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## **PRINCE FROG INTERNATIONAL HOLDINGS LIMITED**

### **青 蛙 王 子 國 際 控 股 有 限 公 司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1259)**

## **CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING**

Reference is made to the Report and the announcement of the Company dated 16 October 2013 in relation to the halt of trading in the Shares. This announcement is made to clarify and address the Allegations raised in the Report.

Save as stated in this announcements, having made such enquiry with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

This announcement is made by the order of the Company. The Board collectively and individually accepts responsibility for the accuracy of this announcement.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.**

Trading in the Shares on the Stock Exchange was halted from 11:43 a.m. on 16 October 2013 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on Thursday, 21 November 2013.

We refer to the “research” report on Prince Frog International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) issued and circulated by Glaucus Research Group (“**Glaucus**”) on 16 October 2013 (the “**Report**”) and the announcement of the Company in relation to the halt of trading in the shares of the Company (the “**Shares**”) from 11:43 a.m. on 16 October 2013.

## SUMMARY

As mentioned in the Report, Glaucus is a short seller and will make money if the price of the Company’s stock declines. The Report contains allegations or comments (the “**Allegations**”) on the Company based on misconstrued/erroneous/inappropriate reports, and conjectures which are likely to mislead the Company’s shareholders and potential investors. This announcement will clarify and address the Allegations raised in the Report:

### Sales

- (a) Industry reports are prepared based on specific research definition, coverage, projections, sets of assumptions and research methodology, and such parameters if not set appropriately will have the propensity to cause erroneous or misleading information to be generated that affects the credibility of the reports.
- (b) The Company does not have any reason to doubt the independence and reliability of the Euromonitor Report, certain data had been extracted from the Euromonitor Report and set out in the Company’s initial public offering prospectus dated 30 June 2011 (the “**Prospectus**”) for the purpose for which it was prepared. The board of directors of the Company (the “**Board**”) believes that the Euromonitor Report contains appropriate information that have been extracted for inclusion in the Industry Overview and Business sections of the Prospectus and the Company has taken reasonable care in extracting and reproducing such information.
- (c) We believe Glaucus have inappropriately applied the data generated from a Nielsen report to support its unsubstantiated allegations in an attempt to discredit the sales of the Company.

- (d) The Company’s financial statements, which disclosed its total sales, have been subject to the audit procedures of Ernst & Young (the “**Auditors/Reporting Accountants**”), who expressed unqualified opinion in their audit reports. We believe that the Company’s financial statements are a fair representation of the financial performance of the Group.

### **Alleged Ranking Revealed by “Chinese Government”**

- (a) Based on our review of the website of Ministry of Industry and Information Technology of the PRC (the “**MIIT**”), neither the list of departments and agencies under MIIT nor the units supervised by MIIT include an institution named Chinese Enterprise Brand Research Centre (中國企業品牌研究中心) as a member.
- (b) The sampling group used in the “China Brand Power Index” report is not representative of the addressable markets of the Company.
- (c) The “Prince Frog” brand was recognised as the China Famous Trademark by the Trademark Bureau of the State Administration for Industry & Commerce of the PRC in December 2012.

### **Tax Records**

- (a) In preparation for the listing of the Company (the “**Listing**”), the joint sponsors of the Company in relation to the Listing, their legal advisers as to Hong Kong law and PRC law and the Auditor/Reporting Accountants involved in the Listing process approached the relevant tax office and the Group received tax clearance letters from the relevant tax office stating that each of the Tax Entities (as defined below) has complied with the relevant tax rules and regulations and have paid up its taxes in full.
- (b) The Company understands that the list as published by Zhangzhou Municipal Government (漳州市人民政府) in recognition of the top tax paying companies in Zhangzhou Municipal (the “**List**”) is not a complete list. The Company has obtained relevant explanation letter from Zhangzhou Municipal Government (漳州市人民政府) and a legal opinion issued by Jingtian & Gongcheng Law Firm in this regard.

## Customer SAIC Filings

- (a) The Company wishes to clarify that the discrepancies in the figures filed by the Company's customers and the Company could be due to a range of possibilities. The Company should only be held accountable for its accounts, and is not in a position to comment on the completeness and accuracy of the financial statements filed by its customers.
- (b) The Company has obtained confirmation letters from four of the Company's customers, confirming that the figures relating to their financial accounts of such customers used in the Report are erroneous and such customers have never provided or authorized any third party to provide the figures to Glaucus.

## Reported Financial Comparison

- (a) *Growth rate faster than "comparable" as selected by Glaucus*

The Company believes that the rapid growth in the sales of the Company is based on solid fundamental, and is highly plausible and achievable in the People's Republic of China ("PRC"), which is a fragmented and rapidly expanding market, especially at the expense of our competitors.

- (b) *89% ROIC*

The Company believes that it is inappropriate to compare the Company with the companies used and selected by Glaucus given the companies used and selected are either substantially larger than the Company, such as Procter and Gamble Company ("PG"), a company listed in the New York Stock Exchange (stock code: PG) and Pigeon Corp, a company listed in the Tokyo Stock Exchange (stock code: 7956.T), or involved in a much larger market segment with wide and different market dynamics, such as Shanghai Jahwa United Co. Ltd. (上海家化) ("**Shanghai Jahwa**") (stock code: 600315.CH).

*(c) Faster Inventory Turnover Rate*

- (i) Since the Listing, the Company has reorganised and expanded its distribution hubs to improve inventory turnover rate.
- (ii) The Company concurs with Glaucus that the inventory turnover rate of the Company is relatively faster than that of PG. However, the Company notes that the ability to achieve a faster inventory turnover is not particular to the Company.

The Board advises its shareholders and potential investors to take particular care when evaluating information disseminated in the market released without the Company's authorisation, approval or endorsement. We set out below further details of our clarifications:

## **ALLEGATIONS CONCERNING THE GROUP IN THE REPORT**

### **1. Sales**

The Report has relied on a Nielsen report which Glaucus commissioned to allege that (i) the Company's actual sales are less than 25% of the sales figures that the Company reported; and (ii) the Euromonitor Report cannot be relied upon. The Company wishes to state and clarify the followings:

- (a) It should be noted that industry reports are prepared and based on specific research definition, coverage, projections, sets of assumptions and research methodology, and such parameters if not set appropriately will have the propensity to cause erroneous or misleading information to be generated that affects the credibility of the reports;
- (b) In accordance with market practice and in compliance with the listing requirements, the Company had engaged Euromonitor, a globally recognized independent market research firm during the Listing in order to provide potential investors with an independent view of the addressable markets of the Company, and the ranking of the Company's products in the market.

It is suggested in the Report that the sales figures relied upon by Euromonitor were unreliable and non-independent as they were provided by the Company. In this respect, the Company would like to clarify that Euromonitor was engaged for the purpose of providing an independent view on the market position of the Company's products in the market of the PRC, and NOT for the purpose of validating the veracity of the sales of the Company.

The actual total sales figures provided by the Company to Euromonitor for the preparation of the Euromonitor Report were unaudited management figures and included the Group's total sales revenue and breakdown by brands and types of products for the financial year 2008, 2009 and 2010 (the "**Sales Breakdown (Track Record Period)**"). The Sales Breakdown (Track Record Period) was provided to Euromonitor prior to the date of the issue of the accountant's report as set out in the Prospectus. In respect of the Sales Breakdown (Track Record Period), the Company would like to clarify that: (i) the total sales revenue for 2008 and 2009 are consistent with the audited figures as disclosed in the Prospectus, (ii) the total sales revenue for 2010 differs to the audited figures as disclosed in the Prospectus by approximately 1.7%, (iii) the total segment breakdown figures by brands and types of products for 2008 are consistent with the figures in the table of the Group's revenue breakdown as set out on page 192 of the Prospectus, (iv) the total segment revenue for the Frog Prince brand products for 2009 differ with the corresponding figure in the table of the Group's revenue breakdown as set out on page 192 of the Prospectus by approximately 0.01%, (v) the total segment revenue for each of Shuangfeijian, Shenhuxi and other products for 2009 differ with the corresponding figures in the table of the Group's revenue breakdown as set out on page 192 of the Prospectus by not more than approximately 1.55%, (vi) the total segment revenue for the Frog Prince brand products for 2010 differ with the corresponding figure in the table of the Group's revenue breakdown as set out on page 192 of the Prospectus by approximately 2.35%, and (vii) the total segment revenue for each of Shuangfeijian, Shenhuxi and other products for 2010 differ with the corresponding figures in the table of the Group's revenue breakdown as set out on page 192 of the Prospectus by not more than approximately 5.11%.

For the year ended 31 December 2008 to 2012, based on our unaudited management figures, the amount of our sales return were approximately RMB1,303,000, RMB1,488,000, RMB2,680,000, RMB4,766,000 and RMB15,248,000, respectively, representing approximately 0.27%, 0.24%, 0.32%, 0.38% and 0.97%, respectively, of our total revenue for the year.

- (c) The Company does not have any reasons to doubt the independence and reliability of the Euromonitor Report for the purpose for which it was prepared. The Board believes that the Company has taken reasonable care in extracting and reproducing appropriate information from the Euromonitor Report for inclusion in the Industry Overview and Business sections of the Prospectus.

The Report made reference to and relied on information contained in a “2012 Euromonitor report” (on page 1) and a “2013 Euromonitor report” (on page 13). The Company would like to highlight that these reports were not commissioned by the Company and the Company was not aware of their existence until reference of such reports appeared in the Report. The Company wishes to state that it is not in a position to comment on the differences of our 2011 retail sales in these reports as set out on page 17 of the Report. The Company would like to emphasize that the Company never used, quoted or otherwise relied on these reports.

The Company only commissioned Euromonitor to produce an industry report for the purpose of the Listing (the “**Euromonitor Report**”) and another updated industry report after the Listing in March 2013.

- (d) The Company notes that Glaucus has relied on a Nielsen report supported by selected reports to corroborate the information set out in the Report, in an attempt to discredit the sales performance of the Company. Based on the very limited information set out on page 8 of the Report, for which we have highlighted below, the Company notes that the Nielsen report seems to have adopted different parameters that were applied in the Euromonitor Report which may be the reasons for the misconstrued or erroneous research outcome in the Report.

(i) *Definition*

The Company notes that the definition of the Nielsen report covers “...2) Improving skin texture by moisturizing and protecting the skin to make it soft **or younger look**; 3) **Anti-Aging (Anti Wrinkle)**; 4) **Whitening**; 5) **Firming**;...”. Based on the definition stated, the Company is perplexed as to why the products in bold above are covered in a Nielsen report since children from 4 to 12 years old would certainly have no need for such products.

(ii) *Methodology*

The Company notes that the methodology used covers “...tracking representative retail sample outlets and applying scientific projection factors to estimate the performance of total retail market defined by Nielsen Universe.” However, without the benefit of reviewing the Nielsen report in its entirety, and discussing the basis and methodology used by Nielsen with Nielsen, the Company is unable to determine with certainty from the description what “Nielsen Universe” is and how many retail sample outlets were actually taken. The Company would like to emphasize that it had never provided any information directly to Nielsen for the preparation of their report, including any list of the Company’s addressable markets. As such, the Company questions whether the sample size or sample group to be representative of the addressable markets of the Company. The Company does not challenge the scientific projection factors used, but do challenge the veracity of the base figure used in the projections.

(iii) *Market Coverage*

The Company notes that the provinces covered by a Nielsen report seem to have covered the majority of the provinces covered by the Group. However, it is unclear to the Company which cities and how many cities were covered by a Nielsen report as these information are not stated anywhere in the Report. Page 12 of the Report loosely claimed that “Nielsen’s coverage area includes the first, second and third-tier cities in the central and coast provinces” without any further details and the only information quoted from the Nielsen report was the graphic sets out on that page with a legend that only broadly listed out some **provinces/municipality cities**. Based on the information that has been revealed in the Report so far, the Company believes that the sample groups in the Nielsen report are more focused on first and second-tier cities, which will affect their research outcome. The Company would like to highlight that the Company only began to move



into the first-tier cities just prior to the Listing, and is substantially more established in the third and fourth-tier cities. By way of illustration, based on the Company's unaudited management figures, the Company's sales revenue derived from distributors located in the third and fourth-tier cities had consistently accounted for approximately 70% to 77% of the Group's total sales in each financial year from 2008 to 2012. In contrast, the corresponding percentages for the Company's sales revenue derived from distributors located in the first-tier cities were in the range of 0% to approximately 2%.

The Company would like to reiterate that the focus of the business of the Group has been on second, third and fourth-tier cities, with the majority of the sales attributable to the third and fourth-tier cities. The sales attributable to first-tier cities are still insignificant by comparison.

The Company would like to clarify that its classification of first, second, third and fourth-tier cities were determined based on economic cluster and the official government definitions at the time of issue of the Prospectus and the Company has adopted the same classifications without any changes in all of its public documents issued after the date of the Prospectus.

The breakdown of first, second, third and fourth-tier cities is set out as follows:

- “First-tier cities”, as defined on page 16 of the Prospectus, refer to Beijing, Shanghai, Guangzhou and Shenzhen. These 4 cities are the most important and affluent cities in mainland China with a better developed retailing market;
- “Second-tier cities”, as defined on page 21 of the Prospectus, refer to the major municipalities or provincial capitals that record high gross domestic product and personal disposal income among the cities in the PRC. Second-tier cities included 25 cities, which are: Dalian, Shenyang, Tianjin, Chongqing, Jinan, Qingdao, Hangzhou, Ningbo, Nanjing, Suzhou, Harbin, Hefei, Wuxi, Foshan, Wuhan, Chengdu, Dongguan, Xiamen, Yantai, Zhengzhou, Changsha, Changchun, Wenzhou, Fuzhou, and Xi'an;

- “Third-tier cities”, as defined on page 22 of the Prospectus, refer to 41 mid-upper affluent cities and provincial capitals in mainland China. These 41 cities are: Shijiazhuang, Taiyuan, Nanchang, Yinchuan, Guiyang, Kunming, Lanzhou, Hohhot, Weihai, Nantong, Xuzhou, Jiaxing, Zhanjiang, Zhangzhou, Shantou, Tangshan, Haikou, Nanning, Urumqi, Kaifeng, Qinhuangdao, Chengde, Guilin, Ganzhou, Jilin, Liaocheng, Luoyang, Nanyang, Xining, Cixi, Baoji, Linyi, Lhasa, Lishui, Luohe, Quanzhou, Lianyungang, Yichang, Changzhou, Changde, Binzhou;
- “Fourth-tier cities”, as defined on page 16 of the Prospectus, refer to the vast prefecture-level and county-level cities in the PRC. Fourth-tier cities included Qinhuangdao, Ninghai County, Lanshan County, Shaodong County, Taihe County, Wuhu, Baoding, Baotou, Zibo, Zhenjiang, Yangzhou, Zhoushan, Jinhua, Huizhou, Deyang, Zigong, Leshan, Ningde, Yichang, Jiaozhou, Heze, Linfen, Jinjiang, Dushan, Guiyang, Hengshan, Daqing, Anshan, Baoshan, Erenhot Xilin Gol, Ordos, Gao’an, Baise, Jiedong County, Leizhou, Yuhuan County, Zhumadian, Zoucheng, Zunyi, Ankang, Anlu, Anqing, Anshun, Anyang, Bangbu, Liling, Maoming, Meizhou, Mianyang, Chaoyang, Chenzhou, Chifeng, Hanshou County, Hezhou, Hebi, Hengshui, Hengyang, Enshi, Fuzhou, Fuyang, Guyuan, Guanghan, Haining, Handan, Jieyang, Sanmenxia, Sanming, Shangqiu, Putian, Puyang County, Qianjiang, Qiandongnan zhou, Qingyang, Quzhou, Shangrao, Shangyu, Shaoguan, Shaoyang, Shiyan, Shuozhou, Siping, Songyuan, Suizhou, Suining, Taizhou, Tai’an, Tianshui, Tonghua, Tongliao, Tongren, Weifang, Wuhai, Wudu, Wuxue, Xishuangbanna, Xishui County , Xilinhot, Xiantao, Xianning, Xianyang, Xiangtan, Xiangfan, Xiangyang, Xiaogan, Yiyang, Yuxi, Yueyang, Changzhi, Zhoukou, Cangzhou, Chaohu Lake, Chuzhou, Chuxiong, Dali, Datong, Dandong, Dezhou, Dengfeng, Dongying, Hanzhong, Hechi, Huzhou, Huaihua, Huai’an, Huaibei, Huainan, Huanggang, Huangshi, Ji’an, Jishou, Jining, Jinzhou, Jincheng, Jingmen, Jingzhou, Laiwu, Leping, Yueqing, Lu’an, Loudi, Neijiang, Panjin, Pingdingshan, Pingxiang, Pu’er, Qiqihar, Shuyang, Xinxiang, Xingtai, Xingcheng, Suqian, Suzhou, Xuchang, Xuancheng, Ya’an, Yancheng, Yibin, Yuncheng, Zhangjiajie, Zhangjiakou, Zhuzhou, Bishan, Changshou, Shuangliu, Qingyang, Jiangning, Xiaoshan, Hulan, Fuqing, Taizhou, Ji County.

The Company notes that market coverage of a Nielsen report as described in the Report may not necessarily cover the addressable markets of the Group, and believes this is corroborated by the claim in the Report that the Nielsen retail sales data were collected from retail sales data electronically from points-of-sale. Based on the understanding of the Company, the use of scanners at points-of-sale are more commonly used in hypermarkets or national chained supermarkets in the first and second-tier cities, which the Company would like to reiterate is currently still not the Company's key addressable markets. Further, the Company understands that coverage of scan date will vary significantly by product type, brand, etc.

The Company would like to highlight that without the benefit of reviewing the Nielsen report in its entirety, and discussing the basis and methodology used by Nielsen with Nielsen, the Company is unable to determine with certainty whether Nielsen is covering the addressable markets of the Group, or how much of the information collected were done via scanners or manually. The Company would like to emphasize that it had never provided any information directly to Nielsen for the preparation of their report, including any list of the Company's addressable market, and therefore challenge the direct applicability or relevancy of their research outcome.

(iv) *Shop Type*

The Company notes from the Report that a Nielsen report stated that its "*Retail tracking universe covers all retail outlets selling FMCG, i.e. hypermarket, supermarket, minimarket...*". The business model of the Group is that it sells its products to distributors as direct customers and only started to sell its products directly to Walmart, an international supermarket chain with a nationwide distribution channel, in September 2012. The Group's distributors would then sell the products to various type of retail stores, such as hypermarkets, supermarkets, mother and children products specialty stores and convenience stores, across China. The Group has no consignment goods stored with its distributors. For the above stated reasons, the Company believes that the outcome of a Nielsen report will be vastly erroneous if such retail tracking universe is primarily located in the first and second-tier cities.

(e) The Company would like to emphasise that industry reports are by their nature inherently susceptible to inaccuracies if the parameters and assumptions are not applied appropriately, and as such we would advise the Company's shareholders and potential investors to use them with caution, when referring to such information in guiding their investment decision making process. The Company's accountants' report/financial statements, which disclosed its total sales, were audited by the Auditors/Reporting Accountants. We believe that the Company's financial statements are a fair representation of the financial performance of the Company.

For the above stated reasons, the Company believes Glaucus have inappropriately applied the data generated by a Nielsen report to support its unsubstantiated allegation in an attempt to discredit the sales of the Company.

In addition, the allegation made by Glaucus that *"in 2012, regional supermarket chains accounted for 60-70% of the Company's sales, and that international chains and hypermarkets in the first-tier cities accounted for 24% of sales"* is inaccurate and misleading. The Company wishes to clarify that based on the Company's management account, for the six months ended 30 June 2013, the Company has a total sales of RMB627.9 million of which 24% was from sale of key accounts products (the **"KA Products"**). KA Products refers to our products made for sale to our key accounts (**"KA"**) and not just sale in first-tier cities as alleged by Glaucus. We suspect Glaucus confused term **"KA Products"** with the term **"KA"** used by the Company in its public documents. The interim report of the Company for the six months ended 30 June 2013 made reference to **"KA"** stores which refer to retail stores operated by our key accounts, such as RT-MART, CR Vanguard, Yonghui Supermarket, Zhejiang Sanjiang Shopping and Shenzhen Rainbow, which are in first, second, third or fourth-tier cities. Glaucus drew wrong conclusion that all of the KA Products are sold in international chains and hypermarkets in first-tier cities. The Company wishes to further clarify that the KA Products are sold in first, second, third and fourth-tier cities.

The Company would like to point out that the difference between the ex-factory price and the recommended retail price of the Company's old series (自然至親系列) of products is approximately 45% and new series (原生寵愛系列) of KA products is approximately 60%.

On page 6 of the Report, Glaucus also made reference to a research report prepared by China Reality Research (“**CRR**”). The Company had never provided any data to CRR. On page 19 of the Report, it states that Prince Frog would have retail sales for the children’s moisturizing lotions category “*of roughly RMB100 million in 2010*”. This estimation was made by Glaucus with no supporting data from the Company and it is unclear what the sources of such data were. It further made an assumption on an industry growth rate of 44% between 2010 and 2012 which was projected by Euromonitor. It then drew a conclusion that “*the #4 brand in children’s moisturizing lotion would therefore be expected to have retail sales of approximately RMB145mm in 2012*”. The Company does not agree with the use of such simple comparison as the data were collected and projected by two different organizations adopting different methodology, the Company therefore believes that it is inappropriate for anyone to rely on any conclusions or inferences drawn in the Report.

## 2. **Alleged Ranking Revealed by “Chinese Government”**

The Report alleged that the Chinese government surveyed a random sampling of 13,500 Chinese consumers across 30 cities for the 2013 China Brand Power Index, and did not place Prince Frog in the Top 8 in the Baby/Child bath and moisturizing category. The Company wishes to state and clarify the followings:

- (a) Based on the web searches by the Company, the “China Brand Power Index” report (the “**CBPI Report**”) as quoted in the Report, insofar as we have been able to establish, is NOT published by the MIIT but by an institution named Chinese Enterprise Brand Research Centre (中國企業品牌研究中心) (the “**CEBRC**”). Based on our review of the MIIT website, neither the list of departments and agencies under the MIIT nor the units supervised by the MIIT include the CEBRC as a member.
- (b) Based on the information as can be derived from the Report, the Company would like to highlight the following observations:
  - (i) Based on the Report, it is noted that the ages for the survey targets are individuals from 15 to 60. It is not clear whether the people sampled are married with child(ren), or the ones responsible for making purchases for their child(ren) or siblings;

- (ii) Out of the cities covered by the CBPI Report, only 6 of the cities (Xining, Lanzhou, Guiyang, Nanchang, Taiyuan and Kunming) mentioned can be described as the third or fourth-tier cities (as defined in the Prospectus), which is the addressable market of the Company.

As such, the sampling group used in the CBPI Report is not representative of the addressable market of the Company.

- (c) Insofar as brand awareness is concerned, the Company would like to draw the attention of the Company's shareholders and potential investors to the following:

- The "Prince Frog" brand was recognised as the China Famous Trademark by the Trademark Bureau of the State Administration for Industry & Commerce of the PRC in December 2012.
- The Company had successfully introduced its products into large supermarket chains in China since 2011. As at the date of this announcement, the Prince Frog products are sold in large supermarket chains, including Walmart, Carrefour, RT-MART, and CR Vanguard, which the Company believes provide strong supporting evidence of the recognition and awareness of the brand and salability of the products of the Group.
- The Company recently jointly sponsored a popular television program, namely "*Where Are We Going? Dad*", broadcasted in Hunan Television which the Company believes will further enhance and embed the brand awareness of the Prince Frog brand.

For other recent awards and certificates received by the Group for its brand, please refer to the annual reports of the Company for the year of 2011 and 2012.

Based on the above observations, the Company would like to caution the Company's shareholders and potential investors against putting undue reliance on the results of the CBPI Report.

### 3. Tax Records

It is alleged in the Report that the Company is paying far less tax than it claims in its public filings as the names of the Company's subsidiary, 青蛙王子(中國)日化有限公司 (Frog Prince (China) Daily Chemicals Co., Ltd.) ("**Prince Frog (China)**"), and affiliate, 福建雙飛日化有限公司 (Fujian Shuangfei Daily Chemicals Co., Ltd) ("**Fujian Shuangfei**") (together, the "**Tax Entities**"), did not appear on the list of top tax paying companies in Zhangzhou Municipal as published on government websites. The Company wishes to state and clarify the followings:

- (a) In preparation for the Listing, the joint sponsors of the Company in relation to the Listing, their legal advisers as to Hong Kong law and PRC law and the Reporting Accountants involved in the Listing process approached the relevant tax office and independently extracted the tax filing of the Tax Entities and established that the accounts filed with the relevant tax office reconciles with the audited results of the Group;

In preparation for the Listing, the professional parties mentioned in paragraph above also received tax clearance letters for Frog Prince (China) in January 2011 and Fujian Shuangfei in June 2011 from the relevant tax office stating that each of them has complied with the relevant tax rules and regulations and has paid up their taxes in full for the three years ended 31 December 2010 and as of the date of such tax clearance letter;

- (b) The Company understands that the list as published by Zhangzhou Municipal Government (漳州市人民政府) in recognition of the top tax paying companies in Zhangzhou Municipal is not a complete list (the “List”).

The Company has obtained an explanation letter from Zhangzhou Municipal Government (漳州市人民政府) confirming that selection of top tax payers of Zhangzhou Municipal is conditional on the voluntary participation of the enterprises. Both 福建雙飛日化有限公司 (Fu Jian Shuangfei Daily Chemicals Co., Ltd) and 青蛙王子(中國)日化有限公司 (Prince Frog (China) Daily Chemicals Co., Ltd) did not choose to participate in such selection activities for the period from 2008 to 2011 since it was voluntary and the non-inclusion of Prince Frog (China)’s name on the List will have no particular negative impact on the business of the Group and therefore did not appear on the List of top tax payers of Zhangzhou Municipal for such period. In response to contacts made by Zhangzhou Municipal Government (漳州市人民政府), Prince Frog (China) agreed to participate in the selection activity for the year 2012.

The Company also obtained a legal opinion issued by Jingtian & Gongcheng Law Firm confirming, among others, that Zhangzhou Municipal Government (漳州市人民政府) is the competent government authority to issue such confirmation letter and the confirmation letter issued by it is legal and valid.

- (c) The Company’s financial statements for the years ended 31 December 2011 and 2012, which disclosed the tax figures, have been subject to the audit procedures of the Auditors.



#### 4. Customer SAIC Filings

The Report alleged that the projected average purchasing activity from four of the Group's top five customers in 2012 was only a fraction of the estimated annual purchases to support the Group's financial statements. The Company wishes to state and clarify the followings:

- (a) The Company should only be held accountable for its accounts, and is not in a position to comment on the completeness and accuracy of the financial statements filed by its customers. Insofar as the financial statements of the Company are concerned, the joint sponsors of the Company in relation to the Listing, their legal advisers as to Hong Kong law and PRC law and the Reporting Accountants involved in the Listing process approached the relevant State Administration for Industry and Commerce (“SAIC”) and independently extracted the accounts of the Tax Entities filed with them and established that the extracted financial statements reconcile with the audited results of the Group.
- (b) The Company has obtained confirmation letters from four of the Company's customers, confirming that the figures relating to their financial accounts of such customers cited in the Report are not accurate and such customers have never provided or authorized any third party to provide the figures to Glaucus. The Company would like to highlight that the discrepancies in the figures filed by the customers and the Company could be due to a range of possibilities including (i) a result of the customer subsequently booking the purchases under a separate entity; (ii) application of different accounting standards; (iii) timing differences in booking purchases; and (iv) other factors and considerations which may be unknown to the Company. As the Company is independent from the relevant companies highlighted, it will not speculate which of the above possibilities may apply.

## 5. Reported Financial Comparison

### *(a) Growth rate faster than “comparable” as selected by Glaucus*

The Report alleged that the growth rate of the Group was faster than that of the industry for the period from 2007 to 2012.

The Company would like to state that it believes the rapid growth of the Company’s business is attributable to, among others, the following reasons:

- (i) The first season of the “Prince Frog” animation series was broadcasted nationwide in China from 2006 to 2008 and raised the profile and sales of the brand;
- (ii) The second season of the “Prince Frog” animation series was broadcasted nationwide in China from September 2010 to August 2013 and further raised the profile and maintained the sales momentum of the brand;
- (iii) The third season of the “Prince Frog” animation series was broadcasted nationwide in China from November 15, 2013;
- (iv) The Company believes that its ability to subsequently satisfy increasing demand through the expansion of production capacity after the Listing is also a reason for the faster growth rate of the Company.

The following table sets forth the number of production lines, their production capacities, actual production volume and utilization rate relating to the production facilities for our skin care products and body and hair care products from 2008 to 2012:

Types of products	Year ended 31 December	Number of production lines	Production capacity (metric ton) <sup>(1)</sup>	Actual production volume (metric ton)	Utilization rate (%)
Skin care products	2008	6	4,802	2,885	60%
	2009	6	4,802	5,120	106.6% <sup>(2)</sup>
	2010	6	4,802	4,831	100.6% <sup>(2)</sup>
	2011	30	20,000	13,688	68.4%
	2012	30	20,000	12,624	63.1%
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% <sup>(2)</sup>
	2011	16	60,000	8,802	14.7%
	2012	16	60,000	16,486	27.5%

*Notes:*

- (1) The expected production capacities were calculated based on 12 hours per day and 302 days per year.
- (2) The utilization rate during this period exceeded 100% due to overtime operation.

The Company would like to refer the Company's shareholders and potential investors to pages 121 and 135 of the Prospectus in which the lack of production capacity and intention to increase production capacity to satisfy demand were disclosed. As disclosed on page 220 of the Prospectus, approximately 30% of the net proceeds of the Listing was intended to be used towards expanding and enhancing production facilities and capacities, including construction of the second and third phases of the new plant and staff dormitory building and installation of new equipment in the plant. As disclosed in the interim report of the Company for the six months ended 30 June 2013, approximately RMB79.7 million has been spent on capital expenditure for such purposes.

The following table sets forth our major capital expenditures for the periods indicated:

No.		Year ended	Year ended	Year ending
		31 December	31 December	31 December
		2011	2012	2013
		RMB	RMB	RMB
1.	Construction of phase I of new plant	11,980,094	3,198,647	—
2.	Construction of phase II of new plant	—	56,000,000	37,174,891
3.	Construction of phase III of new plant	555,262	34,742,806	34,934,336
4.	Equipment	27,985,507	13,516,515	3,940,439
5.	Information Technology	2,000,100	5,425,829	912,485
	<b>Total</b>	<b>42,520,963</b>	<b>112,883,798</b>	<b>76,962,151</b>

- (iv) The Company engaged Ms. Kelly Chen as the spokesperson of children care products of “Prince Frog” brand and carried out a series of advertisements from January 2012 to December 2013 to further embed the “Prince Frog” brand in the minds of the consumers and drive sales;
- (v) The Company has been able to increase its product offering leading to more revenue streams to drive demand; and
- (vi) The listing status of the Company has enabled the Company to raise its profile and garner customer’s trust on the quality and safety of the Group’s products.

The Company believes that the rapid growth in the sales of the Company is based on solid fundamental, and is highly plausible and achievable in a fragmented and rapidly expanding market, especially at the expense of our competitors.

(b) 89% ROIC

The Company believes that it is inappropriate to compare the Company with the companies used and selected by Glaucus to support its position for the following reasons:

- (i) PG and Pigeon Corp are substantially larger than the Company and it would be inappropriate to compare the growth rate of return on invested capital (“**ROIC**”) of mature companies with that of a rapidly expanding company operating in a growing market such as the Company;
- (ii) PG and Pigeon operate globally with different challenges and market opportunities which makes it inappropriate to use them as comparable companies, unless we look at the figures based on a China operation standalone basis. We refer the Company’s shareholders and potential investors to the website of PG ([http://www.pg.com/en\\_US/investors/index.shtml](http://www.pg.com/en_US/investors/index.shtml)) and Pigeon (<http://english.pigeon.co.jp/>) in which there are financial reports highlighting the rapid growth in the sales of PG and Pigeon in China; and
- (iii) Shanghai Jahwa, referred to as Jiahua in the Report, is a company involved in producing and marketing a wide range of adult and children personal and household care products. It is involved in a much larger market segment with widely different market dynamics. As the growth rate in each of the market segment is different, the Company believes that it is inappropriate to use Shanghai Jahwa as a close comparable to evaluate the growth potential of the Company.

Based on the above, the Company believes that Glaucus’s understanding of the China children skin care market is incomplete and ignores the fact that in a growing but fragmented market with high sensitivity to product quality and safety, the ROIC can be extremely high.

(c) *Faster Inventory Turnover Rate*

- (i) Since the Listing, the Company has reorganised and expanded its distribution hubs to improve inventory turnover rate. As of the date of this announcement, the company' distribution hubs are located in Linyi, Guangzhou, Zhengzhou, Wuhan and Zhangzhou.
- (ii) Based on public information made available by PG, the Company generally concurs with Glaucus that the inventory turnover rate of the Company is relatively faster than that of PG. However, there are only relevant public information available for all PG' markets and not specific to the PRC. Further, the Company notes that the ability to achieve a faster inventory turnover rate is not particular to the Company. Unlike the comparison to PG which is a substantially larger company at a much different stage of development, the Company believes that a meaningful comparison would be with companies that are at similar stage of development and operates primarily in the PRC market.
- (iii) It is further noted that the inventory of finished goods held by the Group during year end is typically relatively low, as the beginning of every financial year is the low season for the Group's production. By way of illustration: (a) the Group's finished goods balance as at 31 December 2010 was approximately RMB26,262,000, compared with the balance as at 30 June 2011 of RMB42,641,000; and (b) based on the Company, unaudited management figures, the Group's January revenue accounted for approximately 3% to 7% of the Group's total annual sales in each financial year from 2008 to 2012. The sales of our products in January of each financial year ended 2008 to 2012 were low due to the seasonality of the Company's sales, as we generally experience higher sales in the third quarter and lower sales in the first quarter. Under normal circumstances, there will not be any sudden demand change at the year-end and the beginning of the subsequent financial year. The Company believes that it is more relevant to refer to the inventory turnover rate to evaluate the Company's ability to respond to any sudden demand changes.

The Company believes that the claims made in the Report to be without merit and not supported by evidence.

The Audit Committee has looked into Glaucus' allegations together with the company management and auditors, and the Audit Committee unanimously agreed that the allegations are misconstrued, erroneous and inappropriate.

Based on the clarifications as stated above, the Board is of the opinion that the Allegations were made without due considerations to the underlying facts, inappropriate and misleading to the Company's shareholders and potential investors.

Save as stated in this announcement, having made such enquiry with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

This announcement is made by the order of the Company. The Board collectively and individually accepts responsibility for the accuracy of this announcement.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.**

The Company will consider and adopt all reasonable measures to protect the interest of the shareholders of the Company and to prevent manipulation of the share price of the Company, including share repurchase by the Company. The Company also reserves the right to take legal action against Glaucus or any other entity or individual whom the Company considers to be involved in attempting to manipulate the share price of the Company. The Company will also take initiative to report to regulators of any suspected manipulation of the share price of the Company.

The Company has an investors relations department that would be pleased to help clarify any queries that our shareholders or potential investors may have on the business of the Company. Please forward any relevant queries to [princefrog@wfsg.hk](mailto:princefrog@wfsg.hk) and we will try to respond to those queries as soon as possible.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was halted from 11:43 a.m. on 16 October 2013 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on Thursday, 21 November 2013.

By order of the Board  
**Prince Frog International Holdings Limited**  
**Li Zhenhui**  
*Chairman and Executive Director*

Hong Kong, 21 November 2013

*As at the date of this announcement, the Board of directors of the Company comprises five executive directors, namely Mr. Li Zhenhui, Mr. Xie Jinling, Mr. Ge Xiaohua, Mr. Huang Xinwen and Ms. Hong Fang; and three independent non-executive directors, namely Mr. Chen Shaojun, Mr. Ren Yunan and Mr. Wong Wai Ming.*