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## CONNECTED TRANSACTIONS

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### CONNECTED TRANSACTIONS

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

### CONNECTED PERSONS

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

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

#### 1. Fujian Shuangfei Lease Agreement

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

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

#### 2. Mingxin Lease Agreement

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

Fujian Shuangfei constructed certain buildings with a gross floor area of approximately 4,846 square meters on such land and has not obtained property titles for such buildings. Pursuant to the Mingxin Lease Agreement, Prince Frog (China) shall pay a monthly rent of RMB26,743 to

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

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

### **3. Equipment and Vehicles Lease Agreement**

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

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

### **4. Process Outsourcing Agreement**

Pursuant to the Process Outsourcing Agreement, Fujian Shuangfei agreed to produce relevant products according to the purchase orders issued by Prince Frog (China). Prince Frog (China) shall provide relevant raw materials and packaging materials to Fujian Shuangfei for such production. The fees for such process outsourcing shall be determined after arm's length negotiations between relevant parties and with reference to the processing costs incurred by Fujian Shuangfei in relation thereafter. Prince Frog (China) and Fujian Shuangfei further agreed that the outsourcing arrangement shall be limited to the production of the sunscreen, air freshener and insecticide products for a term of three years. Fujian Shuangfei will charge a processing fee, which would be determined on the above basis.

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

### **5. Sale of Goods Agreement**

Pursuant to the Sale of Goods Agreement dated 13 June 2011 entered into between Shuangfei (USA) and Prince Frog (China), Prince Frog (China) agreed to sell and Shuangfei (USA) agreed to buy bath and skin care products produced by our Group. The prices of such bath and skin care products will be determined in accordance with the purchase orders on the basis of arm's length negotiations and with reference to fair market price. Shuangfei (USA) shall pay our Group within certain period after the delivery of our products.

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

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### APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

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

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

## CONNECTED TRANSACTIONS

### HISTORICAL FIGURES

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

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

*Note:*

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

### ANNUAL CAPS

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

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

*Notes:*

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

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

### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsors are of the view that (i) the Non-exempt Continuing Connected Transactions for which waivers are sought have been entered into in the ordinary and usual course of business of our Company on normal commercial terms and are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (ii) the proposed annual caps for the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interest of our Group and our Shareholders as a whole.