the preservatives formulation to our moisturising lotion products.

It generally takes approximately two to six months from launching a new research and development program to the commencement of mass production of a new product depending on the levels of the development difficulty. For the three years ended 31 December 2008, 2009 and 2010, we developed and launched 61, 105 and 82 new products respectively. During the Track Record Period, we had developed 248 new products in total, out of which (i) 84 are children skin care products, 49 are children body and hair care products, 20 are children oral care products, 33 are children diaper products and seven are adult oral care products under our 青蛙王子 (Frog Prince) brand; (ii) 25 are household hygiene products under our 雙飛劍 (Shuangfeijian) brand; (iii) four are household hygiene products under our 深呼吸 (Shenhuxi) brand; and (iv) 26 other products.

QUALITY CONTROL

We place great emphasis on the quality of our products and therefore implement stringent quality control procedures. We perform quality checks and random sample testing at each key

BUSINESS

stage of our production process to ensure that our products comply with the relevant laws and regulations in PRC.

All our products are sent to Zhangzhou Product Quality Supervision and Inspection Institute (漳州市產品質量監督檢驗所) for examination and approval. As advised by our PRC legal advisers, Jingtian & Gongcheng, Zhangzhou Product Quality Supervision and Inspection Institute is a testing institute under Zhangzhou Product Quality and Technical Supervision (漳州市質量技術監督局) (the “**Zhangzhou Bureau**”) which is the relevant administration authority to examine and approve our products and we have to obtain such approval for our products under PRC laws before our production and sale of such products. As at the Latest Practicable Date, we had obtained relevant approvals for all our current products.

In addition, the General Administration, the national authority governing, among others, the safety and quality of personal care products and household hygiene products, would conduct random checks of any products which may affect, inter alia, the health and safety of human body including personal care products and household hygiene products, in the market. Pursuant to two letters of confirmation from the Zhangzhou Bureau both dated 2 June 2011, respectively (the “**Zhangzhou Bureau Confirmations**”), since the establishment of Fujian Shuangfei in 2001, it had six incidents where our products failed to comply with the relevant industry standards in random checks conducted by the General Administration or the local bureau of the Administration for Industry and Commerce. The Zhangzhou Bureau Confirmations were issued to the Company following the request from the Company. Our Directors have confirmed receipt of notice for two of those incidents relating to 青蛙王子 (Frog Prince) products but have confirmed that they have not received any notification by the relevant government authorities on the remaining four incidents relating to 雙飛劍 (Shuangfeijian) products. Details of those six incidents are set out in the section headed “Business — Litigation and Compliance” of this document.

Details of our quality control procedures are set out below:

Water: Water is one of the major components of our products and therefore maintaining strict control over the quality of our water is an essential prerequisite for our production. We have installed advanced membrane water purifying systems in our plants to strictly control the electroplating rate, the level of bacteria and the PH value of our water so as to ensure a stable and high-standard water quality throughout our production process.

Raw materials: All raw materials delivered to our production premises are randomly sampled for testing before they are accepted.

Semi-finished products: After the ingredients are mixed in accordance with our product formula, we conduct testing again to ensure that the mixed ingredients meet our quality standards. We set up a set of quantitative measurements on the quality and standards for our semi-finished goods with reference to the odour, appearance, level of bacteria of the ingredients.

Packaging materials: We examine our packaging materials for their appearance, specifications, endurance and compatibility with our products to ensure that the packaging materials are in compliance with our standards and the relevant standards set by PRC government.

Finished products: We perform routine product inspections on every batch of our products and sample testing to ensure consistent quality of our products.

BUSINESS

We carry out routine checks on the equipment to ensure our production lines perform at optimal levels. During the Track Record Period, we had not experienced any material or prolonged stoppages of our production due to equipment failure, nor had we experienced any accidents during the production process.

It is our policy that all customer complaints should be dealt with promptly upon receipt. We have a dedicated customer service team responsible for handling customer complaints and answering questions in relation to our products to ensure prompt responses to customers' concerns and to provide them with solutions. To better serve our customers and deal with customer complaints, we set up a nationwide customer hotline in 2009 to enable the end-users of our products to raise any complaints or opinion on our products. We generally deal with such complaints in cooperation with the relevant distributors and provide our replies or arrange replacement of products if necessary within three days.

We have received 24, 19 and 14 complaints for the three years ended 31 December 2008, 2009 and 2010, respectively. These complaints mostly related to the packaging of the products, such as defects or damages to the packaging of the products, tainted packaging or wrapping of the products and unclear labelling or printing of date of manufacture. Upon receiving these complaints, our customer service team attended to and provided solutions such as replacing the lost or defective products to our customers. During the Track Record Period, we had not received any complaints about quality and safety problems which had caused a material adverse impact on our business or reputation.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials

The following is a list of our primary raw materials used in our key products series:

Key Product Series	Raw Materials
Skin care products	White oil, octadecanol, glycerol, alcohol, essence, and talcum powder
Body and hair care products	AES sodium, salt and CAB-35
Insecticide products	White oil and kerosene
Air freshener products	Liquid gas, kerosene and alcohol
Diaper products	Non-woven cloth, polymer and paper

Raw materials such as white oil, kerosene, liquid gas and non-woven cloth are produced from petroleum and their prices are therefore closely linked with the price of petroleum whereas octadecanol, glycerol and AES sodium are produced from palm oil and their prices are affected by the price of palm oil, whose demand is in turn directly correlated to global economic activities. The price of alcohol is driven by the prices of food, such as sugar cane, corn and cassava, whereas the price of polymer increases due to the rising market for diaper products in general. The prices of other raw materials are affected by the general supply-demand cycle.

We procure raw materials through our procurement department and all our raw material are supplied by domestic suppliers. During the Track Record Period, we did not encounter any shortage of our raw materials.

For the three years ended 31 December 2008, 2009 and 2010, the costs of our raw materials were approximately RMB86.3 million, RMB122.3 million and RMB171.6 million respectively, representing 29.7%, 31.7% and 33.3% of our total cost of sales, respectively.

BUSINESS

Packaging Materials

Our packaging materials are mainly paper boxes, plastic bottles, composite packaging materials and labels. Plastic bottles and labels are produced from petroleum and their prices closely relate to the price of petroleum. The price of paper boxes correlates with the price of paper pulp, whose price has been driven upwards recently due to increasing demand and limited supply resulting from the environmental and conservation policy adopted by PRC government and deforestation which limits overseas supply. The price of the composite packaging materials is affected by the general supply-demand cycle. We purchase our packaging materials from our suppliers in China. For the three years ended 31 December 2008, 2009 and 2010, the costs of our packaging materials were approximately RMB107.3 million, RMB149.5 million and RMB194.8 million respectively, representing 36.9%, 38.8% and 37.8% of our total cost of sales, respectively.

We do not consider the fluctuations in the prices of our raw materials and packaging materials have material adverse effect to the cost of sales of our Group.

Suppliers

We only procure our raw materials and packaging materials from our shortlisted suppliers and we adopt a stringent selection process for selecting our suppliers. In selecting our suppliers, we assess on, and take into account, factors in various respects, including the size of their operation, quality of their raw materials / packaging materials / products, price, reputation in the industry and ability to deliver goods on time. All raw materials, packaging materials and products provided by our suppliers have to comply with the respective quality control requirements set out in the paragraphs headed “Business — Quality control” of this section of the document. In order to ensure the high quality of products and service of our suppliers, we carry out quarterly assessment on our suppliers. We maintain close relationship with our suppliers and generally have more than two-year business cooperation with most of our suppliers.

Our suppliers typically require us to make the payments within 30 days after the receiving of delivered goods and invoices. We generally make the payments within the credit term by means of telegraphic transfer.

For the three years ended 31 December 2008, 2009 and 2010, the aggregate purchases from our five largest suppliers amounted to RMB116.8 million, RMB126.3 million and RMB127.1 million respectively, representing 40.1%, 32.8% and 24.7%, respectively of our total cost of sales, among which 12.4%, 9.3% and 6.5% respectively of our total cost of sales were from our largest supplier during such periods.

Trust Arrangement for Yonghehui

On 19 October 2006, each of Mr. Li and Mr. Xie entered into a trust agreement (collectively “**Trust Agreements**”) with Fujian Shuangfei and Mr. You Weiwen (游偉文) (“**Mr. You**”), pursuant to which Fujian Shuangfei held 50.5% of the equity interest in Zhangzhou Yonghehui Plastic Co., Ltd. (“**Yonghehui**”), one of our top five suppliers in 2009 and 2010, for and on behalf of Mr. You, the legal and beneficial owner of the remaining 49.5% equity interest in Yonghehui. Mr. You is an Independent Third Party and a personal friend of Mr. Li and Mr. Xie for more than 20 years. Mr. You is also one of the shareholders of 漳州市薌城區永盛塑膠製品廠 (“**Yongsheng**”) which was one of our top five suppliers in 2008 but have ceased to be our supplier since 2009. In view of the good and long-term friendship with Mr. You, Mr. Li and Mr. Xie entered into such trust

BUSINESS

arrangement with Mr. You so that Fujian Shuangfei became a shareholder of Yonghehui and, through such capacity, Mr. Li and Mr. Xie could assist Mr. You in facilitating the establishment of Yonghehui, coordinating the preparation work and communicating with the relevant government officials during the establishment process as Fujian Shuangfei was a famous enterprise in Zhangzhou which could garner support from the government more easily.

Under the Trust Agreements, the capital contribution for such 50.5% equity interest was actually funded by Mr. You and therefore all the beneficial rights and interests arising from such 50.5% equity interest belonged to Mr. You and Fujian Shuangfei was only able to exercise any rights as a shareholder of Yonghehui as instructed by Mr. You. Therefore, Yonghehui’s operation results were not consolidated in the accounts of Fujian Shuangfei during the period of the trust arrangement under the Trust Agreements. Although Mr. Li and Mr. Xie had taken the positions as the director and supervisor of Yonghehui respectively, they did not participate in the actual management and operation of Yonghehui and only acted in accordance with the instructions of Mr. You by virtue of the Trust Agreements. Mr. Li and Mr. Xie did not participate in or make any decisions relating to the sales of products manufactured by Yonghehui to the Group and all such sales were carried out on normal commercial terms. During the Track Record Period, we did not procure any products from Yonghehui in 2008 and purchased products in the total amounts of approximately RMB18.8 million and RMB32.4 million from Yonghehui in 2009 and 2010, respectively, representing 4.8% and 6.1% of our total purchases for those two years. Our Directors confirmed that we were not the sole customer of Yonghehui during the Track Record Period and up to the Latest Practicable Date.

Following the completion of all preparation work for the establishment of Yonghehui, Mr. Li, Mr. Xie and Mr. You agreed that the trust arrangement was no longer needed and therefore, Fujian Shuangfei and Mr. You entered into an equity transfer agreement on 23 July 2009, pursuant to which Fujian Shuangfei transferred the 50.5% equity interest in Yonghehui to Mr. You at the consideration of RMB1.77 million, being 50.5% of the registered capital of Yonghehui. For the purpose of completing the equity transfer procedures in accordance with the request of the relevant authorities, a consideration need to be set out in the equity transfer agreement. However, since Fujian Shuangfei only held the equity interest in Yonghehui on trust for Mr. You and the initial capital contribution was funded by Mr. You, it was agreed by all parties that such consideration would not be paid by Mr. You to Fujian Shuangfei. Upon the completion of the equity transfer on 31 July 2009, Mr. You became the legal owner of the entire equity interest in Yonghehui, Mr. Li and Mr. Xie resigned from the positions as the director and supervisor of Yonghehui respectively and the trust arrangement pursuant to the Trust Agreements terminated simultaneously. Neither Fujian Shuangfei, Mr. Li nor Mr. Xie had received any economic benefits or interests as a result of the trust arrangement or acting as the director or supervisor of Yonghehui under the Trust Agreements.

As advised by our PRC lawyers, Jingtian & Gongcheng, the execution and the contents of the Trust Agreements do not violate any PRC laws or regulations and thus the Trust Agreements are valid, legally enforceable and binding on each of Fujian Shuangfei, Mr. Li, Mr. Xie and Mr. You.

In addition, due to the economic downturn in 2008, Yonghehui was temporarily short of working capital. In order to assist Mr. You to overcome the difficult times of his business, Mr. Li and Mr. Xie agreed to grant an interest-free loan advance of RMB7.8 million by Fujian Shuangfei to Yonghehui in 2008. Such loan advance was fully settled in January 2009.

BUSINESS

Save as disclosed above, Mr. You does not have any other past or present relationship, business or otherwise, with our Group, Mr. Li, Mr. Xie or their respective associates.

INVENTORY AND WAREHOUSING

Our inventory comprises primarily raw materials, packaging materials, semi-finished products and finished products.

All of our products are sold on a first-in-first-out basis. We monitor our inventory levels monthly in order to minimise the risk of inventory build up. We also conduct physical stock counts from time to time to ensure that our products are sold before their expiry dates. In addition, our distributors provide us with monthly reports of their sales and inventory levels so that we are able to monitor the inventory level at distributors level. Our regional sales teams also conduct quarterly inspection of the inventory levels of our distributors which allows us to finetune our production plan and ensure a steady supply of our products. During the Track Record Period, we have not experienced any shortage of inventory.

We store our raw materials, packaging materials, semi-finished products and finished products separately in our warehouses. In addition to the warehouses at the location of our plants, we have also set up four distribution hubs located in Linyi, Guangzhou, Zhengzhou and Xián, which enable us to shorten the delivery time of our products from our production base in Fujian to our national sales network across China. It usually takes one to nine days for us to deliver our products to our distributors upon the receipt of orders from our distributors depending on the transportation distance from our production base or distribution hubs to our distributors’ premises.

LOGISTICS

We mainly outsource our product transportation in PRC (excluding Zhangzhou City, in which we provide transportation service by ourselves) to logistics companies which are Independent Third Parties. Currently, we engage 10 external logistics companies located in Fujian, Guangdong, Shandong, Henan and Shaanxi to deliver our products to our distributors all over China. We enter into service contracts with those logistics companies annually.

Generally, our products are delivered (i) directly from our production base to our distributors who are located nearby; or (ii) from our production base to our distribution hubs and then distributed to our distributors. The logistics companies engaged by us arrange the delivery of our products by trucks from our production base or distribution hubs to the warehouses of our distributors in China. We had changed our delivery policy during the Track Record Period. In 2008, all the transportation costs were borne by our distributors under the distribution agreements. In 2009, we revised our distribution agreements such that we shared half of the transportation costs and in 2010, we further revised our distribution agreements, upon which we borne all transportation costs for the delivery of our products. During the Track Record Period, we had not experienced any material disruption in the delivery of our products.

We select our logistics companies based on stringent criteria, including their operation scale, network coverage and track record.

During the Track Record Period, we had not suffered any losses or paid any compensations as a result of delay in delivery of our products by the logistics companies engaged by us.

BUSINESS

COMPETITION

The children care products industry in China is highly competitive. We face competition from both international and domestic brands in the personal care products market in different geographical areas in China. Our competition generally lies in brand recognition, business scale, sales network, product range and quality, marketing and price. Some of our competitors, in particular the international brands, may have a longer history and a bigger market share in the whole personal care products market than us. Although our Group has a younger history than some of our competitors, we have secured a significant market share through our unique marketing strategies, in particular by putting great effort in developing and expanding our market share in China.

According to Euromonitor, in 2010, our children moisturising lotions, children bath and shampoo products and children oral care products under our 青蛙王子 (Frog Prince) brand all ranked second in the respective product markets in terms of market share and were the top domestic brands in PRC. In 2010, our children moisturising lotions under our 青蛙王子 (Frog Prince) brand had a market share of approximately 23.1% whereas the top player, being an international brand, had a market share of approximately 24.1%. In 2010, our children bath and shampoo products under our 青蛙王子 (Frog Prince) brand had a market share of approximately 10.0% whereas the top player, being an international brand, had a market share of approximately 27.3%. However, from a market share perspective, our market share for children bath and shampoo products has been growing rapidly from approximately 5.7% in 2008 to approximately 10.0% in 2010 whereas the top player’s market share has been decreasing from 30.6% in 2008 to 27.3% in 2010. In 2010, our children oral care products had a market share of approximately 14.6% whereas the top player in the market, being an international brand, had a market share of approximately 15.7%.

We believe that we were able to achieve higher growth in sales in comparison with some of our competitors due to the brand recognition of our 青蛙王子 (Frog Prince) brand and the improvement in our sales network, which enabled us to win more market shares from our competitors.

We also believe that brand recognition is important to consumers’ purchase decisions. During the Track Record Period, our sales of moisturising lotion products accounted for a significant and growing portion of the sales of our products under our 青蛙王子 (Frog Prince) brand. We believe that we have successfully built up a wider recognition of our 青蛙王子 (Frog Prince) brand in China as a result of our ongoing effort to market and promote our 青蛙王子 (Frog Prince) brand, including the broadcast of our 青蛙王子 (Frog Prince) animation series and television commercials.

We believe that we have also expanded our sales network by increasing the number of our distributors from 107 as at 31 December 2008 to 160 as at 31 December 2010 and the improvement in the sales performance of our distributors as a result of the growth of the overall children care product market in PRC. Moreover, according to Euromonitor, the Second, Third and Fourth-tier Cities, comprising a total of over 600 cities across China, in aggregate, accounted for approximately 64.0% of the children care products market in China in 2010. We believe that our strong distribution network in the Second to Fourth-tier Cities has put us in a good position to capture the opportunities arising from the market growth in those cities.

With the economic development, Chinese consumers have given increasing attention to the children’s skin care and hair care products. We believe that we have a competitive advantage over

BUSINESS

our direct competitors in the children care products market in China through our leading market position, well-recognised brands, established sales network, superior product quality, broad and diversified product offerings and experienced management team. Please also refer to the section headed “Business — Competitive Strengths” of this document for further details.

EMPLOYEES

As at 31 December 2008, 2009 and 2010, we had a total of 817, 914 and 1,066 employees, respectively. The following table sets out a breakdown of our employees by division as at 31 December 2010:

<u>Division</u>	<u>Number of employee</u>
Production	536
Administration and Human Resources Management	60
Quality Control	43
Research and Development	30
Sales and Marketing	371
Finance	26
Total	<u>1,066</u>

For the three years ended 31 December 2008, 2009 and 2010, our total staff costs were RMB20.8 million, RMB27.7 million and RMB36.3 million, respectively, which accounted for 4.4%, 4.4% and 4.3% of our total revenue, respectively.

We provide training to our staff to improve their customer service skills, sales skills, technical skills and product knowledge, including industry quality standards and safety standards.

We make contributions to social insurance scheme (including insurance for sickness, work place injuries, unemployment, maternity and retirement) and housing provident fund for all our employees in compliance with all relevant PRC laws and regulations.

We obtained a confirmation from Labour and Social Security Bureau of Longwen District, Zhangzhou (漳州市龍文區勞動和社會保障局) on 18 January 2011 that we had taken out all requisite social insurances and paid all social insurance payments in accordance with the relevant PRC laws and regulations, and were not subject to any punishment or penalty relating to social insurance for our employees.

Prior to October 2010, we failed to register and establish an account of housing provident fund for a number of employees and make contribution of housing provident fund in the total amount of RMB1.2 million. As advised by our PRC legal advisers, Jingtian & Gongcheng, the relevant authority may request us to make such outstanding contribution within a prescribed period and impose a fine on us in the range of RMB10,000 to RMB50,000. However, we obtained a confirmation from Zhangzhou Housing Provident Fund Management Centre (漳州市住房公積金管理中心) on 30 January 2011 that since we had registered the account of housing provident fund and made all requisite contribution of housing provident fund since October 2010 as prescribed under PRC laws, we would not be penalised or requested to pay the outstanding contribution of housing provident fund for the aforesaid non-compliance matters prior to October 2010.

BUSINESS

During the Track Record Period, we had not experienced any strikes or labour disputes having a material effect on our business.

INTELLECTUAL PROPERTY

Our intellectual properties are key to the success of our business as we rely on consumers’ recognition of our brands and products.

As at the Latest Practicable Date, we had registered 174 registered trademarks and 44 patents in China, Hong Kong, Canada, U.S., Australia and European Union, and submitted 38 applications for trademark registration and two applications for patent registration in China, Canada and Hong Kong. Further details of our intellectual properties are set out in the paragraph headed “C. Further Information about Our Business — 2. Intellectual property rights of our Group” in Appendix VI to this document.

We produced the first season of the animation series, named 青蛙王子 (Frog Prince), in 2005, which was televised in 50 television channels in China from 2006 to 2008. The copyrights to the first and second seasons of the 青蛙王子 (Frog Prince) animation series are held by Fujian Shuangfei. However, we have entered into a copyright assignment agreement with Fujian Shuangfei in relation to the acquisition of the copyrights and all other intellectual property rights relating to those animation series. For further details, please refer to the section headed “Marketing and brand promotion” under this section of this document.

COUNTERFEIT PRODUCTS

Due to the recognition and popularity of our products, certain counterfeit products bearing our 青蛙王子 (Frog Prince) brand exist in PRC market. We investigate counterfeit products in the market through information provided by our distributors and our own market supervision department whose responsibilities include overseeing counterfeit products and infringement of our intellectual property. We cooperate with and inform the relevant PRC government authorities, such as the local branch of the State Administration for Industry and Commerce, State Public Security Bureau and the relevant quality and technology supervision administration, of the existence of such counterfeit products and request appropriate actions to be taken by such authorities to protect our intellectual property rights.

During the Track Record Period, we had successfully obtained administrative penalty by the local Administration for Industry & Commerce against counterfeit products bearing our brands in Linyi. We will continue to take appropriate actions to protect our intellectual property rights against possible infringements. We confirm that there was no material adverse impact on the Group during the Track Record Period as a result of the existence of these counterfeit products.

BUSINESS

REAL ESTATE

Self-owned properties

As at the Latest Practicable Date, we owned and occupied the following real properties:

<u>Location</u>	<u>Owner</u>	<u>Site area (square meters)</u>	<u>Gross floor areas (square meters)</u>	<u>Usage</u>
No. 8 North Huancheng Road Longwen Industrial Development Zone, Zhangzhou	Prince Frog (China)	18,769	17,480	Dormitory and storage
Hengqi Road, Longwen Industrial Development Zone, Zhangzhou	Prince Frog (China)	64,726	55,854	Production

Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that we hold valid real estate title certificates with respect to all the above real properties and we own the right to occupy, use, benefit from and dispose of all such real properties.

BUSINESS

Leased properties

As at the Latest Practicable Date, we leased and occupied the following real properties:

Location	Owner	Gross floor areas (square meters)	Usage
1. The junction of 107 National Road and Zhengwei Road Zhengzhou Henan	Independent Third Party	1,133	Storage
2. Kaitong Logistics Base Xinghe Road Xiejiazhuang Village Taihe Town Baiyun District Guangzhou Guangdong	Independent Third Party	460	Storage
3. Nandao Village Linxi Shiyi Road Linyi Shandong	Independent Third Party	1,200	Storage
4. Suwang Village Baqiao District Xi'an Shaanxi	Independent Third Party	600	Storage
5. No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou Fujian	Fujian Shuangfei	9,251	Production, office and storage
6. No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou Fujian	Independent Third Party	5,560	Production, office and storage

The lessors of the above leased properties have not provided us with full and complete title documents in respect of these properties, such as the real estate title certificates and/or the building permits, or the consent of the owner for subleasing certain property to us.

As advised by our PRC legal advisers, Jingtian & Gongcheng, as a result of such title defects, the leases for such properties may be considered as invalid under PRC laws and we may be required to cease occupation and usage of such leased properties, in which case we will have to relocate to other production premises, offices and warehouses. Our Directors estimate that the relocation of such production premises and warehouses may take approximately one month and confirm that such defective properties are not crucial to our business and operations for the following reasons: (a) we can easily identify suitable properties in appropriate areas for relocation,

BUSINESS

if required; and (b) the operation of the leased production premises is not substantial and we have commenced the production of the products previously manufactured in that leased production premises in our new plant since May 2011. In addition, we have obtained confirmations from each lessor of the above leased properties stating that the lessors will be responsible for, and will fully and immediately indemnify us against, all our liabilities and losses arising from any disputes, claims or penalties in connection with the title of such leased properties. Moreover, our Controlling Shareholders, Mr. Xie and Jinlin Investment have also confirmed that they will fully indemnify us against our losses, costs and any other expenses as a result of the relocation of such production premises, offices and warehouses. As such, our Directors believe that the relocation of any of the leased properties will not lead to any material adverse effect on our business and financial condition.

ENVIRONMENTAL PROTECTION

We believe that it is important and essential to protect the environment. For this reason, we have in place an environmental management policy for discharge of all our wastes in our production processes. Our employees are familiar with industry standards and applicable PRC laws and regulations in relation to environmental protection. Waste water is our primary waste generated from our production process. We attempt to reduce, reuse or recycle such waste water which allows us to reduce our water consumption and minimise the environmental impact of our production.

We obtained a confirmation from Zhangzhou Bureau of Environmental Protection (漳州市環境保護局) on 27 January 2011 stating that since its incorporation to the date of the confirmation, Prince Frog (China) and its production process had complied with all PRC laws and regulations relating to environment protection and we were not subject to any penalty imposed by and not involved in any dispute with the said authority relating to environment protection issues.

We also obtained a confirmation from Zhangzhou Bureau of Environmental Protection on 29 March 2011 stating, among others, that since its incorporation to the date of the confirmation, Fujian Shuangfei and its production process had complied with all PRC laws and regulations relating to environment protection and it was not subject to any penalty imposed by and not involved in any dispute with the said authority relating to environment protection issues.

SAFETY

We believe that maintaining a safe environment for our employees is very important to us. In order to ensure our production facilities comply with our internal safety standards, we have established a safety management team which carries out regular safety checks on our production equipments. We also require our operators of equipment to attend training sessions on the required safety standards and hygiene standards.

During the Track Record Period, we had not experienced any material or prolonged stoppages of production due to equipment failure, nor had we experienced any major accidents during the production process. We are not aware of any personal injuries caused by toxic substances produced during the production process.

INSURANCE

We make contributions to social insurance for our employees including insurance for retirement, unemployment, sickness, maternity and injury, as required by PRC social security

BUSINESS

regulations. We also take out property insurance for our production facilities, inventories and equipments. Although it is not compulsory under PRC laws, we are in the process of taking out product liability insurance for all our products in China. As advised by our PRC legal advisers, Jingtian & Gongcheng, our insurance coverage is in compliance with the relevant legal requirements under PRC laws. In the meantime, we are reliant on the effectiveness and integrity of the manufacturing and quality control process we have in place to eradicate or to reduce the risk of product liability claims.

For our OEM products sold to Shuangfei (USA) which accounted for 13.1%, 10.7% and 43.4% of our total export sales for the three years ended 31 December 2008, 2009 and 2010, Shuangfei (USA) had taken out product liability insurance covering the United States where it sold our OEM products. As confirmed by the Group, it has not received any claims regarding the safety of its OEM products from its overseas customers or overseas end-customers during the Track Record Period. Insofar as the Directors understand, most of the Group’s OEM customers had taken out product liability insurance covering those areas where they sold its OEM products. Furthermore, we only manufacture our OEM products according to our OEM customers’ requirements who sell such products overseas and are responsible for conducting any tests, if necessary, in compliance with the laws of those jurisdictions. We do not directly sell our OEM products to end-consumers in those jurisdictions and therefore do not maintain any product liability insurance overseas which we believe is in line with the industry practice. However, we may be exposed to product liability claims if the use of any of our products, including those sold to overseas markets under our OEM operations, is alleged to have undesirable harmful side effects. In that case, we may not be able to claim against our OEM customers for any compensation even though those OEM products are manufactured according to our OEM customers’ requirements and are sold to overseas by them. To further protect ourselves from any possible liabilities arising from our OEM products sold and distributed in those jurisdictions by our overseas customers in the future, we will, from July 2011 onwards, request in the contracts to be made with our OEM customers that the specifications of our OEM products provided by them will comply with the requirements for such products under the laws of the jurisdictions where they sell our OEM products, and provided that we manufacture such products in accordance with the specifications of such products provided by them (regardless of whether such specifications are in compliance with the laws of the relevant jurisdictions), our OEM customers shall be responsible for, and keep us fully indemnified against, any liability and loss in connection with or resulting from any non-compliance of such OEM products with the laws of any such jurisdictions and will not be entitled to make any claim against us in connection with such non-compliance matters. We will not enter into contract for providing OEM products to those overseas customers who refuse such request. However, in such cases, despite the contractual right of our Group to claim for indemnity against our OEM customers, such preventive measures may still prove insufficient and we may still be subject to claims made by other relevant parties, such as the end-consumers of the OEM products, under the laws of the relevant jurisdictions.

During the Track Record Period, we had not experienced any insurance claims which are material to our Group and have not received any claims regarding the safety of our OEM products from our OEM customers or overseas end-consumers of our OEM products. For details of the risk relating to our insurance coverage, please refer to the section headed “Risk factors — Risks relating to our business — Our insurance coverage may not completely cover the risks relating to our business and operations” of this document.

BUSINESS

LITIGATION AND COMPLIANCE

During the Track Record Period, the annual cost of legal compliance with applicable rules and regulations were RMB217,000, RMB140,000 and RMB422,000, respectively. We expect that the expected cost of compliance will be approximately RMB200,000 per year in the future. As at the Latest Practicable Date, neither we nor our subsidiaries was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

Prince Frog (HK)

Non-compliance with Companies Ordinance

A. *Nature of non-compliance*

Pursuant to section 122 of the Companies Ordinance, the directors of a Hong Kong company shall cause its profit and loss account and balance sheet to be made up and laid before its shareholders at each of its annual general meetings and such accounts shall be made up to a date falling not more than 9 months before the date of the meeting.

Since its incorporation on 5 July 2002, Prince Frog (HK)’s then directors have delegated its secretarial and accounting matters to individuals and/or its company secretaries. Until recently, Prince Frog (HK) did not prepare any accounts for the period from 5 July 2002 to 31 December 2008 (the “**Non-compliance Period**”). In addition, the audited accounts of Prince Frog (HK) for the year ended 31 December 2009 were passed with written resolutions by Prince Frog International on 4 October 2010 which failed to meet the requirement for making up its accounts to a date falling not more than 9 months before annual general meeting.

As confirmed by our Directors, the principal activity of Prince Frog (HK) since its incorporation is investment holding to hold the 100% equity interests in Prince Frog (China) and the directors of Prince Frog (HK) were PRC nationals having only a limited understanding of the relevant rules and regulations under Hong Kong laws. They had retained professional companies holding themselves out as providers of corporate secretarial services as the company secretary of Prince Frog (HK) including preparation and filings of annual returns of Prince Frog (HK). However, throughout the aforementioned period, the professional companies had never advised Prince Frog (HK) on the need to prepare the accounts. Our then Directors confirmed that as a secretarial services provider, it had provided advice on, among others, the preparation of general meetings and other filings under the Companies Ordinance. Due to the reasons above, together with unintended and inadvertent oversight, section 122 of the Companies Ordinance was not complied with as aforesaid.

Maximum potential liability: Non-compliance with section 122 of the Companies Ordinance could attract maximum penalties as follows:

Section	Maximum Penalty
Section 122 of the Companies Ordinance	The director(s) shall be liable to a fine of HK\$300,000 and 12-month imprisonment.

BUSINESS

B. Remedial actions taken

In the course of preparation of the [●], the directors of Prince Frog (HK) were advised that Prince Frog (HK) had failed to prepare accounts for the Non-compliance Period as required under the Companies Ordinance. In response to this, the directors of Prince Frog (HK) immediately took steps to arrange for a qualified accounting firm in Hong Kong to prepare the accounts of Prince Frog (HK) for the Non-compliance Period. Such accounts were adopted by all members of Prince Frog (HK) by way of written resolutions on 11 February 2011.

After the accounts and other documents were prepared, Prince Frog (HK) applied to the High Court of Hong Kong on 16 February 2011 for an application of an order that (i) the audited accounts of Prince Frog (HK) for the Non-compliance Period which should be laid in annual general meetings be substituted by the written resolution passed by Prince Frog International on 11 February 2011 in respect of the accounts for such Non-compliance Period; and (ii) the time be extended pursuant to section 122(1B) of the Companies Ordinance for Prince Frog (HK)’s failure to meet the time requirement for making up and laying such accounts. On 24 February 2011, orders were granted by the High Court of Hong Kong for such application to rectify the non-compliance of the above.

The directors of Prince Frog (HK), namely Mr. Li and Mr. Xie, understand that the grant of court orders in relation to section 122 of the Companies Ordinance may not by themselves bar criminal enforcement by the Companies Registry on possible offences arising from past default but the likelihood of its occurrence is very low given the grant of such orders by the court based on the court’s acceptance of evidence submitted with the relevant applications for relief.

C. Mitigating Measures

Our Group has taken the following measures to improve our corporate governance and internal controls to ensure compliance with various applicable rules and regulations:

- (a) We engaged internal control consultants to review our Group’s internal control systems and procedures in October 2010. We adopted or will adopt the measures and policies to improve our internal control systems based on their review and recommendations.
- (b) A detailed memorandum prepared by our Company’s Hong Kong legal advisers, Orrick, Herrington & Sutcliffe, setting out the on-going regulatory requirements of our Directors after [●] has been distributed to and reviewed by our Directors.
- (c) The Directors and senior management of our Group have attended training sessions conducted by our Company’s Hong Kong legal advisers, Orrick, Herrington & Sutcliffe, on the on-going obligations and duties of directors of a publicly listed company, including sessions on connected transactions, code on corporate governance, dealing in securities, disclosure of price-sensitive information, notifiable transactions and dissemination of information.
- (d) Our Company has appointed Mr. Wong Wai Ming, who has expertise in accounting and financial management, as an independent non-executive Director. Our Company will be able to draw on his experience with respect to compliance with applicable regulatory and financial reporting requirements. Please see the section headed “Directors, Senior Management and Employees” for detailed information of Mr. Wong Wai Ming.

BUSINESS

- (e) Our Company appointed Ms. Hong Fang and Ms. So Ka Man as the joint company secretaries, who will be responsible for the day-to-day compliance matters of our Group. Our joint company secretaries will also be responsible for monitoring the timing for convening annual general meetings of our Company.
- (f) [●]
- (g) [●]
- (h) Our Company secretarial team will be responsible for preparing and keeping proper record of minutes of board meetings and Shareholders' meetings for our Company. Our Company secretarial team is familiar with the statutory requirements in relation to board meetings and Shareholders' meetings and will ensure proper compliance of all such requirements. In addition, a new professional secretarial firm was engaged to provide professional corporate secretarial services to Prince Frog (HK), the service of which covers the preparation of all the documents relating to the approval of the annual audited accounts and the annual general meetings, filings of annual return and maintaining the minutes books and statutory registers.

Prince Frog (China)

I. Non-compliance with the business scope or other requisite permits and licenses

A. *Nature of non-compliance*

(i) Toothbrush products

Under the business scope of Prince Frog (China), it was permitted to produce and sell toothbrush products, but not including the distribution of toothbrush products manufactured by outsourced manufacturers. However, we had carried on the distribution of toothbrush products manufactured by outsourced manufacturers with a total sales of approximately RMB61.1 million, accounting for approximately 7.3% of our total sales, during the year of 2010.

Maximum potential liability: As advised by our PRC legal advisers, Jingtian & Gongcheng, a company that carries on a business without the requisite permits, approval or business license shall forfeit all its gains from such business activities and be liable for a fine of no more than RMB500,000 according to the actual circumstances under 外商投資商業領域管理辦法 (Measures for the Administration on Foreign Investment in Commercial Fields) and 無照經營查處取締辦法 (Measures for Investigating, Punishing and Banning Unlicensed Business Operations).

Status of sale: we continue to distribute toothbrush products manufactured by outsourced manufacturers as we have obtained the approval for expanding our business scope to distribute toothbrush products in March 2011.

(ii) Soap and laundry liquid products

The business scope of Prince Frog (China) set out in its business license issued on 2 September 2010 did not include the production and sale of soap products and laundry liquid

BUSINESS

products. During the year of 2010, we produced and sold soap and laundry liquid products with a total sales of approximately RMB4.4 million and RMB3.8 million, accounting for approximately 0.5% and 0.5% of our total sales, respectively.

Maximum potential liability: As advised by our PRC legal advisers, Jingtian & Gongcheng, a company that carries on a business without the requisite permits, approval or business license shall forfeit all its gains from such business activities and be liable for a fine of no more than RMB500,000 according to the actual circumstances under 無照經營查處取締辦法 (Measures for Investigating, Punishing and Banning Unlicensed Business Operations).

Status of production: We have ceased the production of soap and laundry liquid products since February 2011.

(iii) Sunscreen products

We had produced and sold sunscreen products in a total amount of sales of approximately RMB9.0 million, accounting for approximately 1.1% of our total sales, during the year of 2010 without 國產特殊用途化妝品衛生批准文件 (Hygiene Approval for Domestic Special-Purpose Cosmetics).

Maximum potential liability: Under 化妝品衛生監督條例 (Regulations on the Hygiene Supervision over Cosmetics), a company producing cosmetics products (including sunscreen products) without such approval may be forced to cease such production, forfeit all such products and its gains from such business activities and its 化妝品生產企業衛生許可證 (Hygiene License for Cosmetics Production Enterprises) and be liable for a fine amounting to three to five times of all such gains.

Status of production and sale: We have ceased the production and sale of such products since 1 January 2011.

(iv) Shampoo products

During the Track Record Period, the business scope of Prince Frog (China) under its business license included the production and sale of cosmetics which include shampoo products. However, it is also required to obtain 工業產品生產許可證 (Production License of Industrial Products) which allows it to produce such products. The previous Production License of Industrial Products of Prince Frog (China) did not include the production of shampoo. During the year of 2010, we produced and sold shampoo products with a total sales of approximately RMB24.9 million, accounting for approximately 3.0% of our total sales.

Maximum potential liability: Under 中華人民共和國工業產品生產許可證管理條例 (Regulations on Administration of Production Licensing of Industrial Products), a company carries out such production without the requisite permits, approval or business license shall be required to cease such production, forfeit all such products and its gains from such business activities and be liable for a fine in the range of the value of such products to three times of the value of such products.

Status of production and sale: As Prince Frog (China) obtained a new Production License of Industrial Products in February 2011 which permitted us to manufacture shampoo products, we have not ceased, and still continue, the production and sale of our shampoo products.

BUSINESS

(v) Insecticide products

In accordance with 農藥生產管理辦法 (Management Measures for Production of Pesticide), a company shall obtain 農藥生產批准證書 (Permit for Production of Pesticide) to produce pesticide products (including insecticide products). The grantee of the Permit for Production of Pesticide shall not produce pesticide products under outsourcing arrangement for another company which does not have such permit. As a result of the Reorganisation and pursuant to the Process Outsourcing Agreement, Prince Frog (China) outsourced the production of insecticide products to Fujian Shuangfei in 2010. Since Prince Frog (China) did not have the Permit for Production of Pesticide to produce insecticide products, it was not permitted to outsource the production of such products to Fujian Shuangfei under the Management Measures for Production of Pesticide. The total amount of sales of our insecticide products outsourced to Fujian Shuangfei was approximately RMB129.0 million, accounting for approximately 15.4% of our total sales, in 2010.

Maximum potential liability: Under 農藥管理條例 (Regulations on the Management of Pesticide), any company producing pesticide without the Permit for Production of Pesticide or other approval documents shall cease such production, forfeit all its gain derived from such production and be liable for a fine amounting to one to ten times of such gains and for a fine no more than RMB100,000 if no gain is obtained from such production.

Status of production and sale: we continue the outsourcing of such production as we have obtained the confirmation from the relevant government authority that we are permitted to continue such outsourcing arrangement with Fujian Shuangfei pending the obtainment of the Permit for Production of Pesticide and 農藥登記證 (Registration Certificate for Pesticide) which is currently being processed.

B. *Confirmations of no penalty for the above non-compliances by PRC authorities*

We have obtained confirmations from various PRC government authorities which confirmed that we would not be penalised for the above non-compliance incidents for the following reasons:

- (a) Confirmation from 漳州市對外貿易經濟合作局 (Zhangzhou Municipal Foreign Trade and Economic Cooperation Bureau) dated 28 February 2011: it was confirmed, inter alia, that it approved the expansion of business scope of Prince Frog (China) to include the distribution of, among others, toothbrush products, soap products and cosmetics products (including sunscreen products) and we would not be penalised as a result of our non-compliance with 外商投資商業領域管理辦法 (Measures for the Administration on Foreign Investment in Commercial Fields) during the Track Record Period;
- (b) Confirmation from 漳州市工商行政管理局 (Zhangzhou Administration for Industry and Commerce) dated 28 February 2011: it was confirmed, among others, that (a) as Prince Frog (China) had obtained a renewed Production License of Industrial Products by the General Administration in February 2011, we would not be penalised for the non-compliance with the scope of our Production License of Industrial Products during the Track Record Period; (b) as Prince Frog (China) had outsourced the production of sunscreen products to Fujian Shuangfei, which possessed the Hygiene Approval for Domestic Special-Purpose Cosmetics, since 1 January 2011, we would not be penalised for the production of sunscreen products during the Track Record Period; (c) as Prince Frog (China) had ceased the production of soap and laundry liquid products, we would not be penalised for such non-compliance during the Track Record Period; and (d) save

BUSINESS

as the above non-compliance incidents, Prince Frog (China) had not carried on any business activities which were beyond its business scope. Prince Frog (China) was not subject to any penalty relating to non-compliance with any licenses or approvals for its operation and did not have any dispute with Zhangzhou Administration for Industry and Commerce relating to non-compliance with any licenses or approvals for its operation;

- (c) Confirmation from 漳州市食品藥品監督管理局 (Zhangzhou Food and Drug Administration) dated 28 February 2011: it was confirmed, among others, that as Prince Frog (China) has ceased the production of sunscreen products since 1 January 2011, we would not be penalised for any non-compliance with the requirements for Hygiene Approval for Domestic Special-Purpose Cosmetics and other relevant approvals during the Track Record Period and were not involved in any dispute with Zhangzhou Food and Drug Administration relating to any noncompliance with the requirements for Hygiene Approval for Domestic Special-Purpose Cosmetics and other relevant approvals; and
- (d) Confirmation from 福建省經濟貿易委員會 (Fujian Province Economic and Trade Commission) on 24 February 2011: it was confirmed that as the actual controllers of Prince Frog (China) and Fujian Shuangfei are the same and Prince Frog (China) had been applying for the Permit for Production of Pesticide and Registration Certificate for Pesticide, we would be permitted to continue the outsourcing of the production of insecticide products to Fujian Shuangfei until we obtained such permit and certificate.

As advised by our PRC legal advisers, Jingtian & Gongcheng, the above government authorities were competent and appropriate to provide such confirmations.

C. Remedial actions taken

After obtaining the updated business license, 工業產品生產許可證 (Production License of Industrial Products) and other approvals and licences of Prince Frog (China), we are currently allowed to, inter alia, produce and sell toothbrush products and shampoo products and distribute toothbrush products, soap and laundry liquid products and cosmetics products (including shampoo and sunscreen products) which are manufactured by third party manufacturers. We applied for the 國產特殊用途化妝品衛生批准文件 (Hygiene Approval for Domestic Special-Purpose Cosmetics) for the production of sunscreen products in March 2011, and plan to apply for the requisite licenses and expansion of our business scope to produce soap and laundry liquid products by the end of 2011 after the commencement of operation of the first phase of our new plant. As advised by our PRC legal advisers, Jingtian & Gongcheng, provided that we comply with the relevant application procedures and requirements, there is no legal impediment for us to obtain such licenses and expand our business scope for the production of soap and laundry liquid products and sunscreen products in China. Before obtaining such licenses and approvals, we cannot, and will not, produce soap and laundry liquid products and sunscreen products. As those products are not the major products of our Group, we do not consider that the cessation of the production of those products will have any material adverse effect on our operation and financial status.

For our insecticide products which are currently outsourced to Fujian Shungfei, we are applying for the Permit for Production of Pesticide and Registration Certificate for Pesticide. We will be permitted to produce insecticide products after obtaining such permit and certificate. We expect that such certificate will be obtained by no later than 31 December 2012.

BUSINESS

D. Mitigating measures

As confirmed by our Directors, the above non-compliance incidents of Prince Frog (China) during the Track Record Period were mainly due to the lack of communication between the personnel of our Group in charge of our legal compliance matters with the personnel in our domestic sales department and production department on new products being developed, manufactured and sold by the Group. Such lack of communication allowed our production department and sales department to commence manufacturing and selling the relevant products before the requisite licenses and permits had been obtained which resulted in the inadvertent breaches. In addition, such inadvertent breaches had also resulted in manufacturing and selling some of our products that were beyond our business scope. Upon our Group becoming aware of the non-compliance issue, we immediately ceased all such non-compliance activities, took remedial actions to correct the non-compliance, and obtained confirmations from the competent government authorities confirming that we will not be subject to any penalty as a result of such non-compliance incidents.

In order to prevent the recurrence of the above non-compliance incidents, our Company has adopted certain internal control measures which provide that in case our Group intends to engage in the production or sale of a new category of products which may not be permitted under the business licence or other approvals or permits of Prince Frog (China), such activities shall first be considered by our designated legal compliance officer and our external legal advisers to ensure that such activities will not violate our business scope or any applicable laws and regulations and then be submitted to our Board for approval. We are in the process of appointing such compliance officer who shall be a qualified PRC legal counsel with relevant compliance experience and will directly report to our general manager for performing his duties and expect that such legal compliance officer will be appointed by the end of July 2011.

E. Undertakings by our Controlling Shareholders, Mr. Xie and Jinlin Investment

Our Controlling Shareholders, Mr. Xie and Jinlin Investment have undertaken that they will fully and immediately indemnify us against all fines, penalties, costs and any other expenses imposed on or suffered by us as a result of such non-compliance with the business scope or requisite permits and licenses of Prince Frog (China) relating to the production, sale and/or distribution of the products set out in paragraphs (A) (i) to (v) above. In view of the confirmations of the relevant authorities, the undertakings of our Controlling Shareholders, Mr. Xie and Jinlin Investment and the fact that we have already ceased the production, sale and/or distribution of the relevant products, our Directors believe that such non-compliance incidents will not lead to any material adverse effect on our business and financial condition.

II. Failing to pass random checks conducted by government authorities

A. Nature of non-compliance

(i) Two 青蛙王子 (Frog Prince) hand wash gel products

In December 2009, two of our children hand wash gel products failed to pass the testing standard for the content of total active matter (總活性物) in the tests carried out by 江西省產品質量監督檢測院 (Jiangxi Provincial Product Quality Supervision Testing College) as designated by the General Administration. Such testing standard was not a compulsory one under the laws of PRC in 2005. The relevant PRC government authorities then revised the industry standard and such testing standard had become compulsory when the tests were conducted in

BUSINESS

December 2009. We had been producing our children hand wash gel products in accordance with the previous testing standard and inadvertently overlooked such change of testing standard. As a result, we did not identify such non-compliance in our quality control process based on the previous testing standard. As it was also our understanding that a higher content of total active matters, although improving cleansing effect, may cause allergic reaction to the skin of certain children, we decided at the time of our initial formulation to reduce the amount of total active matters to reduce such possible side effects on children.

Maximum potential liability: As advised by the Company’s PRC legal advisers, Jingtian & Gongcheng, since 漳州市質量技術監督局 (Zhangzhou Product Quality and Technical Supervision) has confirmed that such non-compliance incidents did not constitute any serious quality problem in violation of PRC national and industry standards for the protection of health and safety of human body and the non-compliance incidents were only inadvertent incidents as confirmed by our Group, we may be subject to the order of the relevant authorities to cease the production and sale of such products and to rectify the non-compliance of such products within a specified period under 中華人民共和國產品質量法 (Product Quality Law of The People’s Republic of China) and 產品質量國家監督抽查管理辦法 (Administrative Measures for the State Supervisory Sampling Inspection of Product Quality).

Remedial actions taken: Following the random tests conducted by Jiangxi Provincial Product Quality Supervision Testing College and as soon as we were informed of the testing results, we immediately gave notice of the results of the test to our distributors. The then Directors had considered the results of the test and understood that the content of total active matters in hand wash gel products is one of the factors affecting the cleansing effect of cleansing products and would not give rise to any health impact on the users of the products.

As the then Directors did not consider the hand wash gel products already sold to the market to give rise to health risks to the users or compromise the quality of our products, we did not call for a recall of the products already sold. Nonetheless, we have then made recommendation to our distributors to cease the distribution and sale of those hand wash gel products and offered to replace and exchange those products already sold to our distributors, but none of them had returned and/or requested replacement and exchange of those relevant hand wash gel products.

In view of the inadvertent non-compliance with the industry standard, we had communicated with the relevant PRC government authorities to clarify about the then prevailing testing standard and modified the ingredients of such hand wash gel products and submitted the relevant modified products to 福建省中心檢驗所 (Fujian Provincial Central Inspection Institute), a qualified testing institute accredited by the General Administration, to conduct tests of those modified products in June 2010 which found those modified products to be in compliance with the then prevailing testing standards.

Current status: As at the Latest Practicable Date, we had not received any complaint in respect of the quality of the relevant hand wash gel products from any end-consumers. Our distributors who had purchased such batch of products from us also confirmed that they do not have any more of the non-compliant products in their inventory.

As at the Latest Practicable Date, we had not been penalised by any government authorities as a result of the non-compliance of those products and the relevant government authorities had not taken or made any regulatory actions or requests against us as a result of the non-compliance with the above stated random tests.

BUSINESS

In August 2010, PRC government revised the testing standards again and the amount of total active matters to be included in a cleansing product is no longer a compulsory standard.

(ii) Four 雙飛劍 (Shuangfeijian) household hygiene products

Insofar as our Directors are aware, four of our 雙飛劍 (Shuangfeijian) household hygiene products did not pass certain random tests carried out by the relevant PRC authorities, among which one of our insecticide products failed to pass a random test carried out by the General Administration in 2004, one of our mosquito-repellent incense products failed to pass the random tests carried out by 溫州市工商行政管理局 (Wenzhou Administration for Industry and Commerce) in 2008, and two of our mosquito-repellent incense products failed to pass the random tests carried out by 四川省工商行政管理局 (Sichuan Administration for Industry and Commerce) in 2009 (together, the “**Non-compliant Products**”). We became aware of such non-compliance incidents in the course of reviewing the compliance status of our products in March 2011. We then immediately took the initiative to check the online records of the relevant authorities. Upon identification of the possible non-compliance, we immediately approached 漳州市質量技術監督局 (Zhangzhou Product Quality and Technical Supervision) (the “**Zhangzhou Bureau**”) to obtain a formal confirmation of the non-compliance incidence. Pursuant to the confirmation, the Non-compliant Products were deemed to have failed the tests for reasons including ineffectiveness of the product and concentration issues of certain chemicals in the products.

Under the relevant PRC laws and regulations, it is the responsibility of the relevant PRC government authorities conducting the relevant random tests to inform the manufacturer of any non-compliance and announce the results of such non-compliance to the public. However, for reasons which our Directors are unable to determine even after having discussed with the Zhangzhou Bureau and due to the lapse of time since the non-compliance occurred, our Directors have confirmed that we did not receive any notification of such test results from the government authorities. For such reasons, our Directors also confirmed that we were not able to determine the reasons for such incidents.

Maximum potential liability: Such non-compliance incidents will be subject to the same laws and regulations and potential liabilities as in (i) above.

Remedial actions taken: As we were not aware of the above Non-compliant Products having failed random tests when they happened, we have not previously issued any notice to cease the sale of such products to our distributors nor have we recalled any of the Non-compliant Products. However, upon discovering such non-compliance issues, we have contacted our distributors to cease the sale of any remaining stock of such batches of Non-compliant Products.

Current status: Our distributors who had purchased such batches of Non-compliant Products from us confirmed that there are no longer any stocks of such batches of Non-compliant Products in their inventory and they have not received any notice of such test results for the Non-compliant Products from any government authorities.

The Directors confirmed that the relevant product type of the Non-compliant Products had received approval from Zhangzhou Bureau prior to commencement of production.

As at the Latest Practicable Date, save for one of the two mosquito-repellent incense products for which we failed to pass the test conducted by Sichuan Administration for Industry and Commerce in 2009 for which we had ceased production since January 2007, all the Non-compliant

BUSINESS

Products are still in production and have passed the random tests conducted by the relevant PRC authorities in 2009 and 2010 and the additional independent tests carried out by Pony on 16 February 2011.

As at the Latest Practicable Date, we had not received any complaint in respect of the quality of the relevant household hygiene products from any end-consumer and had not been penalised by any government authorities as a result of the non-compliance of those products.

B. Confirmations of no penalty for the above non-compliances by PRC authorities

We have obtained confirmations from Zhangzhou Bureau which confirmed that we would not be penalised for the above non-compliance incidents for the following reasons:

- (a) Confirmation from Zhangzhou Bureau dated 2 June 2011: it was confirmed that save for the incidents set out in paragraphs (A)(i) and (ii) above, since the establishment of Fujian Shuangfei in 1995 and up to the date of the confirmation, Fujian Shuangfei had complied with all requirements for product quality under the relevant PRC laws and regulations, all our products manufactured by Fujian Shuangfei had complied with all product quality requirements and standards under relevant PRC laws and regulations. It was also confirmed that since the non-compliance with the relevant testing standards of the Non-compliant Products no longer existed and they do not constitute any serious quality problems in violation of PRC national and industry standards for the protection of health and safety of human body, Fujian Shuangfei was not, and would not be, subject to any penalty as a result of those incidents and had not been involved in any dispute relating to product quality with Zhangzhou Bureau.

As advised by the Company’s PRC legal advisers, Jingtian & Gongcheng, since such incidents did not constitute any serious quality problems in violation of the national and industry standards for the protection of health and safety of human body, Fujian Shuangfei was not obliged to announce any product recall of those products under PRC laws.

- (b) Another confirmation from Zhangzhou Bureau dated 2 June 2011: it was confirmed that since the commencement of the business of Prince Frog (China) in January 2010 and up to the date of the confirmation, Prince Frog (China) had complied with all requirements for product quality under the relevant PRC laws and regulations, all our products manufactured by Prince Frog (China) had complied with all product quality requirements and standards under relevant PRC laws and regulations. It was also confirmed that Prince Frog (China) had not been penalized for any product quality issues nor had it been involved in any dispute relating to product quality with Zhangzhou Bureau.

C. Mitigating measures

In order to prevent the recurrence of the above product quality incidents and be more proactive in identifying possible non-compliance of our products, our Company has adopted stricter internal control measures for the purpose of enhancing the communication between our legal compliance officer and our production department and sales department to ensure that our products will comply with the most updated industry standards. Details of such internal control measures are set out in the paragraphs headed “Business — Litigation and Compliance — Prince Frog (China) — I. Non-compliance with the business scope or other requisite permits and licenses”

BUSINESS

of this document. We are in the process of appointing a designated legal compliance officer, who shall be a qualified PRC legal counsel with relevant compliance experience and will directly report to our general manager for performing his duties, to regularly check for changes in industry requirements and standards and any notice and announcement made by the relevant government authorities in their official publications and/or websites in relation to the quality of our products, so that we can take prompt action once we notice any such change in requirements and standards and other product quality issues. We expect that such legal compliance officer will be appointed by the end of July 2011.

In addition, we are in the process of adopting a new quality control system in our new production facilities covering the manufacture and testing of our personal care products in compliance with the Guideline for Good Manufacture Practice of Cosmetic Products (GMPC) published by Council of Europe and will apply to the qualified international testing institute for GMPC certificates for our quality control system. We expect that the relevant GMPC certificates will be obtained in September 2011. For our household hygiene products which are outsourced for production, we will further strengthen the quality control process for the products provided by our outsourcing partners (including Fujian Shuangfei) by committing more human resources to carry out quality checks and tests on those products and providing more training to our quality control team. We will also conduct regular inspection of the production process of our outsourcing partners with the aim of monitoring their production process and hence the safety and quality of the products manufactured by them.

In addition to complying with the relevant national standards in China and to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)¹ to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products; and (ii) Pony² to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the relevant national standards in China. Both Intertek (HK) and Pony are international renowned testing organisations which provide testing services in accordance with various international standards and have been engaged by the leading players in different industrial sectors.

D. Undertakings by our Controlling Shareholders, Mr. Xie and Jinlin Investment

In addition to the above confirmation of no penalty for those incidents from Zhangzhou Bureau, our Controlling Shareholders, Mr. Xie and Jinlin Investment have undertaken that they will fully and immediately indemnify us against all fines, penalties, costs and any other expenses imposed on or suffered by us as a result of such incidents.

As those products are not the major products of our Group, that those products which are in production are now in compliance with the then prevailing testing standards and we have also obtained a confirmation from Zhangzhou Bureau that no penalty would be imposed for those incidents, we do not consider those incidents will have any material adverse effect on our operation and financial status.

Notes:

1. As of 18 February 2011.
2. As of 16 February 2011.

BUSINESS

As advised by our PRC legal advisers, Jingtian & Gongcheng, save as the non-compliance incidents disclosed in this document, the Group has complied with all relevant laws and regulations and obtained all permits and approvals for its business operation, and our products have passed all regular and random inspection, during the Track Record Period and up to the Latest Practicable Date.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the [●], our Controlling Shareholders will together control the exercise of the voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company. As confirmed by our Controlling Shareholders, save as disclosed below and except for their respective interests in Fujian Shuangfei, Shuangfei (USA), our Company and its subsidiaries, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies as at the Latest Practicable Date which include any other companies that (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Reorganisation; or (ii) may, directly or indirectly, compete with our Group’s business.

Our Controlling Shareholders hold equity interests in Fujian Shuangfei and Shuangfei (USA). The details of Fujian Shuangfei and Shuangfei (USA) as at the Latest Practicable Date are set out below:

<u>Name</u>	<u>Place of Incorporation</u>	<u>Main Business Activities</u>	<u>Equity Interests held by Mr. Li and Mr. Xie</u>
Fujian Shuangfei	PRC	Production of sunscreen, air freshener products and agricultural chemicals related products and agricultural chemicals	51% by Mr. Li 49% by Mr. Xie
Shuangfei (USA)	Florida, U.S.	Sales and distribution of adult skin care and bath products	51% by Mr. Li 48% by Mr. Xie 1% by Ms. Lina Xu

Shuangfei (USA) is a corporation incorporated on 16 July 2008 under the laws of the State of Florida, U.S. which is primarily engaged in the sales and distribution of adult skin care products and bath products under the brands “BODY & EARTH” and “GREEN CANYON SPA”. These brands were acquired by Fujian Shuangfei from the original owner, an Independent Third Party (the “**Original Owner**”) in the U.S., which had previously used the brands in its U.S. distribution of adult care products. As Shuangfei (USA) already has an established sales channels and network built by the Original Owner, the U.S. distribution of our OEM products under the brands “BODY & EARTH” and “GREEN CANYON SPA” continues to be carried out by Shuangfei (USA). As confirmed by our Directors, as at the Latest Practicable Date, Shuangfei (USA) has two full-time employees and the total assets of Shuangfei (USA) are approximately USD805,000. Like our other OEM customers, our OEM products sold to Shuangfei (USA) were only distributed and sold to our overseas customers. For the three years ended 31 December 2008, 2009 and 2010, the aggregate amounts of our sales of product to Shuangfei (USA) were approximately RMB8.3 million, RMB8.1 million and RMB32.6 million, respectively, representing approximately 1.8%, 1.3% and 3.9%, respectively, of our Group’s total revenue during the Track Record Period. Our PRC legal advisers, Jingtian & Gongcheng, have advised that the injection of Shuangfei (USA) into our Group through the acquisition of Shuangfei (USA) by Prince Frog (HK) would not have to comply with additional legal requirements (including the M&A Rules) under PRC laws other than that details of such acquisition need to be reflected in the SAFE registration application materials to be made by Mr. Li and Mr. Xie. Currently we do not have any plan to operate any business in the

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

U.S. and would focus on the development of our branded children care products, in particular our 青蛙王子 (Frog Prince) brand, in PRC. For adult care products, other than our OEM products, we only sell our own branded adult oral care products, and do not produce and distribute adult skin care and body care products. Since Shuangfei (USA) is principally engaged in the distribution and sales of adult skin care and body care products and operates in the U.S., which is not part of our Group’s target market for our children care products, Shuangfei (USA) was not injected into our Group. Our Directors believe that the business of Shuangfei (USA) will not create direct or immediate competition with the existing business of our Group.

NON-COMPETITION UNDERTAKINGS OF THE CONTROLLING SHAREHOLDERS, MR. XIE, JINLIN INVESTMENT AND FUJIAN SHUANGFEI

Each of our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei has entered into the Deed of Non-competition in favour of our Company, pursuant to which each of our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei has undertaken to our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “**Restricted Business**”).

In addition, as Fujian Shuangfei is currently engaging in the production of sunscreen, air freshener and insecticide products for Prince Frog (China) pursuant to the Process Outsourcing Agreement, Mr. Li and Mr. Xie as shareholders of Fujian Shuangfei further undertake that they will procure (i) Fujian Shuangfei to carry on such business for the purpose of supplying these products to our Group pursuant to the Process Outsourcing Agreement only and not to produce any such products for its own sales to any other third party; and (ii) Fujian Shuangfei to cease to carry on such business once our Group obtains the requisite licenses for the production of these products.

Such Deed of Non-competition does not apply to:

- (a) the holding of equity interests in the shares of any member of our Group; or
- (b) the holding of interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for not more than 10% of that company’s combined revenue or combined assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei and/or their respective associates in aggregate does not exceed 5% of the total issued shares of the company in question and such Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei and/or their respective associates are not entitled to appoint a majority of the directors of that company, and at any time there should be at

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

least another shareholder of that company whose shareholdings in that company is more than the total number of shares held by our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei and their respective associates in aggregate.

The “restricted period” stated in the Deed of Non-competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; (ii) in relation to each of our Controlling Shareholders, Mr. Xie and Jinlin Investment, it or he or its or his associates hold an equity interest in our Company; and (iii) the relevant Controlling Shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

DIRECTORS

Save for the interests of Mr. Li and Mr. Xie in Fujian Shuangfei and Shuangfei (USA) as disclosed above, each of the Directors confirms that he or she does not have any business competing with our Group. Moreover, pursuant to their service agreements, our executive Directors shall not at any time during their term of service with our Group without the prior written consent of the Board, be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation, which competes or may be in competition with the business of our Group from time to time.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, on an annual basis, compliance with the non-competition undertakings by our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei under the Deed of Non-competition;
- (ii) our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement under the Deed of Non-competition in the annual reports of our Company; and
- (iv) our Controlling Shareholders, Mr. Xie, Jinlin Investment and Fujian Shuangfei will make an annual declaration on compliance with their undertakings under the Deed of Non-competition in the annual report of our Company.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the [●]:

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. One of our executive Directors, Mr. Li, is our Controlling Shareholder. Mr. Li also serves as a director in Fujian Shuangfei and Shuangfei (USA) and his role in Fujian Shuangfei and Shuangfei (USA) is not expected to require his constant attention or a fixed amount of time. Mr. Li has confirmed that he will devote the majority of his business hours to attend to the affairs of our Group and his involvement in Fujian Shuangfei and Shuangfei (USA) will not materially affect the discharge of his duty to our Company.

Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the [●].

Operational Independence

We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

As part of the Reorganisation, we leased certain production facilities and buildings from Fujian Shuangfei for the production of our children care products and OEM products. Prince Frog (China) constructed certain new production facilities and office premises with a gross floor area of approximately 145,000 square meters (three phases in total), and part of such production lines with a gross floor area of approximately 55,854 square meters was completed in March 2011 and put into operation in May 2011. We have installed new automated equipment, and 30 and 16 production lines for the production of skin care products and body and hair care products, respectively, in the first phase of the new plant after its commencement of operation. We expect that all the 11 existing production lines of Fujian Shuangfei will retire by the end of 31 December 2012 upon the full operation of the first phase of our new plant. By that time, the total number of production lines for skin care products and body and hair care products of our Group will be 46 with total expected annual production capacity for our skin care products and body and hair care products of approximately 20,000 metric tons and approximately 60,000 metric tons, respectively representing an increase by 316.5% and 661.2% compared to our expected production capacity in

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

2010, respectively. Our Directors believe that the production facilities to be owned by our Group can support the production and operation of our Group and our Group is therefore able to operate independently of our Controlling Shareholders. Currently Fujian Shuangfei has not granted Prince Frog (China) any purchase option to purchase the assets retained by Fujian Shuangfei, including the relevant inventories, vehicles and equipments upon the Group obtaining the licenses or approvals for the production of sunscreen and insecticide products. As the current assets retained by Fujian Shuangfei are becoming obsolete and are unlikely to be able to conform to the new manufacturing standards that we are putting in place at our current and future new production facilities, we will not acquire the assets retained by Fujian Shuangfei. In the event that an acquisition of those relevant assets does take place, we will make the necessary announcement and conform to the relevant requirements under the Listing Rules. Mr. Li and Mr. Xie as shareholders of Fujian Shuangfei have also undertaken that they will procure Fujian Shuangfei to conduct the production of sunscreen, insecticide and air freshener products for the purpose of supplying these products to our Group only pursuant to the Process Outsourcing Agreement and shall not produce any such products for its own sales to any other third party.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. The bank account we hold is independent of the accounts held by our Controlling Shareholders and any of their associated companies. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for receipts and payments, and independent access to third party financing. Therefore, there is no financial dependence on our Controlling Shareholders. Our Directors have confirmed that all the amounts due from or due to our Controlling Shareholders (if any) will be fully settled before the [●]. Our Directors also confirm that the guarantees provided by or given to our Controlling Shareholders (if any) will be fully released before the [●].

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

Members of our Group have entered into certain agreements with parties who are [●] (as defined under Chapter 14A of the Listing Rules) of our Company and the transactions therein will continue after the [●], thereby constituting continuing connected transactions of our Company under the Listing Rules.

CONNECTED PERSONS

Each of Mr. Li and Mr. Xie, both our Directors, holds 51% and 49% equity interests in Fujian Shuangfei and 51% and 48% outstanding shares of Shuangfei (USA), respectively, therefore Fujian Shuangfei and Shuangfei (USA) are their associates and constitute [●] of our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below are the terms of the continuing connected transactions which (i) in respect of the transactions with Fujian Shuangfei for the lease of the land, factory buildings and office premises under the Fujian Shuangfei Lease Agreement and the Mingxin Lease Agreement, the lease of the production facilities and vehicles under the Equipment and Vehicles Lease Agreement (as defined below) (calculated in aggregation) and the process outsourcing arrangement under the Process Outsourcing Agreement, are subject to the reporting, announcement, annual review requirements under Rules 14A.45 to 14A.47 of the Listing Rules; and (ii) in respect of the transactions with Shuangfei (USA) for the sales of bath and skin care products under the Sale of Goods Agreement, are subject to the reporting, announcement, annual review requirements and independent shareholders’ approval requirements under Rules 14A.35, 14A.37 to 14A.40 and 14A.45 to 14A.48 of the Listing Rules (the “**Non-exempt Continuing Connected Transactions**”).

1. Fujian Shuangfei Lease Agreement

Pursuant to the Fujian Shuangfei Lease Agreement, Fujian Shuangfei agreed to lease the office premises and factory buildings located at No. 8, North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou, Fujian, PRC, with a total area of approximately 9,251 square meters to Prince Frog (China). The rent is approximately RMB53,400 per month and is payable within first ten days of each quarter in advance.

The Fujian Shuangfei Lease Agreement is for a term of three years from 1 January 2010 to 31 December 2012, renewable by Prince Frog (China) within one month before expiry with a written notice to Fujian Shuangfei.

2. Mingxin Lease Agreement

Under the Original Lease Agreement, Mingxin agreed to lease the land located at No. 8, North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou, Fujian, PRC, with a total area of approximately 12,255 square meters to Fujian Shuangfei. For the office premises and warehouse located on such land with a gross floor area of approximately 700 square meters owned by Mingxin, Fujian Shuangfei can use them free of charge.

Fujian Shuangfei constructed certain buildings with a gross floor area of approximately 4,846 square meters on such land and has not obtained property titles for such buildings. Pursuant to the Mingxin Lease Agreement, Prince Frog (China) shall pay a monthly rent of RMB27,743 to

CONNECTED TRANSACTIONS

Fujian Shuangfei and RMB22,059 to Mingxin as the rent relating to the lease with Fujian Shuangfei and Mingxin.

The Mingxin Lease Agreement is for a term of ten years from 1 December 2004 to 1 December 2014.

3. Equipment and Vehicles Lease Agreement

Pursuant to the Equipment and Vehicles Lease Agreement, Fujian Shuangfei agreed to lease certain production facilities and vehicles to Prince Frog (China). Such production facilities were originally used by Fujian Shuangfei for the business of the children care business and OEM business other than the business of sunscreen products, air freshener products and insecticide products. The rent is approximately RMB204,000 per month and is payable within first ten days of each quarter in advance. As confirmed by our Directors, such consideration was determined with reference to the monthly depreciation cost of such production facilities multiplying by 110%, taking into account the repair and maintenance cost and expected inflation.

The Equipment and Vehicles Lease Agreement is for a term of three years from 1 January 2010 to 31 December 2012, renewable by Prince Frog (China) within one month before expiry with a written notice to Fujian Shuangfei.

4. Process Outsourcing Agreement

Pursuant to the Process Outsourcing Agreement, Fujian Shuangfei agreed to produce relevant products according to the purchase orders issued by Prince Frog (China). Prince Frog (China) shall provide 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. Prince Frog (China) and Fujian Shuangfei further agreed that the outsourcing arrangement shall be limited to the production of the sunscreen, air freshener and insecticide products for a term of three years. Fujian Shuangfei will charge a processing fee, which would be determined on the above basis.

The Process Outsourcing Agreement is for a term from 1 January 2010 to the earlier of (i) 31 December 2012; or (ii) the date on which our Group obtains all the relevant licenses.

5. Sale of Goods Agreement

Pursuant to the Sale of Goods Agreement dated 13 June 2011 entered into between Shuangfei (USA) and Prince Frog (China), Prince Frog (China) agreed to sell and Shuangfei (USA) agreed to buy bath and skin care products produced by our Group. 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. Shuangfei (USA) shall pay our Group within certain period after the delivery of our products.

The Sale of Goods Agreement is for a term of three years from 13 June 2011 to 12 June 2014.

CONNECTED TRANSACTIONS

APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Directors (including the independent non-executive Directors) consider that the transactions under each of the Non-exempt Continuing Connected Transactions have been entered into in the ordinary and usual course of business of our Group and have been based on arm’s length negotiations and on normal commercial terms that are fair and reasonable so far as our Group and the Shareholders as a whole are concerned. Our Directors also confirm that each of the proposed annual caps set out below are fair and reasonable.

The transactions contemplated under the Fujian Shuangfei Lease Agreement, the Mingxin Lease Agreement and the Equipment and Vehicles Lease Agreement (as calculated in aggregate) and the Process Outsourcing Agreement constitute continuing connected transactions under the Listing Rules. Given that each of the applicable percentage ratios (other than the profits ratio) of the annual cap under such agreement is more than 0.1% and less than 5%, they are subject to the reporting and announcement requirements and exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Jones Lang LaSalle Sallmanns Limited, the independent property valuer to our Group, has reviewed the Fujian Shuangfei Lease Agreement and the Mingxin Lease Agreement and confirmed that the rents payable under these agreements are fair and reasonable and consistent with the prevailing market rates for similar premises in similar locations in PRC and the terms of the Fujian Shuangfei Lease Agreement and the Mingxin Lease Agreement are on normal commercial basis and the duration of these leases is consistent with the prevailing market.

The transactions contemplated under the Sale of Goods Agreement constitute the continuing connected transactions under the Listing Rules. Given that certain of the applicable percentage ratios (other than the profits ratio) of the annual transaction value under the Sale of Goods Agreement is more than 5% and the total consideration is more than HK\$10,000,000, they are subject to the applicable reporting, announcement requirements, annual review and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

As the Non-exempt Continuing Connected Transactions will continue after the [●] on a recurring basis, our Directors consider that strict compliance with the announcement and/or independent shareholders’ approval requirements under the Listing Rules would be unduly burdensome and impractical.

Accordingly, the [●], on behalf of our Company, have applied for, and have received from, the Stock Exchange a waiver from strict compliance with the announcement and/or independent shareholders’ approval requirements set out in Rules 14A.47 and 14A.48 of the Listing Rules for the Non-Exempt Continuing Connected Transactions.

CONNECTED TRANSACTIONS

HISTORICAL FIGURES

The following table shows the actual transaction amounts for the Non-exempt Continuing Connected Transactions for the three years ended 31 December 2010:

	Year ended 31 December		
	2008	2009	2010
	(RMB)	(RMB)	(RMB)
1. Fujian Shuangfei Lease Agreement	—	—	640,000(<i>Note</i>)
2. Mingxin Lease Agreement	—	—	321,000
3. Equipment and Vehicles Lease Agreement	—	—	2,448,000
4. Process Outsourcing Agreement	—	—	8,682,000
5. Sale of Goods Agreement	8,336,000	8,073,000	32,646,000

Note:

The transaction amount was calculated according to the rent provided in the Fujian Shuangfei Lease Agreement.

ANNUAL CAPS

In respect of Rule 14A.35(2) of the Listing Rules, the maximum aggregate annual cap for each of the Non-exempt Continuing Connected Transactions shall not exceed the applicable limit set out below:

Non-exempted Continuing Connected Transactions	Maximum Annual Transaction Amounts (the "annual caps")		
	For the year ending 31 December		
	2011	2012	2013
	(RMB)	(RMB)	(RMB)
1. Fujian Shuangfei Lease Agreement and Mingxin Lease Agreement	961,800	961,800	321,000 (<i>Note 1</i>)
2. Equipment and Vehicles Lease Agreement	2,448,000	2,448,000	— (<i>Note 1</i>)
3. Process Outsourcing Agreement	10,000,000	12,000,000	— (<i>Note 2</i>)
4. Sale of Goods Agreement	39,420,000	45,333,000	52,133,000 (<i>Note 3</i>)

Notes:

- The rent for these leases is a fixed amount and therefore the annual caps for these transactions were determined with reference to the actual rent to be paid by Prince Frog (China) to Fujian Shuangfei. The Fujian Shuangfei Lease Agreement will expire on 31 December 2012. The annual cap for the year ended 31 December 2013 was for the Mingxin Lease Agreement and was determined with reference to the transaction value to be paid by Prince Frog (China) to Fujian Shuangfei under the Mingxin Lease Agreement. The transaction value between Fujian Shuangfei and Prince Frog (China) under the Fujian Shuangfei Lease Agreement and the Mingxin Lease Agreement for the four months ended 30 April 2011 was approximately RMB320,000. The transaction value under the Equipment and Vehicles Lease Agreement for the four months ended 30 April 2011 was approximately RMB816,000.
- The annual caps for the two years ending 31 December 2012 were determined with reference to the actual transaction value for the year 2010, with an expected growth rate of 20% from 2011 to 2012. Such growth rate is determined with reference to the expected growth rate of China's children care products market from 2010 to 2012 (at a CAGR of approximately 17.8% as estimated by Euromonitor). The transaction value under the Process Outsourcing Agreement for the four months ended 30 April 2011 was approximately RMB5,243,000.
- The annual cap for the year ending 31 December 2011 was determined with reference to the purchase orders received which was approximately RMB23,000,000 as at the Latest Practicable Date and the expected sales for the rest of 2011. The annual caps for the two years ending 31 December 2012 and 2013 were determined with an expected growth rate of 15%. Such growth rate is determined with reference to the average growth rate of approximately 9% of our revenue for our overseas sales for the three years ended 31 December 2008, 2009 and 2010 and expected future growth of our overseas sales. The transaction value under the Sale of Goods Agreement for the four months ended 30 April 2011 was approximately RMB14,519,000.

CONNECTED TRANSACTIONS

We confirm that our Company will comply with the requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Listing Rules in relation to the above continuing connected transactions and that the maximum aggregate annual values of the continuing connected transactions with Fujian Shuangfei under the Fujian Shuangfei Lease Agreement, the Mingxin Lease Agreement, the Equipment and Vehicles Lease Agreement (calculated in aggregate) and the Process Outsourcing Agreement and Shuangfei (USA) under the Sale of Goods Agreement for the three years ending 31 December 2013 are not expected to exceed the annual caps, and will re-comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Executive Directors

Mr. Li Zhenhui (李振輝), aged 51, a founder of our Group, is the chairman, chief executive officer and an executive Director of our Company. Mr. Li is mainly responsible for the overall management, strategic planning and business development of our Group. Mr. Li has over 16 years of experience in personal care products industry of China gained from his work in our Group. Mr. Li founded the children care products brand of “青蛙王子 (Frog Prince)” in 1999 and has focused his efforts on developing children care products since then. Mr. Li was the vice president of “Brand Alliances” of the 14th and 15th China Beauty Expo (Shanghai CBE) (第14、15屆中國美容博覽會(上海CBE) [品牌聯盟] 副主席). Mr. Li was appointed as the president of Fujian Daily Chemicals Import and Export Association (福建省日用化學品進出口商會) in June 2010. Mr. Li has also been recognised with several awards and recognitions, including “Exceptional Entrepreneur” (功勳企業家) of China beauty chemicals in 2004 and “Ten New Economic Hero of West-Straits” (十大海西新經濟英雄) by Straits City Daily (海峽都市報) in January 2010. Mr. Li attended the EMBA program of the Finance and Securities Research Institute of the Central University of Finance and Economics (中央財大金融證券研究所EMBA), a long distance training course, and received a diploma in 2004. He also received a senior economist certificate as approved by Fujian provincial Personnel Department (福建省人事廳) in 2007.

Mr. Xie Jinling (謝金玲), aged 52, a founder of our Group, is an executive Director and a vice general manager of our Company. Mr. Xie has over 16 years of experience in personal care products industry of China gained from his work in our Group. He is mainly responsible for production management of our Group, including procurement and production. He received a high school diploma in 1976.

Mr. Ge Xiaohua (葛曉華), aged 41, is an executive Director and a vice general manager of our Company. Mr. Ge has over 10 years of experience in the domestic sales and marketing and has played a key role in the marketing and brand development of our Company. He joined our Group in January 2002 and is responsible for our domestic marketing and sales. Prior to joining our 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. (福建福龍生物制品有限公司) from September 1997 to February 1999 and for Zhangzhou Ge Laiya Cosmetics Co., Ltd. (漳州格萊雅化妝品有限公司) as a manager from March 1999 to December 2001. He received a diploma in chemical technology from Fujian Chemical School (福建化工學校) in 1988 and a diploma in economic management from the Correspondence School of Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in 1997. He also received an assistant engineer certificate approved by Zhangzhou Bureau of Personnel (漳州市人事局) in 1994.

Mr. Huang Xinwen (黃新文), aged 44, is an executive Director and a vice general manager of our Company. Mr. Huang has about seven years of experience in the international sales and marketing and has played a crucial role in the strategic development and international brand marketing of our Company. He joined our Group on 8 May 1995 as a part time manager of the equipment division and formally joined our Group as a full-time manager of the equipment division in March 2003. In August 2004, he was appointed as the manager of the international trade department of our Group, and was appointed as the vice general manager of our Group in October 2006 responsible for our Group’s international trade. Prior to joining our 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.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Hong Fang (洪芳), aged 34, is an executive Director, the chief financial officer and one of the joint company secretaries of our Company. Ms. Hong has over 11 years of experience in auditing, accounting, financial control and financial management. She joined our Company in March 2010 and is responsible for the overall financial, accounting and secretarial affairs of our Group. Prior to joining our 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 recognised as “2009 KPMG People Management Leader”. She graduated from Beijing University of Chemical Technology with a bachelor degree in accounting in 1999.

Non-executive Director

Mr. Yang Feng (楊鋒), aged 34, was nominated by CCBIAM and was appointed as a non-executive Director on 18 February 2011. Mr. Yang has over 11 years of experience in investment and finance. From 1999 to 2001, he worked at the Shenzhen Customs. From 2001 through 2006, he worked at the International M & A department of Xiangcai Securities Co., Ltd. and was responsible for the provision of financial advisory services. He also temporarily worked at TPG Growth Capital (Asia) Ltd. from May 2007 to August 2007. From 2008 to June 2010, he held the position as the managing director of PPF Hong Kong Limited, a subsidiary of PPF Financial Group mainly engaged in the group’s strategic investment in China. He currently serves as a director at CCBIAM responsible for the direct investment activities. He received a bachelor degree in accounting from Zhongnan University of Economics in 1999 and a master degree in finance from Shanghai University of Finance and Economics in 2005. Then he received a master degree in business administration (MBA) from the business school of Hong Kong University of Science and Technology in 2008, with an exchange study at Columbia Business School in New York.

Independent non-executive Directors

Mr. Chen Shaojun (陳少軍), aged 59, was appointed as an independent non-executive Director on 18 February 2011. 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 also holding a position as the general secretary of China Association of Fragrance Flavor and Cosmetics Industry since 2005. He studied at Mianyang Branch School of Tsinghua University (清華大學綿陽分校) from March 1975 to September 1978, and then attended the postgraduate economic management program for leaders of the Correspondence School of Party School of the Central Committee of C.P.C. (中共中央黨校函授學院領導幹部在職經濟管理研究生班) from September 1996 to July 1999.

Mr. Ren Yunan (任煜男), aged 35, was appointed as an independent non-executive Director on 18 February 2011. From 2004 to 2007, he served as a senior lawyer at Clifford Chance LLP and Skadden, Arps, Slate, Meagher & Flom LLP. From 2007 to 2008, he worked at Lehman Brothers Asia Limited as a vice president in China investment banking team. From 2008 to 2010, he worked at UBS Investment Bank in Hong Kong as an executive director. Currently he serves as the president of Bicon International (HK) Limited, an investment holding company investing in PRC pharmaceutical business. He graduated from Peking University with a bachelor degree in law in 1997 and received a master degree in law from Harvard Law School in 1999. He is also qualified with the New York State Bar and the Hong Kong SAR Bar.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wong Wai Ming (黃偉明), aged 38, was appointed as an independent non-executive Director on 18 February 2011. Mr. Wong has over 15 years of experience in accounting and finance. From 1994 to 1996, he served as a staff accountant at Moores Rowland. From 1996 to 2001, he served as staff accountant and audit manager at Ernst & Young. Then he joined Kin Yat Holdings Limited (Stock Code: 638) in September 2001 and worked as 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. As at the Latest Practicable Date, he did not work for other entities on a full-time basis. 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.

SENIOR MANAGEMENT

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

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

Mr. Wen Wenzhong (溫文忠), aged 44, is the manager of the research and development department of our Company. Mr. Wen has over 21 years of experience in the research and development of children care products. He joined our Group in May 2005 and is responsible for research and development of our children care products and the management of quality control. Prior to joining our 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.

JOINT COMPANY SECRETARIES

Ms. Hong Fang (洪芳). Please refer to the paragraph headed “Directors” above for Ms. Hong Fang’s biography. Ms. Hong does not ordinarily reside in Hong Kong, and is not a member of the Hong Kong Institute of Chartered Secretaries, or a solicitor or barrister as defined in the Legal Practitioners Ordinance, as required under Rule 8.17 of the Listing Rules. Therefore, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Listing Rules, including the residency requirement. For further details, please refer to the section headed “Waivers from Compliance with the Listing Rules” of this document.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. So Ka Man (蘇嘉敏), aged 37, was appointed as the company secretary of our Company on 18 February 2011 and an alternate authorised representative of our Company on 22 June 2011. She is a manager of corporate services at Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. Ms. So does not work for our Company on a 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 10 years. As at the Latest Practicable Date, Ms. So had been appointed as a company secretary of Credit China Holdings Limited (Stock Code: 8207).

OUR GROUP'S RELATIONSHIP WITH EMPLOYEES

We recognise the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We continue to provide training to our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

We believe that our Group offers our staff competitive remuneration packages. Our Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. The primary goal of the remuneration policy with regard to the remuneration packages of our Group's executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Group's executive Directors remuneration packages include basic salaries, discretionary bonuses and housing benefits.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2011, will be approximately RMB2,222,000.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

SHARE CAPITAL

The authorised share capital of our Company is as follows:

	HK\$
Authorised share capital:	
5,000,000,000 Shares	50,000,000

Assuming the [●] is not exercised at all, our Company’s issued share capital immediately following the [●] and the [●] will be as follows:

**Issued and to be issued, full paid or credited
as fully paid upon completion of the [●]
and the [●]:**

(Shares)		HK\$	Approximate percentage of issued share capital (%)
1,000,001 Shares in issue as at the date of this document		10,000.01	[●]
[●] Shares to be issued under the [●]		[●]	[●]
[●] Shares to be issued under the [●]		[●]	[●]
[●] Total		<u>[●]</u>	<u>[●]</u>

Assuming the [●] is exercised in full, our Company’s issued share capital immediately following the [●] and the [●] will be as follows:

**Issued and to be issued, full paid or credited
as fully paid upon completion of the [●]
and the [●]:**

(Shares)		HK\$	Approximate percentage of issued share capital (%)
1,000,001 Shares in issue as at the date of this document		10,000.01	[●]
[●] Shares to be issued under the [●]		[●]	[●]
[●] Shares to be issued under the [●]		[●]	[●]
[●] Shares to be issued upon exercise of the [●] in full		[●]	[●]
[●] Total		<u>[●]</u>	<u>[●]</u>

Note: The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

RANKING

The Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank in full for all dividends or other distributions declared, made or paid after the date of this document, save for the entitlement under the [●].

SHAREHOLDERS

SHAREHOLDERS

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding(%)</u>
Mr. Li	Beneficial owner	308,386,000	30.84
Prince Frog International	Registered owner	308,386,000	30.84
Mr. Xie	Beneficial owner	296,292,000	29.63
Jinlin Investment	Registered owner	296,292,000	29.63
CCB International (Holdings) Limited	Beneficial owner	70,609,000	7.06
CCBIAM	Registered owner	70,609,000	7.06

FINANCIAL INFORMATION

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

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

OVERVIEW

Our 青蛙王子 (Frog Prince) brand is a leading domestic brand of children care products in China with the largest market shares in terms of retail sales value in moisturising lotion products, bath and shampoo products and oral care products, among all domestic brands in China in 2010¹. We primarily design and provide a broad range of children care products under our own brand, including skin care products, body and hair care products, oral care products and diaper products, which are tailored for the mid-end market segment in China. In addition to children care products, we also provide baby care products, household hygiene products and adult care products under our own brand names and manufacture OEM products.

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

We place great emphasis on the quality and safety of our products and implement stringent quality control measures throughout our whole production process. All of our baby care and children care products and household hygiene products currently in production are in compliance with the relevant national standards in China. In addition, to further assure the quality and safety of our products, we voluntarily engaged (i) Intertek (HK)² to conduct tests of all of our baby care and children care cosmetic products currently in production, which found that all products submitted to Intertek (HK) passed the tests relating to certain key parameters for safety and compliance of cosmetic products under the Cosmetics Directive in the European Union for cosmetics products; and (ii) Pony³ to conduct additional independent tests of all of our household hygiene products currently in production, which found that all of them were in compliance with the relevant national standards in China.

Notes:

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

FINANCIAL INFORMATION

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

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

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

REORGANISATION AND BASIS OF PREPARATION

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

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

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

FINANCIAL INFORMATION

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

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

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

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

FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

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

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

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

FINANCIAL INFORMATION

market size grew at a CAGR of approximately 11.5% respectively. Our results of operations will continue to depend on the growth of PRC economy, the levels of disposable income and consumer spending in PRC.

Brand recognition

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

Expansion of our sales network and performance of our distributors

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

Seasonality

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

Taxation

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

FINANCIAL INFORMATION

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

Prices of raw materials and packaging materials

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

Product mix

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

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

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

Competition

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

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders’ right to receive payment has been established.

Borrowing Costs

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

Foreign Currencies

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

FINANCIAL INFORMATION

are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

Inventories

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

Operating Leases

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

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

Property, Plant and Equipment and depreciation

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

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

FINANCIAL INFORMATION

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

FINANCIAL INFORMATION

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

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

Available-for-sale financial investments

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

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

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

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

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

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

SELECTED INCOME STATEMENTS ITEMS

Revenue

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

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

Our revenue increased from RMB474.0 million for the year ended 31 December 2008 to RMB624.4 million for the year ended 31 December 2009 and to RMB838.0 million for the year

FINANCIAL INFORMATION

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

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

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

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

Cost of sales

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

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

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

FINANCIAL INFORMATION

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

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

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

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

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

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

FINANCIAL INFORMATION

Gross profit and gross profit margin

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

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

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

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

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

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

FINANCIAL INFORMATION

Other income and gains

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

Selling and distribution costs

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

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

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

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

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

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

FINANCIAL INFORMATION

improve our profitability during the Track Record Period. Our net profit margins were 15.2%, 14.7% and 17.2% for the three years ended 31 December 2008, 2009 and 2010, respectively.

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

Administrative expenses

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

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

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

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

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

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

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

FINANCIAL INFORMATION

Other operating expenses

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

Finance costs

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

Income tax expense

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

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

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

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

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

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

FINANCIAL INFORMATION

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

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

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

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

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

FINANCIAL INFORMATION

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

Finance costs

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

Profit before tax

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

Income tax expense

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

Profit for the year

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

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

Revenue

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

FINANCIAL INFORMATION

Cost of sales

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

Gross profit and gross profit margin

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

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Other operating expenses

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

Finance costs

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

FINANCIAL INFORMATION

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

Profit before tax

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

Income tax expense

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

Profit for the year

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

FINANCIAL INFORMATION

NET CURRENT ASSETS

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

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

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

Inventories

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

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

Our inventories increased by RMB3.9 million or approximately 12.8%, from RMB30.4 million as of 31 December 2008 to RMB34.3 million as of 31 December 2009, primarily due to the growth of our sales which led to an increase in our finished goods to cope with the expected increase in sales in the coming year. Our inventories balance remained stable at RMB34.7 million as at 31 December 2010 as compared to RMB34.3 million as at 31 December 2009 despite our

FINANCIAL INFORMATION

sales increased in the year ended 31 December 2010. In view of the earlier Chinese New Year Holiday in early February 2011, we scheduled our production plan and delivered part of the finished goods to our distributors prior to year end to cope with the expected increase in demand in early January 2011.

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

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

Note:

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

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

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

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

Trade and Bills Receivables

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

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

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

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

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

FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

Note:

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

FINANCIAL INFORMATION

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

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

Prepayments, deposits and other receivables

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

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

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

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

Trade and bills payables

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

FINANCIAL INFORMATION

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

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

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

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

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

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

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

Note:

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

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

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

FINANCIAL INFORMATION

Other payables and accruals

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

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

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

Amounts due from/to related parties

(i) Amounts due from related parties

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

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

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

(ii) Amounts due to related parties

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

FINANCIAL INFORMATION

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

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

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

Cash Flow from Operating Activities

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

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

For the year ended 31 December 2009, we had net cash inflows from operating activities before changes in working capital of RMB134.0 million and a net cash inflow of RMB99.3 million. The difference of RMB34.7 million was primarily attributable to (i) an increase in trade and bills receivables of RMB39.0 million arising from the increase in our sales in the year ended 31 December 2009 and a slight delay in the repayment from our distributors as we were expanding our sales network; (ii) an increase in inventories of RMB3.9 million primarily due to the growth of our sales which led to an increase in our finished goods to cope with the expected increase in sales in the coming year; (iii) payment of PRC tax of RMB30.4 million; and (iv) payment of interest expenses of RMB5.1 million, and partially offset by (i) increase in trade and bills payables of RMB25.9 million as we had settled our balances more quickly with our suppliers to support their

FINANCIAL INFORMATION

operation in view of the financial crisis in the year ended 31 December 2008; (ii) decrease in prepayments, deposits and other receivables of RMB10.1 million as we had granted two short-term advances to our suppliers in the total amount of RMB10.8 million in 2008 for their need of working capital which were settled in the year ended 31 December 2009; and (iii) increase in other payables and accruals of RMB7.1 million primarily due to a deposit received from our export customers.

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

Cash Flow from Investing Activities

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

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

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

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

Cash Flow from Financing Activities

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

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

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

FINANCIAL INFORMATION

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

CAPITAL EXPENDITURES

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

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

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

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

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

OPERATING LEASE ARRANGEMENTS

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

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

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

FINANCIAL INFORMATION

CAPITAL COMMITMENTS

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

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

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

WORKING CAPITAL

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

INDEBTEDNESS

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

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

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

FINANCIAL INFORMATION

Current Ratio and Gearing Ratio

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

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

Notes:

- (1) Current ratio is calculated based on the current assets divided by current liabilities.
 (2) Quick ratio is calculated based on the current assets less inventories divided by current liabilities.
 (3) Gearing ratio is calculated based on total interest-bearing debt divided by total assets.

Current ratio

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

Quick ratio

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

Gearing ratio

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

CONTINGENT LIABILITIES

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

FINANCIAL INFORMATION

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

RELATED PARTY TRANSACTIONS

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

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

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

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

Notes:

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

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

FINANCIAL INFORMATION

MARKET RISK

Foreign Currency Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

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

Credit Risk

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

FINANCIAL INFORMATION

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

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

Liquidity Risk

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

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

Year ended 31 December 2008				
	On demand	Less than 1 year	Over 1 year	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Trade and bills payables	—	9,390	—	9,390
Financial liabilities included in other payables and accruals	—	1,176	—	1,176
Interest-bearing bank and other borrowings	—	47,834	—	47,834
Amounts due to related parties	1,218	—	—	1,218
	<u>1,218</u>	<u>58,400</u>	<u>—</u>	<u>59,618</u>
Year ended 31 December 2009				
	On demand	Less than 1 year	Over 1 year	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Trade and bills payables	—	35,270	—	35,270
Financial liabilities included in other payables and accruals	—	4,720	—	4,720
Interest-bearing bank and other borrowings	—	88,441	21,216	109,657
Amounts due to related parties	2,025	—	—	2,025
	<u>2,025</u>	<u>128,431</u>	<u>21,216</u>	<u>151,672</u>
Year ended 31 December 2010				
	On demand	Less than 1 year	Over 1 year	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Trade and bills payables	—	33,894	—	33,894
Financial liabilities included in other payables and accruals	—	5,064	—	5,064
Interest-bearing bank and other borrowings	—	853	16,920	17,773
Amounts due to related parties	89,565	—	—	89,565
	<u>89,565</u>	<u>39,811</u>	<u>16,920</u>	<u>146,296</u>

FINANCIAL INFORMATION

PROFIT FORECAST

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

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

DISTRIBUTABLE RESERVES

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

DIVIDEND POLICY

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

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

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

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

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

	Combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010	Estimated net proceeds from the [●]	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 1)		(Note 2)
Based on the [●] Price of HK\$[●] per Share	145,511	[●]	[●]	[●]
Based on the [●] Price of HK\$[●] per Share	145,511	[●]	[●]	[●]

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2010 is arrived at after deducting intangible asset of RMB144,000 from the audited combined net assets of the Group attributable to the equity holders of the Company of RMB145,655,000.
- (2) The estimated net proceeds from the [●] are based on the [●] Price of HK\$[●] and HK\$[●] per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon exercise of the [●].
- (3) The unaudited pro forma adjusted net tangible asset per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 1,000,000,000 Shares are in issue assuming that the [●] has been completed on 31 December 2010, which takes no account any Shares which may be allotted and issued upon exercise of the [●].
- (4) The Group's property interests as at 31 May 2011 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, the relevant property valuation report is set out in Appendix IV to this document, “Property Valuation”. The revaluation surplus of these properties was not incorporated in the Group's combined financial information for the year ended 31 December 2010 and will not be included in the Group's financial information for the six months ending 30 June 2011. The above adjustments do not take into account the revaluation surplus attributable to the Group arising from the revaluation of the Group's property interests amounting to approximately RMB1.9 million. If the revaluation surplus was recorded in the Group's financial statements, additional annual depreciation and amortisation of approximately RMB87,000 would be charged against profit for the six months ending 30 June 2011.

PROPERTY INTERESTS AND PROPERTY VALUATION

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

FINANCIAL INFORMATION

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

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

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

FUTURE PLANS

FUTURE PLANS

See the section headed “Business — Our Strategies” for a detailed description of our future plans.

APPENDIX I

ACCOUNTANTS’ REPORT

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



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

2011

The Board of Directors
Prince Frog International Holdings Limited

CCB International Capital Limited
CIMB Securities (HK) Limited

Dear Sirs,

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

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

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

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

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

APPENDIX I**ACCOUNTANTS’ REPORT**

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

Procedures performed in respect of the Financial Information

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

Opinion in respect of the Financial Information for the Relevant Periods

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

APPENDIX I

ACCOUNTANTS’ REPORT

I. FINANCIAL INFORMATION

Combined income statements

		Year ended 31 December		
		2008	2009	2010
	Notes	RMB'000	RMB'000	RMB'000
REVENUE	5	473,966	624,396	837,991
Cost of sales		(291,074)	(385,412)	(515,052)
Gross profit		182,892	238,984	322,939
Other income and gains	5	775	1,992	992
Selling and distribution costs		(67,295)	(94,811)	(130,786)
Administrative expenses		(13,911)	(14,714)	(23,586)
Other operating expenses		(635)	(43)	(21)
Finance costs	6	(2,410)	(5,142)	(1,638)
PROFIT BEFORE TAX	7	99,416	126,266	167,900
Income tax expense	10	(27,192)	(34,467)	(23,431)
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE YEAR		<u>72,224</u>	<u>91,799</u>	<u>144,469</u>

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

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of comprehensive income

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

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of financial position

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

APPENDIX I

ACCOUNTANTS’ REPORT

Combined statements of changes in equity

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

Note:

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

Notes:

- (a) During the year ended 31 December 2002, Prince Frog (HK) Daily Chemicals Company Limited (“Prince Frog (HK)”) was incorporated with authorised share capital of HK\$10,000 of 10,000 shares of HK\$1 each and 10,000 shares of HK\$1 each were issued. The share capital represented the share capital of Prince Frog (HK) as at 31 December 2008 and 2009. During the year ended 31 December 2010, Prince Frog Investment Limited (“Prince Frog Investment”) was incorporated with authorised share capital of US\$5,000 of 50,000 shares of US\$0.1 each and 100 shares of US\$0.1 each were issued. As at 31 December 2010, the share capital represented the combined share capital of Prince Frog (HK) of HK\$10,000 and Prince Frog Investment of US\$10.
- (b) The merger reserve of the Group represents the reserve arose pursuant to the reorganisation as mentioned in note 1 of Section II to the Financial Information.
- (c) In accordance with the Company Law of PRC, the Company’s subsidiary and Fujian Shuangfei registered in PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years’ losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity’s registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years’ losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

APPENDIX I

ACCOUNTANTS' REPORT

Combined statements of cash flows

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

APPENDIX I

ACCOUNTANTS’ REPORT

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

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

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

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

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

Notes:

- No statutory audited financial statements have been prepared for Prince Frog Investment since it is not subject to any statutory audit requirements under its jurisdiction of incorporation.
- Its name changed from “Frogprince (H.K.) Daily Chemicail Limited” to “Prince Frog (HK) Daily Chemicals Company Limited” effective 5 October 2010. The statutory financial statements prepared in accordance with Hong Kong Financial Reporting Standards thereof for the years ended 31 December 2008 and 2009 were audited by Joseph K.H. Ng & Co., certified public accountants registered in Hong Kong.
- It is registered as a wholly-foreign-owned enterprise under the laws of PRC. Its name changed from “青蛙王子(漳州) 日化有限公司” to “青蛙王子(中國) 日化有限公司” and it adopted the English name “Frog

APPENDIX I

ACCOUNTANTS’ REPORT

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

- 4 The operations of the Group were initially conducted through Fujian Shuangfei, a domestic enterprise under the laws of PRC owned by the Controlling Shareholders. On 31 December 2009, certain contractual arrangements were effectuated among Frog Prince (China) and Fujian Shuangfei to the effect that certain of the business, liabilities and assets of Fujian Shuangfei were transferred to Frog Prince (China) effective from 1 January 2010.
- 5 On 4 August 2009 and 26 August 2010, capital injections of US\$2,000,000 and US\$7,935,000 were made by the Group to Frog Prince (China), respectively, and the paid-up registered capital of Frog Prince (China) was increased from US\$65,000 to US\$10,000,000 during the Relevant Periods.

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

2.1 BASIS OF PREPARATION

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

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

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

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

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

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

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

Subsidiaries

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

Impairment of non-financial assets

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

APPENDIX I

ACCOUNTANTS' REPORT

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

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

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

APPENDIX I

ACCOUNTANTS' REPORT

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	Over the shorter of the lease terms and 5%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20% to 33 ⅓%
Motor vehicles	20% to 25%

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

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

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

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

Intangible assets (other than goodwill)

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

Trademarks

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

Research and development costs

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable

APPENDIX I

ACCOUNTANTS' REPORT

under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably

APPENDIX I

ACCOUNTANTS’ REPORT

assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial

APPENDIX I

ACCOUNTANTS’ REPORT

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

Assets carried at cost

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

APPENDIX I

ACCOUNTANTS' REPORT

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

Current versus non-current classification

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

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

APPENDIX I

ACCOUNTANTS’ REPORT

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

APPENDIX I

ACCOUNTANTS' REPORT

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

APPENDIX I

ACCOUNTANTS’ REPORT

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

Employee benefits

Pension scheme

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

Borrowing costs

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

Foreign currencies

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

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

For the purpose of the statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently

APPENDIX I

ACCOUNTANTS’ REPORT

recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for each of the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Impairment of assets

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

Withholding taxes arising from the distributions of dividends

The Group’s determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in 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 PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Estimation uncertainty

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

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment requires management judgement and

APPENDIX I

ACCOUNTANTS’ REPORT

estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables as well as impairment or write-back of impairment in the period in which such estimate has been changed.

4. OPERATING SEGMENT INFORMATION

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

- (a) the children’s personal care products segment manufactures and trades Frog Prince branded skin care, body and hair care, oral care and diaper products;
- (b) the household hygiene products segment manufactures and trades Shuangfeijian branded insecticide products and Shenhuxi branded air freshener; and
- (c) the adults’ personal care products segment manufactures and trades Frog Prince branded oral care products and other skin care products; and
- (d) the others products segment comprises, principally, the manufactures of skin care products, body and hair care products for branding and resale by others.

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

Geographical Information

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

Information about major customers

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

APPENDIX I

ACCOUNTANTS’ REPORT

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. FINANCE COSTS

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

APPENDIX I

ACCOUNTANTS’ REPORT

7. PROFIT BEFORE TAX

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

8. DIRECTORS’ REMUNERATION

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

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

(a) Non-executive directors

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

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

(b) Executive directors

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

10. INCOME TAX

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

Pursuant to the Notice on the Implementation of Enterprises Income Tax Transition Preferential Policy issued by The State Council of PRC on 26 December 2007, effective from 1 January 2008, Frog Prince (China), a wholly-owned subsidiary of the Group operating in Mainland China and a wholly-foreign-owned enterprise, was exempted from PRC corporate income tax from 1 January 2008 to 31 December 2009 and is entitled to 50% reduction of the prevailing tax rate from 1 January 2010 to 31 December 2012 (the “Tax Holiday”). With effective from 1 January 2013, the applicable tax rate will be 25%.

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

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

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

11. DIVIDEND

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

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

13. PROPERTY, PLANT AND EQUIPMENT

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

14. PREPAID LAND LEASE PAYMENTS

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

15. INTANGIBLE ASSETS

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

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

16. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

17. INVENTORIES

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

18. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

	Total	Neither past due nor impaired	Past due but not impaired			
			1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008	35,609	31,404	3,643	421	—	141
31 December 2009	74,559	45,411	28,433	571	3	141
31 December 2010	<u>59,149</u>	<u>49,036</u>	<u>10,052</u>	<u>61</u>	<u>—</u>	<u>—</u>

APPENDIX I

ACCOUNTANTS' REPORT

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

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

21. TRADE AND BILLS PAYABLES

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

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

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

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

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

22. OTHER PAYABLES AND ACCRUALS

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

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

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

The bank loans were supported by:

- (i) At 31 December 2008, a bank loan of RMB7,700,000 was secured by the pledge of the Group's leasehold building with a net carrying amount of approximately RMB8,680,000 as at 31 December 2008.
- (ii) At 31 December 2008 and 2009, bank loans with an aggregate amounts of RMB38,000,000 and RMB92,000,000, respectively, were guaranteed by

APPENDIX I

ACCOUNTANTS' REPORT

漳州宏源錶業有限公司 (Zhangzhou Hongyuan Watch Co., Ltd.) ("Hongyuan"), Hong Kong Jiulongjiu Limited, 福建宏邦電子有限公司 (Fujian Hongbang Electron Industry Co., Ltd.), Mr. Yan Xiaotong (嚴曉彤), Mr. Lin Zhiqiang (林志強), Ms. Yang Minhui (楊敏慧), independent third parties, and the Controlling Shareholders. Yan Xiaotong, Lin Zhiqiang and Yang Minhui are shareholders of Hongyuan.

Bank loans guaranteed by the Controlling Shareholders had been repaid during the years ended 31 December 2009 and 2010. The directors confirm that the guarantees provided by the Controlling Shareholders will be fully released prior to the proposed [●] of the shares of the Company on the [●] of the Stock Exchange.

24. ISSUED CAPITAL

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

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

25. RESERVES

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

26. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS

- (a) During the year ended 31 December 2008, Fujian Shuangfei purchased trademarks at an aggregate cash consideration of approximately RMB3,428,000 from a customer. The consideration was settled as to RMB686,000 by cash and RMB2,742,000 via the trade receivables with that customer.
- (b) During the year ended 31 December 2009, the additions to prepaid land lease payments of RMB21,695,000 were partially settled via the prepayments for purchase of leasehold land of RMB21,041,000.
- (c) On 1 January 2010, Retained Assets of Fujian Shuangfei with aggregate carrying values of approximately RMB57,317,000 were not transferred to the Group and were retained by Fujian Shuangfei. The aggregate cash consideration for the assets and liabilities transferred by Fujian Shuangfei to Frog Prince (China) amounted to RMB90,286,000, were settled via the balances with related parties. They were reflected as deemed appropriations to the equity holders in the combined statement of changes in equity.

27. CONTINGENT LIABILITIES

As at 31 December 2008 and 2009, the banking facilities granted to three independent third parties subject to guarantees given to the banks by Fujian Shuangfei were utilised to the

APPENDIX I

ACCOUNTANTS' REPORT

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

28. OPERATING LEASE ARRANGEMENTS

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

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

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

29. CAPITAL COMMITMENTS

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

30. RELATED PARTY TRANSACTIONS

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

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

Notes:

- (a) Sales to a related company, Shuangfei Daily Chemical USA Inc. (“Shuangfei USA”), in which Mr. Li and Mr. Xie have beneficial interests, were made on mutually agreed terms.
- (b) Frog Prince (China) and Fujian Shuangfei, which are controlled by the Controlling Shareholders, entered into buildings, equipment and vehicles lease agreements on 1 January 2010 and a supplementary lease agreement on 26 January 2011. Pursuant to these agreements, Frog Prince (China) leased from Fujian Shuangfei the production premise and office building with a total floor area of 14,097 square metres and certain machinery, furniture, fixtures, office equipment and motor vehicles. The terms of the lease under the agreements are three years with a fixed monthly rental payable of RMB80,000 for the buildings and RMB204,000 for the machinery, furniture, fixtures, office equipment and motor vehicles. Jones Lang LaSalle Sallmanns Limited, independent professional property valuer, has confirmed that the rentals charged under buildings lease agreements reflect fair and reasonable market rentals for such type of properties in Mainland China. The directors confirmed that the rentals charged under equipment and vehicles lease agreements were made on mutually agreed terms.
- (c) The directors confirmed that the subcontracting fees paid to Fujian Shuangfei were made according to the prices similar to those offered in the market.
- (d) The directors confirmed that the purchases from Fujian Shuangfei were made according to the prices and conditions similar to those offered in the market.

The directors are of the opinion that these related party transactions were conducted in the ordinary course of business.

APPENDIX I

ACCOUNTANTS' REPORT

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

Due from related parties:

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

Due to related parties:

	31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Directors	1,218	2,025	430
Immediate holding company	—	—	89,135
	<u>1,218</u>	<u>2,025</u>	<u>89,565</u>

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

Year ended 31 December 2008

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

APPENDIX I

ACCOUNTANTS’ REPORT

Year ended 31 December 2009

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

Year ended 31 December 2010

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

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

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

(iii) Compensation of key management personnel of the Group

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT

31. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

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

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

Financial liabilities

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

APPENDIX I

ACCOUNTANTS’ REPORT

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

Interest rate risk

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

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

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

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

Foreign currency risk

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

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

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

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from related companies and other receivables arises from default

APPENDIX I

ACCOUNTANTS' REPORT

of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

Liquidity risk

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

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

	31 December 2008			Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	
Trade and bills payables	—	9,390	—	9,390
Financial liabilities included in other payables and accruals	—	1,176	—	1,176
Interest-bearing bank and other borrowings	—	47,834	—	47,834
Amounts due to related parties	1,218	—	—	1,218
	<u>1,218</u>	<u>58,400</u>	<u>—</u>	<u>59,618</u>
	31 December 2009			Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	
Trade and bills payables	—	35,270	—	35,270
Financial liabilities included in other payables and accruals ...	—	4,720	—	4,720
Interest-bearing bank and other borrowings	—	88,441	21,216	109,657
Amounts due to related parties	2,025	—	—	2,025
	<u>2,025</u>	<u>128,431</u>	<u>21,216</u>	<u>151,672</u>
	31 December 2010			Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	
Trade and bills payables	—	33,894	—	33,894
Financial liabilities included in other payables and accruals	—	5,064	—	5,064
Interest-bearing bank and other borrowings	—	853	16,920	17,773
Amounts due to related parties	89,565	—	—	89,565
	<u>89,565</u>	<u>39,811</u>	<u>16,920</u>	<u>146,296</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Capital management

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

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

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

33. EVENTS AFTER THE REPORTING PERIOD

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

34. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX III

PROFIT FORECAST

Our forecast of the combined profit attributable to the equity holders of our Company for the six months ending 30 June 2011 is set out in the section headed “Financial Information — Profit Forecast” in this document.

(A) BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the combined profit attributable to the equity holders for the six months ending 30 June 2011, based on the unaudited combined results of the Group for the four months ended 30 April 2011 and a forecast of the combined results of the Group for the remaining two months ending 30 June 2011. The forecast has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report as set out in Appendix I to this document.

The Directors have adopted the following principal consumptions in the preparation of the profit forecast:

- There will be no material changes in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, Hong Kong and other countries in which the Group operates;
- There will be no material changes in legislation or regulations or rules in the operating regions which will adversely affect the business of the Group;
- There will be no material changes in the bases or rates of taxation in the PRC, Hong Kong and any countries applicable to the activities of the Group;
- There will be no material change in interest rates, exchange rates and inflation rates from those presently prevailing on 31 December 2010;
- The Group is not materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” of our Document;
- The Group’s operations will not be adversely affected or interrupted by factors which are beyond the management’s control, including but not limited to natural disasters, fire, disease, labour disputes and shortage in supply of raw material, electricity and gas;
- The Directors expect that the Group will not experience significant changes in seasonal fluctuations in respect of market demand, sales pattern and production of its products; and
- The Group can substantially maintain the business relationship with all the major customers and suppliers.

APPENDIX III

PROFIT FORECAST

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company’s reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong in connection with the forecast of our combined profit attributable to the equity holders of the Company for the six months ending 30 June 2011.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

[Date]

The Directors
Prince Frog International Holdings Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands
and
CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway, Admiralty
Hong Kong
and
CIMB Securities (HK) Limited
Units 7706-08, Level 77
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the combined profit attributable to equity holders of Prince Frog International Holdings Limited (the “Company”, together with its subsidiaries, hereinafter collectively referred to as the “Group”) for the six months ending 30 June 2011 (the “Profit Forecast”) as set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in the document of the Company dated 30 June 2011 (the “Document”) for which the directors of the Company (the “Directors”) are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the unaudited combined results of the Group for the four months ended 30 April 2011 and a forecast of the combined results of the Group for the remaining two months ending 30 June 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases made by the Directors as set out

APPENDIX III

PROFIT FORECAST

in Appendix III to the Document, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 30 June 2011, the text of which is set out in Appendix I to the Document.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 May 2011 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

[Date]

The Board of Directors
Prince Frog International Holdings Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Prince Frog International Holdings Limited (the “Company”) and its subsidiary (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 May 2011 (the “date of valuation”).

Our valuation of each of the property interests represents the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

Due to the nature of the buildings of the properties in Group I and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

APPENDIX IV

PROPERTY VALUATION

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, and particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers—Jingtian & Gongcheng, concerning the validity of the property interests in PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

APPENDIX IV

PROPERTY VALUATION

Our valuation is summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Sam B. Q. Zhu
MRICS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 28 years’ experience in the valuation of properties in PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

Sam B. Q. Zhu is a Chartered Surveyor who has 13 years’ experience in the valuation of properties in PRC.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUES

Group I—Property interests held and occupied by the Group in PRC

No.	Property	Capital value in existing state as at 31 May 2011 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May 2011 RMB
1.	A parcel of land, a building and a warehouse No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	23,587,000	100%	23,587,000
2.	A parcel of land and a 5-storey industrial building located at the northern side of Hengqi Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	81,068,000	100%	81,068,000
Sub-total:		104,655,000		104,655,000

Group II—Property interests leased and occupied by the Group in PRC

No.	Property	Capital value in existing state as at 31 May 2011 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May 2011 RMB
3.	A warehouse located at the junction of 107 National Road and Zhengwei Road Zhengzhou City Henan Province PRC	No commercial value	100%	No commercial value
4.	A warehouse located at Kaitong Logistics Base Xinghe Road Xiejiazhuang Village Taihe Town Baiyun District Guangzhou City Guangdong Province PRC	No commercial value	100%	No commercial value

APPENDIX IV

PROPERTY VALUATION

No.	Property	Capital value in existing state as at 31 May 2011 RMB	Interest attributable to the Group	Capital value attributable to the Group as at 31 May 2011 RMB
5.	A warehouse located at Nandao Village Linxi Shiyi Road Linyi City Shandong Province PRC	No commercial value	100%	No commercial value
6.	A warehouse located at Suwang Village Baqiao District Xi'an City Shaanxi Province PRC	No commercial value	100%	No commercial value
7.	5 buildings No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	No commercial value	100%	No commercial value
8.	A parcel of land and 6 buildings No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	No commercial value	100%	No commercial value
Sub-total:		Nil		Nil
Grand total:		104,655,000		104,655,000

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011 RMB
1.	A parcel of land, a building and a warehouse No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	The property comprises a parcel of land with a site area of approximately 18,769 sq.m. and a 4-storey warehouse and a 6-storey dormitory erected thereon which were completed in 2009 and 2011. The warehouse has a gross floor area of approximately 11,215.85 sq.m. and the dormitory has a gross floor area of approximately 6,264.36 sq.m. The land use rights of the property have been granted for a term with the expiry date on 25 February 2059 for industrial use.	The property is currently occupied by the Group for storage and staff quarters purposes.	23,587,000 100% interest attributable to the Group: RMB23,587,000

Notes:

- Prince Frog (China) Daily Chemicals Co., Ltd. (“Prince Frog (China)”) is an indirectly wholly owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Grant Contract—No. 35060320090223G002, the land use rights of a parcel of land with a site area of approximately 18,769 sq.m. were contracted to be granted to Prince Frog (China) for a term of 50 years for industrial use. The land premium was RMB4,729,788.
- Pursuant to a State-owned Land Use Rights Certificate—Zhang Guo Yong (2010 Lan Zi) Di No. 007 (漳國用(2010藍字)第007號), the land use rights of a parcel of land with a site area of approximately 18,769 sq.m. have been granted to Prince Frog (China) for a term expiring on 25 February 2059 for industrial use.
- Pursuant to 2 Building Ownership Certificates—Zhang Fang Quan Zheng Long Zi Di Nos. 02007677 and 02007678(漳房權證龍字第02007677和02007678號), 2 buildings with a total gross floor area of approximately 17,480.21 sq.m. are owned by Prince Frog (China).
- We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - Before the expiry date stated in the aforesaid State-owned Land Use Rights Certificate, Prince Frog (China) has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights of the property without any approval, permission or consent from government department/organisation;

APPENDIX IV

PROPERTY VALUATION

- b. Prince Frog (China) has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the building ownership rights of the property without any approval, permission or consent from government department/organisation;
- c. The property is neither subject to any guarantee, mortgage, sequestration nor other right restriction; and
- d. The property is neither subject to expropriation, lawsuit, dispute, nor other circumstances that may have material adverse effect on it.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011 RMB
2.	A parcel of land and a 5-storey industrial building located at the northern side of Hengqi Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	The property comprises a parcel of land with a site area of approximately 64,726 sq.m. and a 5-story industrial building erected thereon which was completed in 2010. The building has a gross floor area of approximately 55,853.93 sq.m. The land use rights of the property have been granted for a term with the expiry date on 25 February 2059 for industrial use.	The property is currently occupied by the Group for production purpose.	81,068,000 100% interest attributable to the Group: RMB81,068,000

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. (“Prince Frog (China)”) is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Grant Contract—No. 35060320090223G001, the land use rights of a parcel of land with a site area of approximately 64,726 sq.m. were contracted to be granted to Prince Frog (China) for a term of 50 years for industrial use. The land premium was RMB16,310,952.
3. Pursuant to a State-owned Land Use Rights Certificate—Zhang Guo Yong (2010 Lan Zi) Di.No. 008 (漳國用2010藍字第008號), the land use rights of the property with a site area of approximately 64,726 sq.m. have been granted to Prince Frog (China) for a term expiring on 25 February 2059 for industrial use.
4. Pursuant to a Building Ownership Certificate—Zhang Fang Quan Zheng Long Zi Di No. 02007376 (漳房權證龍字第02007376號), a building with a gross floor area of approximately 55,853.93 sq.m. is owned by Prince Frog (China).
5. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Before the expiry date stated in the aforesaid State-owned Land Use Rights Certificate, Prince Frog (China) has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights of the property without any approval, permission or consent from government department/organisation;
 - b. Prince Frog (China) has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the building ownership rights of the property without any approval, permission or consent from government department/organisation;

APPENDIX IV

PROPERTY VALUATION

- c. The property is neither subject to any guarantee, mortgage, sequestration nor other right restriction; and
- d. The property is neither subject to expropriation, lawsuit, dispute, nor other circumstances that may have material adverse effect on it.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group II — Property interests leased and occupied by the Group in PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
3.	A warehouse located at the junction of 107 National Road and Zhengwei Road Zhengzhou City Henan Province PRC	The property comprises a single storey warehouse completed in about 2004. The property has a lettable area of approximately 1,133 sq.m. The property is leased to the Group for a term commencing from 1 November 2010 and expiring on 30 September 2012 at a monthly rent of RMB11 per sq.m., exclusive of water and electricity charges.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. ("Prince Frog (China)") is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property is leased to Prince Frog (China) from Henan Province Commercial Building Co., Ltd. (河南省商城大廈有限責任公司) ("Henan Commercial", an independent third party) for a term commencing from 1 November 2010 and expiring on 30 September 2012 at a monthly rent of RMB12,463, exclusive of water and electricity charges.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Henan Commercial has not obtained any construction permits and approvals pertaining to the property. As a result of such title defects, the Tenancy Agreement mentioned in note 2 may be considered as invalid under PRC laws and Prince Frog (China) may be required to cease occupation and usage of the property;
 - b. Pursuant to a Confirmation Letter dated 21 February 2011 issued by Henan Commercial, Henan Commercial will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the property; and
 - c. The aforesaid Confirmation Letter complies with PRC laws and is legal, valid and enforceable.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
4.	A warehouse located at Kaitong Logistics Base Xinghe Road Xiejiazhuang Village Taihe Town Baiyun District Guangzhou City Guangdong Province PRC	The property comprises a single storey warehouse completed in about 2004. The property has a lettable area of approximately 460 sq.m. The property is leased to the Group for a term commencing from 1 December 2010 and expiring on 30 November 2011 at a monthly rent of RMB19 per sq.m., exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. (“Prince Frog (China)”) is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property is leased to Prince Frog (China) from Guangzhou Branch of Shenzhen Kaitong Logistics Co., Ltd. (深圳市凱通物流有限公司廣州分公司) (“Shenzhen Kaitong”, an independent third party) for a term commencing from 1 December 2010 and expiring on 30 November 2011 at a monthly rent of RMB19 per sq.m., exclusive of management fees, water and electricity charges.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The land (on which the property is located) is of collectively-owned nature, but Shenzhen Kaitong has not obtained any approvals from the owner of the land in accordance with PRC laws and regulations for its lease activity. As a result of such defects, the Tenancy Agreement mentioned in note 2 is invalid;
 - b. Pursuant to a Confirmation Letter dated 28 February 2011 issued by Shenzhen Kaitong, Shenzhen Kaitong will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the property; and
 - c. The aforesaid Confirmation Letter complies with PRC laws and is legal, valid and enforceable.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
5.	A warehouse located at Nandao Village Linxi Shiyi Road Linyi City Shandong Province PRC	The property comprises a single storey warehouse completed in about 2005. The property has a lettable area of approximately 1,200 sq.m. The property is leased to the Group for a term commencing from 4 November 2010 and expiring on 31 December 2011 at a monthly rent of RMB9 per sq.m., exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. ("Prince Frog (China)") is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property is leased to Prince Frog (China) from Shandong Lichen Logistics Co., Ltd. (山東立晨物流股份有限公司) ("Shandong Lichen", an independent third party) for a term commencing from 4 November 2010 and expiring on 31 December 2011 at a monthly rent of RMB9 per sq.m., exclusive of management fees, water and electricity charges.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. Shandong Lichen leased a warehouse from Linyi Shi Sheng Fa Wood Industry Company Limited and subleased a portion of this warehouse with a gross floor area of approximately 1,200 sq.m. (namely the property) to Prince Frog (China). Shandong Lichen has not obtained any consent that Shandong Lichen has the rights to sublease the property. As a result of such defects, the Tenancy Agreement mentioned in note 2 is invalid;
 - b. Pursuant to a Confirmation Letter dated 28 February 2011 issued by Shandong Lichen, Shandong Lichen will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the property; and
 - c. The aforesaid Confirmation Letter complies with PRC laws and is legal, valid and enforceable.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
6.	A warehouse located at Suwang Village Baqiao District Xi'an City Shaanxi Province PRC	The property comprises a single storey warehouse completed in about 2006. The property has a lettable area of approximately 600 sq.m. The property is leased to the Group, for a term commencing from 1 August 2010 and expiring on 31 July 2011 for storage use. The monthly rent is RMB15.65 per sq.m. for the first 6 months and RMB14 per sq.m. for the second 6 months, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. (“Prince Frog (China)”) is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement, the property is leased to Prince Frog (China) from Shaanxi Yuesheng Science and Trading Co., Ltd. (陝西悅盛科工貿有限公司) (“Shaanxi Yuesheng”, an independent third party) for a term commencing from 1 August 2010 and expiring on 31 July 2011 for storage use. The monthly rent is RMB15.65 per sq.m. for the first 6 months and RMB14 per sq.m. for the second 6 months, exclusive of management fees, water and electricity charges.
3. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Shaanxi Yuesheng has not obtained any construction permits and approvals pertaining to the property. As a result of such title defects, the Tenancy Agreement mentioned in note 2 may be considered as invalid under PRC laws and Prince Frog (China) may be required to cease occupation and usage of the property;
 - b. Pursuant to a Confirmation Letter dated 17 February 2011 issued by Shaanxi Yuesheng, Shaanxi Yuesheng will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the property; and
 - c. The aforesaid Confirmation Letter complies with PRC laws and is legal, valid and enforceable.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
7.	5 buildings No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	The property comprises an office building, 2 industrial buildings, a warehouse and an ancillary building which were completed in 2004. The buildings have a total gross floor area of approximately 9,251 sq.m. The property is leased to the Group for a term of 3 years expiring on 31 December 2012 at a total monthly rent of RMB53,317.5 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office, production and storage purposes.	No commercial value

Notes:

1. Prince Frog (China) Daily Chemicals Co., Ltd. (“Prince Frog (China)”) is an indirectly wholly owned subsidiary of the Company.
2. Pursuant to a Tenancy Agreement dated 1 January 2010 and a Supplemental Agreement dated 26 January 2011 entered into between Prince Frog (China) and Fujian Shuangfei Daily Chemicals Co., Ltd. (福建雙飛日化有限公司, “Fujian Shuangfei”, a connected party to the Group), the property with a total gross floor area of approximately 9,251 sq.m. is leased to Prince Frog (China) for a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at a monthly rent of RMB53,317.5, exclusive of management fees, water and electricity charges.
3. We have been provided with a legal opinion on the legality of the agreements to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. 3 buildings of the property with a total gross floor area of approximately 6,765 sq.m. (“Part A”) are owned by Fujian Shuangfei pursuant to a Building Ownership Certificate—Zhang Fang Quan Zheng Long Zi Di No. 02002669 (漳房權證龍字第02002669號); Fujian Shuangfei has the rights to lease these buildings to Prince Frog (China) and the lease relating Part A is legal, valid and enforceable;
 - b. For the remaining 2 buildings of the property with a total gross floor area of approximately 2,486 sq.m. (“Part B”), Fujian Shuangfei has not obtained any construction permits and title documents pertaining to Part B; as a result of such

APPENDIX IV

PROPERTY VALUATION

title defects, the lease relating to Part B may be considered as invalid under PRC laws and Prince Frog (China) may be required to cease occupation and usage of these buildings;

- c. Pursuant to a Confirmation Letter dated 21 February 2011 issued by Fujian Shuangfei, Fujian Shuangfei will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the property;
- d. The aforesaid Confirmation Letter complies with PRC laws and is legal, valid and enforceable; and
- e. Lack of lease registration would not affect the validity of the agreements. However, the relevant parties of the lease may be ordered to rectify this non-compliance within a prescribed period by the competent authority. If such non-compliance can not be rectified in due course, a fine of RMB1,000 to RMB10,000 may be imposed on the relevant parties.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 May 2011
				RMB
8.	A parcel of land and 6 buildings No. 8 North Huancheng Road Longwen Industrial Development Zone Zhangzhou City Fujian Province PRC	The property comprises a parcel of land with a site area of approximately 12,255 sq.m., and 2 office buildings, 2 industrial buildings and 2 warehouses erected thereon which were completed in 2003 and 2005. The buildings have a total gross floor area of approximately 5,560 sq.m. The property is leased to the Group for terms expiring on 31 December 2012 and 1 December 2014 at a total monthly rent of RMB48,802 exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office, production and storage purposes.	No commercial value

Notes:

- Prince Frog (China) Daily Chemicals Co., Ltd. ("Prince Frog (China)") is an indirectly wholly owned subsidiary of the Company.
- Pursuant to a Tenancy Agreement dated 24 November 2004 entered into between Zhangzhou Shi Mingxin Pile & Foundation Engineering Co., Ltd. (漳州市明欣樁基礎工程有限公司, "Mingxin", an independent third party) and Fujian Shuangfei Daily Chemicals Co., Ltd. (福建雙飛日化有限公司, "Fujian Shuangfei", a connected party to the Group), (a) a parcel of land with a site area of approximately 12,255 sq.m. (including 2 buildings with a total gross floor area of approximately 714 sq.m. erected thereon) is leased to Fujian Shuangfei for a term commencing from 1 December 2004 and expiring on 1 December 2014 at a monthly rent of RMB1.8 per sq.m. (RMB22,059 per month); and (b) Fujian Shuangfei has the rights to construct production facilities on the aforesaid land for its business operation.
- Pursuant to a Supplemental Agreement dated 31 December 2009 entered into between Prince Frog (China), Fujian Shuangfei and Mingxin, Fujian Shuangfei has agreed to transfer its rights and obligations under the Tenancy Agreement stated in note 2 to Prince Frog (China) since 1 January 2010.
- Pursuant to a Tenancy Agreement dated 14 February 2011 entered into between Prince Frog (China), Fujian Shuangfei and Mingxin, 4 buildings of the property with a total gross floor area of approximately 4,846 sq.m. are leased to Prince Frog (China) for a term commencing from 1 January 2010 and expiring on 1 December 2014 at a monthly rent of RMB26,743, exclusive of management fees, water and electricity charges.

APPENDIX IV

PROPERTY VALUATION

5. We have been provided with a legal opinion on the legality of the agreements to the property issued by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
- a. Fujian Shuangfei has not obtained any construction permits and title documents pertaining to the buildings mentioned in note 4; as a result of such title defects, the relevant lease may be considered as invalid under PRC laws and Prince Frog (China) may be required to cease occupation and usage of these buildings;
 - b. Pursuant to a Confirmation Letter dated 21 February 2011 issued by Fujian Shuangfei, Fujian Shuangfei will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the buildings mentioned in note 4;
 - c. Since Mingxin has not developed and used the land in accordance with relevant land grant contract, the lease activity that Mingxin leased relevant land and buildings to Prince Frog (China) violates PRC laws and regulations. As a result of such defects, the relevant lease is invalid;
 - d. Pursuant to a Confirmation Letter dated 21 February 2011 issued by Mingxin, Mingxin will be responsible for, and fully and immediately indemnify the Group against, all liabilities and losses arising from any disputes, claims or penalties in connection with the title defects of the land and buildings mentioned in note 2; and
 - e. The aforesaid Confirmation Letters comply with PRC laws and are legal, valid and enforceable.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 11 January 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 22 June 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in,

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

APPENDIX V

**SUMMARY OF THE CONSTITUTION OF THE
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

APPENDIX V

**SUMMARY OF THE CONSTITUTION OF THE
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board insofar as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except insofar as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

APPENDIX V**SUMMARY OF THE CONSTITUTION OF THE
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 1 February 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of

APPENDIX V

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred

APPENDIX V**SUMMARY OF THE CONSTITUTION OF THE
COMPANY AND CAYMAN ISLANDS COMPANY LAW**

to in the paragraph headed “Documents available for inspection” in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 11 January 2011 under the name of Prince Frog International Holdings Limited (青蛙王子國際控股有限公司). Our Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 11 May 2011 and our Company’s principal place of business in Hong Kong is at 36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. Ms. Sy Mei Ling of 36th Floor, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, a Hong Kong resident, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and its constitution which comprises a memorandum of association and an articles of association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix V to this document.

2. Changes in share capital of our Company

As of the date of incorporation of our Company, its authorised share capital was HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

- (1) On 11 January 2011, 1 share was allotted and issued, nil paid, to Codan Trust Company (Cayman) Limited as the initial subscriber, which was transferred to Prince Frog International on the same day.
- (2) On 11 January 2011, 99 shares were allotted and issued, nil paid, to Prince Frog International.
- (3) On 22 February 2011, 445,100 shares were allotted and issued, credited as fully paid, to Prince Frog International and the 100 nil-paid Shares registered in the name of Prince Frog International were credited as fully paid at par as consideration of the Company’s acquisition of Prince Frog Investment.
- (4) On 13 June 2011, 14,100, 94,200, 18,800 and 427,700 Shares was allotted and issued, credited as fully paid, to Joyful, CCBIAM, Paramount and Jinlin Investment, respectively.
- (5) On 20 June 2011, 1 Share was allotted and issued, credited as fully paid, to Prince Frog International.

Immediately following [●], the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 4,000,000,000 Shares will remain unissued. Other than [●], our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Save as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this document:

(1) *Prince Frog Investment*

- (a) Prince Frog Investment, a direct wholly-owned subsidiary of our Company, was incorporated in BVI on 3 December 2010 with an authorised share capital of US\$5,000 divided into 50,000 ordinary shares of US\$0.1 each.
- (b) On 3 December 2010, 100 shares were allotted and issued, credited as fully paid, to Prince Frog International for a consideration of US\$10. Prince Frog Investment then became wholly owned by Prince Frog International.
- (c) On 6 January 2011, 100 shares were allotted and issued, credited as fully paid, to Prince Frog International as the consideration for the acquisition of equity interest in Prince Frog (HK) from Prince Frog International.
- (d) On 20 June 2011, 100 shares in Prince Frog Investment were allotted and issued, credited as fully paid, to our Company.

(2) *Prince Frog (HK)*

- (a) On 20 June 2011, 100 shares in Prince Frog (HK) were allotted and issued, credited as fully paid, to Prince Frog Investment.

Save as set out above and in the paragraph headed “Reorganisation” under this section in this Appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this Document.

4. Written resolutions of our Shareholders passed on 22 June 2011

Pursuant to the written resolutions of all Shareholders entitled to vote at general meetings of our Company, which were passed on 22 June 2011:

- (a) the authorised share capital of the Company was increased from HK\$50,000 divided into 5,000,000 Shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each by the creation of 4,995,000,000 Shares of HK\$0.01 each, which shall rank *pari passu* in all respects with the Shares in issue as at the date of passing of this written resolutions;

[●]

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

B. REORGANISATION

The Reorganisation which was effected in preparation for the [●], whereby our Company became the holding company of our Group, includes the following major steps:

- (i) from December 2009 to January 2010, Fujian Shuangfei entered into a series of agreements with Prince Frog (China), under which the baby, children, adult and OEM business was transferred from Fujian Shuangfei to Prince Frog (China). For further details, please refer to the paragraph headed “History and Reorganisation — Reorganisation and Financial Investments — Reorganisation — (1) Onshore Restructuring” of this document;
- (ii) on 10 March 2010, Zhenfei Investment with 50,000 authorised shares of US\$ 0.1 par value per share was incorporated in BVI with limited liability, and one share in Zhenfei Investment was allotted and issued, credited as fully paid, to Mr. Li on 18 March 2010;
- (iii) on 10 March 2010, Jinlin Investment with 50,000 authorised shares of US\$0.1 par value per share was incorporated in BVI with limited liability, one share in Jinlin Investment was allotted and issued, credited as fully paid, to Mr. Xie on 18 March 2010;
- (iv) on 12 March 2010, Prince Frog International with 50,000 authorised shares was incorporated in BVI with limited liability, and 51 shares and 49 shares in Prince Frog International were allotted and issued, credited as fully paid, to Zhenfei Investment and Jinlin Investment, respectively on 18 March 2010;
- (v) on 12 April 2010, Mr. Li, Mr. Xie and Prince Frog International entered into a share transfer agreement, pursuant to which Mr. Li and Mr. Xie agreed to transfer 5,100 shares and 4,900 shares, respectively, representing all of the issued shares of Prince Frog (HK), to Prince Frog International;
- (vi) on 29 July 2010, Prince Frog International, Prince Frog (HK), Prince Frog (China), Mr. Li, Mr. Xie, Zhenfei Investment and Jinlin Investment entered into share purchase agreements with each of CCBIAM, Joyful and Paramount, pursuant to which each of CCBIAM, Joyful and Paramount subscribed for 10,785 shares, 1,618 shares and 2,157 shares in Prince Frog International at a consideration of US\$10 million, US\$1.5 million and US\$2.0 million, respectively;
- (vii) on 3 December 2010, Prince Frog Investment with 50,000 authorised shares was incorporated in BVI with limited liability, and on the same day, 100 shares in Prince Frog Investment were allotted and issued, credited as fully paid, to Prince Frog International;
- (viii) on 6 January 2011, Prince Frog International and Prince Frog Investment entered into a share transfer agreement, pursuant to which Prince Frog International agreed to transfer its equity interests in Prince Frog (HK) to Prince Frog Investment;
- (ix) on 11 January 2011, our Company with an authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 par value per share was incorporated in the Cayman Islands as an exempted company with limited liability to act as the ultimate holding company of the subsidiaries in our Group;

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

- (x) on 11 January 2011, one nil-paid Share was issued to Codan Trust Company (Cayman) Limited and such Share was transferred to Prince Frog International on the same day;
- (xi) on 11 January 2011, an additional 99 nil-paid Shares were issued to Prince Frog International;
- (xii) on 22 February 2011, our Company and Prince Frog International entered into a share transfer agreement, pursuant to which Prince Frog International agreed to transfer its entire equity interests in Prince Frog Investment to our Company;
- (xiii) on 13 June 2011, our Company, Zhenfei Investment, Jinlin Investment, CCBIAM, Joyful and Paramount entered into a share transfer agreement, pursuant to which each of Jinlin Investment, CCBIAM, Joyful and Paramount transferred all the shares held by them in Prince Frog International to Zhenfei Investment, in consideration of Prince Frog International procuring our Company to issue and above 427,700 Shares, 94,200 Shares, 14,100 Shares and 18,900 Shares to each of Jinlin, CCBIAM, Joyful and Paramount at nominal value of HK\$4,277, HK\$942, HK\$141 and HK\$188, respectively; and
- (xiv) on 20 June 2011, our Company, Prince Frog International, Prince Frog Investment and Prince Frog (HK) entered into a share subscription agreement, pursuant to which our Company agreed to allot and issue, credited as fully paid, one Share to Prince Frog International for setting off certain liability of Prince Frog (HK) owed to Prince Frog International.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in our ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are or may be material:

- (1) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer two trademarks to Prince Frog (China) at a consideration of USD500,000 (equivalent to RMB3,427,572.3);
- (2) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer 19 trademark applications to Prince Frog (China) at nil consideration;
- (3) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer 14 trademark applications to Prince Frog (China) at nil consideration;
- (4) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer 59 trademarks to Prince Frog (China) at nil consideration;
- (5) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

transfer two trademarks and one trademark application to Prince Frog (China) at a consideration of RMB160,000;

- (6) a trademark transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer three trademarks and one trademark application to Prince Frog (China) at nil consideration;
- (7) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213299.4) to Prince Frog (China) at nil consideration;
- (8) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830212800.5) to Prince Frog (China) at nil consideration;
- (9) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213297.5) to Prince Frog (China) at nil consideration;
- (10) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213295.6) to Prince Frog (China) at nil consideration;
- (11) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830212801.X) to Prince Frog (China) at nil consideration;
- (12) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200630061899.4) to Prince Frog (China) at nil consideration;
- (13) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200630061897.5) to Prince Frog (China) at nil consideration;
- (14) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200630061900.3) to Prince Frog (China) at nil consideration;
- (15) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

- transfer a patent (patent number: ZL200630061898.X) to Prince Frog (China) at nil consideration;
- (16) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830112292.3) to Prince Frog (China) at nil consideration;
- (17) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830112293.8) to Prince Frog (China) at nil consideration;
- (18) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213298.X) to Prince Frog (China) at nil consideration;
- (19) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213293.7) to Prince Frog (China) at nil consideration;
- (20) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213294.1) to Prince Frog (China) at nil consideration;
- (21) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200630061901.8) to Prince Frog (China) at nil consideration;
- (22) a patent transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent (patent number: ZL200830213296.0) to Prince Frog (China) at nil consideration;
- (23) a patent application transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer a patent application (application number: 200810072277.X) to Prince Frog (China) at nil consideration;
- (24) a domain name transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer 12 domain names to Prince Frog (China) at nil consideration;
- (25) an account receivables transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

- agreed to transfer its account receivables as at 31 December 2009 to Prince Frog (China) at a consideration of RMB84,939,193.57;
- (26) an account payables transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer its account payables as at 31 December 2009 to Prince Frog (China) at a consideration of RMB31,607,833.04;
- (27) an inventory transfer agreement dated 31 December 2009 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Fujian Shuangfei agreed to transfer all rights in relation to its inventory as at 31 December 2009 to Prince Frog (China) at a consideration of RMB35,376,129.72;
- (28) an agreement dated 31 December 2009 entered into among Mr. Li, Mr. Xie, Prince Frog (China) and Fujian Shuangfei, pursuant to which, among other things, Prince Frog (China) agreed to assume all the rights and obligations of Fujian Shuangfei under the employment contracts entered into between Fujian Shuangfei and the 571 employees of Fujian Shuangfei;
- (29) a share purchase agreement entered into on 29 July 2010 among Prince Frog International, Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, Prince Frog (HK), Prince Frog (China) and CCBIAM, pursuant to which Prince Frog International agreed to allot and issue to CCBIAM, and CCBIAM agreed to purchase from Prince Frog International, up to an aggregate of 10,785 ordinary shares in Prince Frog International at a consideration of US\$10 million;
- (30) a share purchase agreement entered into on 29 July 2010 among Prince Frog International, Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, Prince Frog (HK), Prince Frog (China) and Joyful, pursuant to which Prince Frog International agreed to allot and issue to Joyful, and Joyful agreed to purchase from Prince Frog International, up to an aggregate of 1,618 ordinary shares in Prince Frog International at a consideration of US\$1.5 million;
- (31) a share purchase agreement entered into on 29 July 2010 among Prince Frog International, Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, Prince Frog (HK), Prince Frog (China) and Paramount, pursuant to which Prince Frog International agreed to allot and issue to Paramount, and Paramount agreed to purchase from Prince Frog International, up to an aggregate of 2,157 ordinary shares in Prince Frog International at a consideration of US\$2.0 million;
- (32) a shareholder agreement entered into on 18 August 2010 among Prince Frog International, Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, Prince Frog (HK), Prince Frog (China), CCBIAM, Joyful and Paramount, to regulate the management and control of Prince Frog International, Prince Frog (HK) and Prince Frog (China) and to set forth the respective rights and obligations of Mr. Li, Mr. Xie, Zhenfei Investment, Jinlin Investment, CCBIAM, Joyful and Paramount with respect to their direct and indirect holding of the shares in Prince Frog International on the terms and conditions set out therein;
- (33) a trademark transfer agreement dated 26 November 2010 entered into between Fujian Shuangfei and Prince Frog (China) pursuant to which Prince Frog (China) agreed to transfer two trademarks to Fujian Shuangfei at a consideration of RMB3,427,572.3;
- (34) a share transfer agreement dated 6 January 2011 entered into between Prince Frog International and Prince Frog Investment pursuant to which Prince Frog International

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

agreed to transfer an aggregate of 10,000 ordinary shares, being the entire issued share capital of Prince Frog (HK) to Prince Frog Investment in consideration of the issuance and allotment of 100 shares in the share capital of Prince Frog Investment to Prince Frog International;

- (35) a share transfer agreement dated 22 February 2011 entered into between our Company and Prince Frog International, pursuant to which Prince Frog International agreed to transfer an aggregate of 200 ordinary shares, being the entire share capital of Prince Frog Investment to our Company in consideration of (i) the issuance and allotment of 445,100 Shares in the share capital of our Company to Prince Frog International; and (ii) the crediting as fully paid at par the 100 nil-paid Shares held by Prince Frog International;
- (36) an agreement dated 28 February 2011 entered into between Prince Frog (China) and Fujian Shuangfei, pursuant to which, among other things, Fujian Shuangfei agreed to transfer the copyrights of the 青蛙王子 (Frog Prince) animation series and other rights relating to such copyrights to Prince Frog (China) at a total consideration of RMB7,120,000;
- (37) a trademark transfer agreement dated 20 March 2011 entered into between Fujian Shuangfei and Prince Frog (China), pursuant to which Fujian Shuangfei agreed to transfer three trademarks and one trademark application to Prince Frog (China) at nil consideration;
- (38) a trademark transfer agreement dated 22 April 2011 entered into between Fujian Shuangfei and Prince Frog (China), pursuant to which Fujian Shuangfei agreed to transfer four trademarks to Prince Frog (China) at nil consideration;
- (39) a share swap agreement dated 13 June 2011 entered into among our Company, Prince Frog International, Zhenfei Investment, Jinlin Investment, CCBIAM, Joyful and Paramount, pursuant to which each of Jinlin Investment, CCBIAM, Joyful and Paramount agreed to transfer 49,000 shares, 10,785 shares, 1,618 shares and 2,157 shares, respectively, held by them in Prince Frog International to Zhenfei Investment in consideration of Prince Frog International procuring our Company to issue and allot 427,700 Shares, 94,200 Shares, 14,100 Shares, and 18,800 Shares to each of Jinlin Investment, CCBIAM, Joyful and Paramount, at nominal consideration of HK\$4,277, HK\$942, HK\$141 and HK\$188, respectively;
- (40) a share subscription agreement dated 20 June 2011 entered into among Prince Frog International, our Company, Prince Frog Investment and Prince Frog (HK), pursuant to which, among other things, our Company agreed to allot and issue, credited as fully paid, one Share to Prince Frog International at a consideration of HK\$104,750,461.29, for setting off certain liability of Prince Frog (HK) owed to Prince Frog International;
- (41) the Deed of Non-Competition;
- (42) the Deed of Indemnity; and
- (43) [●]

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

2. Intellectual Property Rights of our Group

Trademarks

As of the Latest Practicable Date, we have the right to use the following trademarks:

Trademark	Place of registration	Class	Registration number	Expiry date
	PRC	3	912500	13 December 2016
	PRC	3	940408	6 February 2017
	PRC	5	1132721	6 December 2017
	PRC	3	1440268	6 September 2020
	PRC	3	1612343	6 August 2011
	PRC	5	1800625	6 July 2012
	PRC	3	1902423	6 September 2012
	PRC	3	1902424	6 September 2012
	PRC	3	1970554	27 March 2013
	PRC	3	1970556	27 March 2013
	PRC	3	1970558	27 March 2013
	PRC	3	1970561	27 March 2013
	PRC	3	1970565	27 March 2013
	PRC	3	1970568	13 January 2013
	PRC	10	3011656	20 December 2012
	PRC	16	3011657	27 January 2013
	PRC	3	3276917	20 May 2014
	PRC	3	3276918	20 May 2014
	PRC	5	3363086	6 June 2014
	PRC	30	3562462	6 December 2014
	PRC	30	3562463	6 December 2014
	PRC	12	3562464	20 March 2015
	PRC	24	3562465	13 July 2015
	PRC	16	3562467	13 May 2015
	PRC	31	3562469	27 October 2014
	PRC	41	3562470	13 December 2014
	PRC	5	3562472	27 April 2015
	PRC	30	3562473	6 December 2014
	PRC	30	3562474	6 December 2014
	PRC	33	3562475	13 January 2015
	PRC	29	3562476	27 October 2014
	PRC	30	3562477	20 January 2015
	PRC	29	3562478	27 October 2014
	PRC	32	3562479	13 December 2014
	PRC	29	3562480	27 October 2014
	PRC	14	3562481	27 November 2014
	PRC	3	3589726	13 August 2015
	PRC	20	3562468	6 June 2015
	PRC	3	3880841	13 June 2016
	PRC	21	3880833	13 June 2016
	PRC	21	3880834	13 June 2016
	PRC	21	3880835	13 June 2016
	PRC	21	3880836	13 June 2016

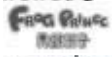
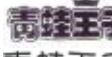
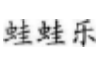
APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Trademark	Place of registration	Class	Registration number	Expiry date
	PRC	21	3880837	13 June 2016
	PRC	21	3880840	13 June 2016
	PRC	21	4309181	27 October 2017
	PRC	21	4309182	27 October 2017
	PRC	21	4309183	27 October 2017
	PRC	21	4309184	27 October 2017
	PRC	21	4309185	27 October 2017
	PRC	21	4309186	27 October 2017
	PRC	5	4738581	13 December 2018
	PRC	21	3880842	6 July 2016
	PRC	41	4548771	6 October 2018
	PRC	9	4548773	27 April 2018
	PRC	16	4548774	6 October 2018
	PRC	3	4848046	6 March 2019
	PRC	28	4848047	20 May 2019
	PRC	11	4848048	20 July 2018
	PRC	26	4848049	13 June 2019
	PRC	18	4848050	20 July 2019
	PRC	15	4848051	13 January 2019
	PRC	37	4848052	20 April 2019
	PRC	8	4848053	6 November 2018
	PRC	44	4848054	20 April 2019
	PRC	40	4848055	20 April 2019
	PRC	34	4848057	13 May 2018
	PRC	6	4848058	20 July 2018
	PRC	7	4848059	6 November 2018
	PRC	38	4848060	20 April 2019
	PRC	27	4848061	13 April 2019
	PRC	22	4848062	20 April 2019
	PRC	3	5105861	6 June 2019
	PRC	3	5351911	13 August 2019
	PRC	3	5351912	13 August 2019
	PRC	5	6127597	27 May 2020
	PRC	3	6127596	6 February 2020
	PRC	3	6363440	20 March 2020
	PRC	3	6363439	20 March 2020
	PRC	3	6363438	20 March 2020
	PRC	3	6604548	27 March 2020
	PRC	28	6610504	20 November 2020
	PRC	21	6928832	13 May 2020
	PRC	3	7116303	13 July 2020
	PRC	3	7246941	27 July 2020
	PRC	3	7246906	27 July 2020
	PRC	3	7246911	27 July 2020
	PRC	3	7246914	27 July 2020
	PRC	3	7246920	27 July 2020
	PRC	3	7246923	27 July 2020
	PRC	3	7246927	27 July 2020

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Trademark	Place of registration	Class	Registration number	Expiry date
现代	PRC	16	8120827	20 March 2021
皮皮爽	PRC	16	8120837	20 March 2021
	PRC	21	6928833	27 July 2020
青蛙王子	PRC	5	3562471	13 July 2015
FROGPRINCE	PRC	5	4593453	6 September 2018
	PRC	21	3562466	20 July 2015
青蛙王子	PRC	21	3119035	20 June 2013
	PRC	20	3562468	6 June 2015
	PRC	21	3208012	6 October 2013
	PRC	5	1974935	27 November 2012
	PRC	3	7246931	27 July 2020
蛙蛙乐	PRC	16	8084329	27 February 2021
喜美通	PRC	16	8120821	20 March 2021
	PRC	28	6928830	27 February 2021
	Hong Kong	3	301785178	8 December 2020
	Hong Kong	5	301785178	8 December 2020
	Hong Kong	16	301785178	8 December 2020
	Hong Kong	21	301785178	8 December 2020
	Hong Kong	25	301785178	8 December 2020
	Hong Kong	35	301785178	8 December 2020
	Hong Kong	3	301793746	19 December 2020
	Hong Kong	5	301793746	19 December 2020

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Trademark	Place of registration	Class	Registration number	Expiry date
	Hong Kong	16	301793746	19 December 2020
	Hong Kong	21	301793746	19 December 2020
	Hong Kong	25	301793746	19 December 2020
	Hong Kong	35	301793746	19 December 2020
	Hong Kong	3	301785150	8 December 2020
	Hong Kong	5	301785150	8 December 2020
	Hong Kong	16	301785150	8 December 2020
	Hong Kong	21	301785150	8 December 2020
	Hong Kong	25	301785150	8 December 2020
	Hong Kong	35	301785150	8 December 2020
	Hong Kong	3	301785169	8 December 2020

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Trademark	Place of registration	Class	Registration number	Expiry date
	Hong Kong	5	301785169	8 December 2020
	Hong Kong	16	301785169	8 December 2020
	Hong Kong	21	301785169	8 December 2020
	Hong Kong	25	301785169	8 December 2020
	Hong Kong	35	301785169	8 December 2020
BODY & EARTH US		3	1972617	7 May 2016
GREEN CANYON SPA	US	3	3230948	17 April 2017
	US	3	3652275	6 July 2019
	EU	3	006841861	17 April 2018
	Australia	3	1234001	8 April 2018
	Canada	3	1391773	7 September 2025

As of the Latest Practicable Date, applications had been made for the registration of the following trademarks:

Trademark	Place of application	Class	Application number	Application date
蛙蛙乐	PRC	16	8084329	28 February 2011 to 27 February 2021
喜美道	PRC	16	8120821	21 March 2011 to 20 March 2021
	PRC	28	6928831	1 September 2008
干一夜	PRC	16	8120844	15 March 2010
	PRC	28	6928830	28 February 2011 to 27 February 2021

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Trademark	Place of application	Class	Application number	Application date
	PRC	5	8384866	11 June 2010
	PRC	16	8384884	11 June 2010
	PRC	3	7908115	11 December 2009
无蚊爽	PRC	5	8883862	25 November 2010
BODY & EARTH	PRC	3	8524190	29 July 2010
巴蒂尔诗	PRC	3	8524204	29 July 2010
顽皮蛙	PRC	5	8671551	15 September 2010
Baby Boin 婴儿本色	PRC	21	8671574	15 September 2010
Baby Boin 婴儿本色	PRC	16	8671593	15 September 2010
Baby Boin 婴儿本色	PRC	3	8671623	15 September 2010
Baby bain 巴恩	PRC	43	8671638	15 September 2010
Baby bain 巴恩	PRC	41	8671658	15 September 2010
Baby bain 巴恩	PRC	35	8671689	15 September 2010
Baby bain 巴恩	PRC	28	8671708	15 September 2010
Baby bain 巴恩	PRC	25	8671726	15 September 2010
Baby bain 巴恩	PRC	21	8671752	15 September 2010
Baby bain 巴恩	PRC	20	8674857	16 September 2010
Baby bain 巴恩	PRC	18	8674889	16 September 2010
Baby bain 巴恩	PRC	16	8674908	16 September 2010
Baby bain 巴恩	PRC	12	8674947	16 September 2010
Baby bain 巴恩	PRC	10	8674960	16 September 2010
Baby bain 巴恩	PRC	5	8674972	16 September 2010
Baby bain 巴恩	PRC	3	8675002	16 September 2010

APPENDIX VI STATUTORY AND GENERAL INFORMATION

Trademark	Place of application	Class	Application number	Application date
	PRC	21	9003768	29 December 2010
	PRC	21	9003774	29 December 2010
	PRC	21	9003783	29 December 2010
	PRC	3	9003799	29 December 2010
	PRC	3	9003806	29 December 2010
	PRC	21	9160959	1 March 2011
	PRC	21	9160970	1 March 2011
	PRC	3	9160991	1 March 2011
	PRC	3	9161004	1 March 2011
	PRC	3	9161016	1 March 2011
	PRC	3	9161032	1 March 2011
LUXIENCE	PRC	3	9161053	1 March 2011
	PRC	5	4848056	22 August 2005

Patents

As of the Latest Practicable Date, we had registered the following patents in PRC:

Type	Place of Registration	Patent number	Effective period
Design	PRC	ZL200630061901.8	30 May 2006 to 29 May 2016
Design	PRC	ZL200630061899.4	30 May 2006 to 29 May 2016
Design	PRC	ZL200630061897.5	30 May 2006 to 29 May 2016
Design	PRC	ZL200630061898.X	30 May 2006 to 29 May 2016
Design	PRC	ZL200630061900.3	30 May 2006 to 29 May 2016
Design	PRC	ZL200830213297.5	13 October 2008 to 12 October 2018

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Type	Place of Registration	Patent number	Effective period
Design	PRC	ZL200830213298.X	13 October 2008 to 12 October 2018
Design	PRC	ZL200830212800.5	13 October 2008 to 12 October 2018
Design	PRC	ZL200830213296.0	13 October 2008 to 12 October 2018
Design	PRC	ZL200830213293.7	13 October 2008 to 12 October 2018
Design	PRC	ZL200830112292.3	8 August 2008 to 7 August 2018
Design	PRC	ZL200830213294.1	13 October 2008 to 12 October 2018
Design	PRC	ZL200830213299.4	13 October 2008 to 12 October 2018
Design	PRC	ZL200830213295.6	13 October 2008 to 12 October 2018
Design	PRC	ZL200830112293.8	8 August 2008 to 7 August 2018
Design	PRC	ZL200830212801.X	13 October 2008 to 12 October 2018
Design	PRC	ZL201030521509.3	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521504.0	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521505.5	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521503.6	17 September 2010 to 16 September 2020
Design	PRC	ZL201030523928.0	19 September 2010 to 18 September 2020
Design	PRC	ZL201030521508.9	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521506.X	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521514.4	17 September 2010 to 16 September 2020
Design	PRC	ZL201030523920.4	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523922.3	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523908.3	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523889.4	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523898.3	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523897.9	19 September 2010 to 18 September 2020
Design	PRC	ZL201030521510.6	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521513.X	17 September 2010 to 16 September 2020
Design	PRC	ZL201030521511.0	17 September 2010 to 16 September 2020
Design	PRC	ZL201030523910.0	19 September 2010 to 18 September 2020
Design	PRC	ZL201030523902.6	19 September 2010 to 18 September 2020
Design	PRC	ZL201030251549.0	28 July 2010 to 27 July 2020
Design	PRC	ZL201030523907.9	19 September 2010 to 18 September 2020
Design	PRC	ZL201030698700.5	27 December 2010 to 26 December 2020
Design	PRC	ZL201030698702.4	27 December 2010 to 26 December 2020

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Type	Place of Registration	Patent number	Effective period
Design	PRC	ZL201030698704.3	27 December 2010 to 26 December 2020
Design	PRC	ZL201030698706.2	27 December 2010 to 26 December 2020
Design	PRC	ZL201030698708.1	27 December 2010 to 26 December 2020
Design	PRC	ZL201030698709.6	27 December 2010 to 26 December 2020
Design	PRC	ZL201030698710.9	27 December 2010 to 26 December 2020

As of the Latest Practicable Date, applications had been made for the registration of the following patents:

Type	Place of application	Application number	Application date
Patent	PRC	200810072277.X	1 December 2008
Patent	PRC	2010113000244980	29 November 2010

Domain Names

As of the Latest Practicable Date, we had the right to use the following domain names:

Registrant	Domain Name	Effective Period
Prince Frog (China)	儿童护肤专家.com	15 March 2007 to 15 March 2017
Prince Frog (China)	双飞剑.com	15 March 2007 to 15 March 2017
Prince Frog (China)	青蛙王子.net	15 March 2007 to 15 March 2017
Prince Frog (China)	福建双飞集团.com	15 March 2007 to 15 March 2017
Prince Frog (China)	福建双飞日化.net	15 March 2007 to 15 March 2017
Prince Frog (China)	福建双飞日化.com	15 March 2007 to 15 March 2017
Prince Frog (China)	qwwz.com	14 September 2004 to 13 September 2011
Prince Frog (China)	青蛙王子.公司	15 March 2007 to 12 March 2017
Prince Frog (China)	青蛙王子.网络	15 March 2007 to 12 March 2017
Prince Frog (China)	福建双飞日化.网络	15 March 2007 to 12 March 2017
Prince Frog (China)	福建双飞日化.中国 福建双飞日化.cn	15 March 2007 to 12 March 2017
Prince Frog (China)	福建双飞日化.公司	15 March 2007 to 15 March 2017
Prince Frog (China)	luxience.cn	14 February 2011 to 14 February 2012
Prince Frog (China)	luxience.com.cn	14 February 2011 to 14 February 2012
Prince Frog (China)	luxience.net	14 February 2011 to 14 February 2012
Prince Frog (China)	photys.com.cn	29 January 2011 to 29 January 2012
Prince Frog (China)	Luxsense.com.cn	29 January 2011 to 29 January 2012
Prince Frog (China)	Einb.com.cn	7 January 2011 to 7 January 2016

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

Registrant	Domain Name	Effective Period
Prince Frog (China)	Ein-b.com	18 October 2010 to 18 October 2015
Prince Frog (China)	Body-earth.com	26 July 2010 to 26 July 2015
Prince Frog (China)	Body-earth.com.cn	26 July 2010 to 26 July 2015
Prince Frog (China)	Qwwzbaby.com	22 July 2010 to 22 July 2015
Prince Frog (China)	Shuangfeigroup.com	22 July 2010 to 22 July 2015
Prince Frog (China)	princefrog.com.cn	23 March 2011 to 23 March 2016
Prince Frog (China)	luxsense.net	29 January 2011 to 29 January 2012
Prince Frog (China)	frogprince.com.cn	23 March 2011 to 23 March 2016

3. Further information about our PRC subsidiary

Prince Frog (China)

(i) nature of the company:	limited liability company (WFOE)
(ii) term of business operation:	from February 2005 to February 2015
(iii) total investment amount:	US\$ 25 million
(iv) registered capital:	US\$ 10 million
(v) attributable interest of the Company:	100%
(vi) scope of business:	Production of hair products, skin protection products, perfumes, beauty/restoration cosmetics (sanitation permit expires on 8 December 2013); toothbrush manufacturing; wholesale of toothpaste, laundry soap powder, laundry detergents, air fresheners, solid air fresheners, playing cards, sanitary articles (moist napkins), toilet paper, diapers, diaper pads, electricity-heated mosquito repellents, electricity-heated liquid mosquito traps, mosquito repellents, sandalwood incense, silene incense (蠟香), baited roach traps, aerosol insecticides, vaporous insecticides, hand wash liquid, toothbrush, soap and cosmetics

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors’ service contracts

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the [●] and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other.

Each of our Directors is entitled to the respective basic salary set out below. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of audited consolidated or combined net profit of our Company (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

the Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of the Directors are as follows:

<u>Name</u>	<u>Annual Amount</u>
Li Zhenhui	RMB1,200,000
Xie Jinling	RMB500,000
Ge Xiaohua	RMB600,000
Huang Xinwen	RMB600,000
Hong Fang	RMB900,000
Chen Shaojun	RMB159,840
Yang Feng	HK\$192,000
Ren Yunan	HK\$192,000
Wong Wai Ming	HK\$192,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determined by us within one year without payment of compensation (other than statutory compensation).

2. Directors' remuneration during the Track Record Period

For the year ended 31 December 2008, 2009 and 2010, the aggregate of the remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and discretionary bonuses) paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately RMB513,000, RMB502,000 and RMB661,000, respectively.

For the year ended 31 December 2008, 2009 and 2010, no remuneration was paid by us to, or receivable by, our Directors as an inducement to join or upon joining us, and no compensation was paid by us to, or receivable by, our Directors or past Directors for the loss of any office in connection with the management of the affairs of any member of our Group. There was no arrangement under which a Director waived or agreed to waive any remuneration during the three years ended 31 December 2008, 2009 and 2010.

Save as disclosed in this document, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2008, 2009 and 2010 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, Directors (excluding discretionary bonus) for the year ending 31 December 2011 will be approximately RMB2,222,000.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 8 to our combined financial statements, included in the Accountants' Report set out in Appendix I, to this document.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

G. OTHER INFORMATION

1. Estate duty and tax indemnity

Each of our Controlling Shareholders, Mr. Xie and Jinlin Investment (together, the **"Indemnifiers"**) has entered into the Deed of Indemnity (being the material contract (42) referred to in paragraph C.1 of this Appendix) to provide the following indemnities in favour of our Company (for itself and as trustee for each of its subsidiaries) on a joint and several basis.

Under the Deed of Indemnity, among other things, the Indemnifiers have given indemnities to our Group on a joint and several basis in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the [●] becomes unconditional (the **"Effective Date"**).

The deed of indemnity does not cover any claim and the Indemnifiers shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that provision for such liability or claim has been included in the audited consolidated accounts of our Group as of 31 December 2010 (the **"Accounts"**);
- (b) falling on any member of our Group after 31 December 2010, to the extent that such liability would not have arisen but for some act or omission by any Indemnifier or any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business before the Effective Date;
- (c) to the extent of any provision or reserve made for such liability in the Accounts is finally established to be an overprovision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of the liability shall be reduced by an amount not exceeding such provision or reserve; or
- (d) to the extent that such claim arises or is incurred as a result of the imposition of liability as a consequence of any retrospective change in the law, rule and regulations or the interpretation or practice thereof by any taxation or other relevant authority coming into force after the date of the Deed of Indemnity or to the extent such authority coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of liability after the date of the Deed of Indemnity with retrospective effect.

2. Litigation

As of the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately HK\$50,000 and have been paid by us.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

4. Promoter

There are no promoters of our Company.

5. [●]

6. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 December 2010 (being the date to which our latest financial statements were made up).

7. [●]

8. Miscellaneous

Save as disclosed in this document:

- (a) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this document, no commission has been paid or payable (except commissions to the [●]) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) we have no outstanding convertible debt securities;
- (h) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months proceeding the date of this document.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

<u>Name</u>	<u>Qualification</u>
CCB International Capital Limited	Licensed to conduct Type 1 regulated activity (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
CIMB Securities (HK) Limited	A corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
Ernst & Young	Certified Public Accountant
Jones Lang LaSalle Sallmanns Limited	Independent professional property valuer
Commerce & Finance Law Offices	PRC Legal advisers to the [●]
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal counsel to our Company
Euromonitor	Research and analysis services provider
Frost & Sullivan	Research and analysis services provider

10. Consents of experts

Each of CCB International Capital Limited, CIMB Securities (HK) Limited, Ernst & Young, Jones Lang LaSalle Sallmanns Limited, Commerce & Finance Law Offices, Conyers Dill & Pearman, Jingtian & Gongcheng, Euromonitor and Frost & Sullivan has given and has not withdrawn their respective consent to the issue of this document with the inclusion of its report and/or letter and/ or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

Save as disclosed in this document, none of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. [●]

12. [●]