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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering, our Controlling Shareholders will together control the exercise of the voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised and without taking into account of the Shares to be allotted and issued pursuant to the options which may be granted under the Share Option Scheme). As confirmed by our Controlling Shareholders, save as disclosed below and except for their respective interests in Fujian Shuangfei, Shuangfei (USA), our Company and its subsidiaries, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies as at the Latest Practicable Date which include any other companies that (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Reorganisation; or (ii) may, directly or indirectly, compete with our Group's business.

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

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

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

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

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

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

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

Such Deed of Non-competition does not apply to:

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

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

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

### DIRECTORS

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

### CORPORATE GOVERNANCE MEASURES

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

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

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

#### *Management Independence*

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

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

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

#### *Operational Independence*

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

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

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

### *Financial Independence*

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