

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.

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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.

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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 our Group.

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

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 about 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.

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. 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)⁷ 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) Pony⁸ 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:

7. As of 18 February 2011.

8. As of 16 February 2011.

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;

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- 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.

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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

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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	

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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.

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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:

<u>Brand</u>	<u>Product categories</u>	<u>Product series</u>	<u>Number of products (Note)</u>	<u>Key products</u>	<u>Year of first launch</u>	<u>Sample product picture</u>
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 our 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

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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>

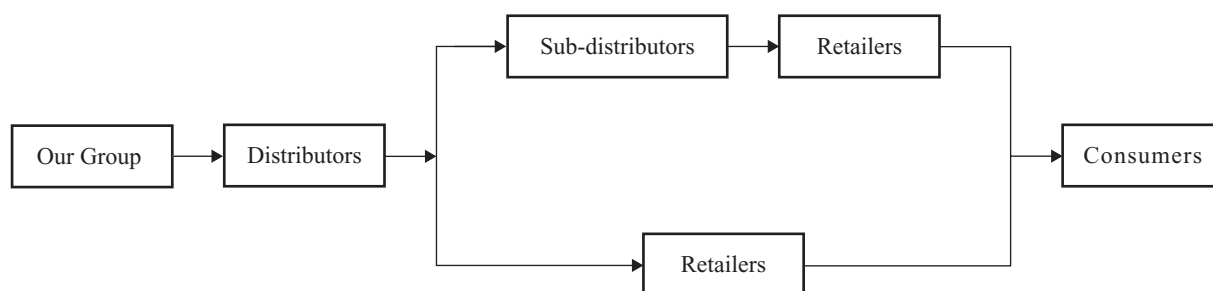
Note: Others refer to our OEM products and our adult oral care products and skin care products under other brands of our Group.

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.

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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 prospectus.

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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.

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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

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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		<u>473,966</u>	<u>100.0%</u>		<u>624,396</u>	<u>100.0%</u>		<u>837,991</u>	<u>100.0%</u>	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

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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.

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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

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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 Copyrights 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.

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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.

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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

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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:

	<u>Usage</u>	<u>Floor area (square meters)</u>	<u>Expected production capacity per year</u>	<u>Time of commencement of operation/Expected time to commence operation</u>	<u>Amount of capital expenditure incurred</u>	<u>Amount of capital expenditure expected to be incurred</u>
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.

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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, pre-IPO investments, bank borrowings and the proceeds from the Global Offering.

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 under our 青蛙王子 (Frog Prince) brand 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 prospectus 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.

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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 our 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

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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 our Company following the request from our 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 prospectus.

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.

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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:

<u>Key Product Series</u>	<u>Raw Materials</u>
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.

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 prospectus. 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

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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 our 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.

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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.

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

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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 prospectus 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.

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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 prospectus.

We produced the first season of the animation series, named 青蛙王子 (Frog Prince), in 2005, which was televised in about 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 prospectus.

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 and 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 our Group during the Track Record Period as a result of the existence of these counterfeit products.

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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.

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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	499	Storage and dormitory
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,

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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

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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 our 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 our 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 prospectus.

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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:

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

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B. Remedial actions taken

In the course of preparation of the Listing, 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 Listing 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.

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- (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) An audit committee was established to review the internal control systems and procedures for compliance with the requirements of the Listing Rules.
- (g) Our Company will appoint a compliance adviser upon Listing to advise our Company on compliance matters in accordance with the Listing Rules.
- (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 Measures for the Administration on Foreign Investment in Commercial Fields (外商投資商業領域管理辦法) and Measures for Investigating, Punishing and Banning Unlicensed Business Operations (無照經營查處取締辦法).

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

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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 Measures for Investigating, Punishing and Banning Unlicensed Business Operations (無照經營查處取締辦法).

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 Hygiene Approval for Domestic Special-Purpose Cosmetics (國產特殊用途化妝品衛生批准文件).

Maximum potential liability: Under Regulations on the Hygiene Supervision over Cosmetics (化妝品衛生監督條例), 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 Hygiene License for Cosmetics Production Enterprises (化妝品生產企業衛生許可證) 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 Production License of Industrial Products (工業產品生產許可證) 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 Regulations on Administration of Production Licensing of Industrial Products (中華人民共和國工業產品生產許可證管理條例), 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.

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(v) Insecticide products

In accordance with Management Measures for Production of Pesticide (農藥生產管理辦法), a company shall obtain Permit for Production of Pesticide (農藥生產批准證書) 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 Regulations on the Management of Pesticide (農藥管理條例), 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 Registration Certificate for Pesticide (農藥登記證) 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 Zhangzhou Municipal Foreign Trade and Economic Cooperation Bureau (漳州市對外貿易經濟合作局) 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 Measures for the Administration on Foreign Investment in Commercial Fields (外商投資商業領域管理辦法) during the Track Record Period;
- (b) Confirmation from Zhangzhou Administration for Industry and Commerce (漳州市工商行政管理局) 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

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Period; and (d) save 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 Zhangzhou Food and Drug Administration (漳州市食品藥品監督管理局) 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 Fujian Province Economic and Trade Commission (福建省經濟貿易委員會) 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, Production License of Industrial Products (工業產品生產許可證) 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 Hygiene Approval for Domestic Special-Purpose Cosmetics (國產特殊用途化妝品衛生批准文件) 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 Shuangfei, 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.

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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 our 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 Jiangxi Provincial Product Quality Supervision Testing College (江西省產品質量監督檢測院) 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 December 2009.

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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 our Company's PRC legal advisers, Jingtian & Gongcheng, since Zhangzhou Product Quality and Technical Supervision (漳州市質量技術監督局) 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 Product Quality Law of The People's Republic of China (中華人民共和國產品質量法) and Administrative Measures for the State Supervisory Sampling Inspection of Product Quality (產品質量國家監督抽查管理辦法).

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 Fujian Provincial Central Inspection Institute (福建省中心檢驗所), 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.

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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 Wenzhou Administration for Industry and Commerce (溫州市工商行政管理局) in 2008, and two of our mosquito-repellent incense products failed to pass the random tests carried out by Sichuan Administration for Industry and Commerce (四川省工商行政管理局) 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 Zhangzhou Product Quality and Technical Supervision (漳州市質量技術監督局) (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

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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 our 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"

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of this prospectus. 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)⁹ 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) Pony¹⁰ 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:

9. As of 18 February 2011.

10. As of 16 February 2011.

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As advised by our PRC legal advisers, Jingtian & Gongcheng, save as the non-compliance incidents disclosed in this prospectus, our 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.