



GLAUCUS RESEARCH GROUP

格勞克斯研究

We are born princes and progress makes us frogs.

- Publilius Syrus

THIS RESEARCH REPORT EXPRESSES OUR OPINIONS. Use Glaucus Research Group California, LLC's research opinions at your own risk. This is not investment advice nor should it be construed as such. You should do your own research and due diligence before making any investment decision with respect to the securities covered herein. We are short Prince Frog and therefore stand to realize significant gains in the event that the price of Prince Frog's stock declines. Please refer to our full disclaimer on page three of this report.

COMPANY: PRINCE FROG INTERNATIONAL HOLDINGS LIMITED | HK: 1259

INDUSTRY: Consumer Products

Recommendation:
Strong Sell

Price:

HKD: 6.27

As of Market Close 10/15/2013

Market Cap:

HKD 6.34B

Daily Volume:

8.1mm shares

(Avg. 10 days)

Lead Underwriter:

CCB International

Price Target:

HKD: 0.74 - 0.98

PRINCE FROG INTERNATIONAL HOLDINGS LIMITED ("Prince Frog" or the "Company") is a People's Republic of China ("PRC") based producer of childcare products that raised RMB 536mm in a 2011 Hong Kong IPO. In this report, we present Nielsen retail sales data, a PRC government survey on consumer brand awareness, public tax records, and SAIC filings that, in our opinion, all independently indicate that Prince Frog's actual sales are less than 25% of the figures reported in the Company's public filings. We expect trading in the Company's shares to be halted and its equity to be worth between **HKD 0.74 to HKD 0.98 per share**.

- Nielsen Data Indicates Sales are less than 25% of Reported Figures.** According to Prince Frog investor relations, the Company's sales in its most important product category, children's moisturizing lotions (ages 4-12), were **RMB 723mm** (46% of total revenues) in 2012. After a distributor markup, implied 2012 retail sales in the category **must be at least RMB 1.205 billion** for Prince Frog's reported figures to be true. But according to independent data available from Nielsen (<http://www.nielsen.com/>), the total retail sales of Prince Frog's children's moisturizing lotion products in 2012 were only **RMB 135mm**.
 - Euromonitor Sourcing Data About Prince Frog from ... Prince Frog:** The Company claims that market share data provided by Euromonitor independently validates the Company's reported sales. Not so. Whereas Nielsen relies on electronic point-of-sale data from retailers to estimate sales, *Euromonitor relies on sales data provided by Prince Frog*.
 - Previous Euromonitor Report Indicates that Prince Frog Sales are Less than 25% of Reported Figures.** A 2012 Euromonitor report on baby and child specific products, excerpts of which are available [online](#), not only directly contradicts the latest Euromonitor sales data for Prince Frog but also suggests that Prince Frog's sales are less than 25% of the reported figures.
- PRC Government Survey: Prince Frog Not Even Top 8 in Brand Awareness.** Prince Frog claims to be the #1 brand in children's lotions and the #2 brand in children's bath and shampoo products. However, when the Chinese government surveyed a random sampling of 13,500 Chinese consumers across 30 cities for the 2013 China Brand Power Index, the survey found that less than 7% of consumers sampled were aware (unprompted) of Prince Frog's brand, meaning that Prince Frog did not even place in the Top 8 brands in the Baby/Child Bath and Moisturizing category.

3. **PRC Government Tax Records Indicate Net Income a Fraction of Reported Figures.** The Zhangzhou government publishes an annual list, [available to any investor online](#), recognizing local businesses that pay over RMB 10mm in taxes. Prince Frog, whose headquarters, production base and sole PRC operating subsidiary are based in Zhangzhou, claims to have paid over RMB 10mm in taxes *every year since 2008*. Yet Prince Frog appears on the government's list only once (in 2012) and is conspicuously absent every year from 2008 through 2011, suggesting that it has paid far less in taxes than it claims in its public filings.
4. **Customer SAIC Filings Indicate Sales are less than 25% of Reported.** According to Prince Frog's 2012 annual report, its top five customers accounted for 14.2% of sales, or RMB 223mm (an average purchase amount of RMB 45mm per customer). Even if we make the generous assumption that Prince Frog accounted for 75% of all products purchased by such customers, the SAIC filings for four of these top five customers (including the largest customer) **indicate an average 2012 purchasing activity from Prince Frog of RMB 11mm**, which would amount to only 24% of the purchases implied by the Company's reported financials.
5. **Reported Financials Covered in Warts.** Other clues that Prince Frog is more frog than prince are suspicious statistical outliers in the Company's reported financials.
 - a. **Reported Sales Grew Seven Times Faster Than Industry.** Prince Frog's reported sales grew ~700% from 2007 to 2012, a period where the industry reportedly grew only ~100%. Such financial performance appears to be, in our view, too good to be true.
 - b. **89% ROIC Simply Lacks Credibility.** Prince Frog reported an average 89% internal ROIC from 2008 to 2012. This is simply not credible when compared with the ROICs of its domestic and international peers, such as 39% for Shanghai Jiahua (SH: 600315), 16% for Procter & Gamble (NYSE: PG), and 22% for Pigeon Corp (Tokyo: 7956).
 - c. **Inventory Turnover Rate Suspiciously Fast.** Prince Frog reported inventory turns of 25 days in 2012, which was at least twice as fast as the inventory turn rate of its peers (70 days for Shanghai Jiahua, 61 days for Procter & Gamble, and 67 days for Pigeon Corp). Either Prince Frog, a much smaller company by comparison, has achieved a level of operational efficiency far in excess of these global leaders, or Prince Frog's actual sales and cost of goods are significantly less than reported. We think the answer is obvious.
6. **Valuation.** In December 2012, Johnson & Johnson [acquired](#) 100% of Elsker, a close competitor of Prince Frog, for RMB 650mm, or 1.3x trailing 12 months sales of around RMB 500 million. Based on the evidence presented in this report, we believe that Prince Frog's true total sales figure is no higher than RMB 393mm for 2012 (25% of reported). A 1.5x multiple on what we estimate to be the Company's true sales figure would imply a valuation of HKD 749 million, or **HKD 0.74 per share**.

The preponderance of the evidence, in our opinion, indicates that Prince Frog fabricated the vast majority of its sales; therefore we strongly doubt the existence of its HKD 0.97 per share cash balance. However, if we made the generous assumption that shareholders could recover 25% of Prince Frog's reported onshore cash, our valuation would increase from **HKD 0.74 to HKD 0.98 per share**.

Disclaimer

We are short sellers. We are biased. So are long investors. So is Prince Frog. So are the banks that raised money for the Company. If you are invested (either long or short) in Prince Frog, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions and the underlying facts about the public companies we research is in the public interest.

You are reading a short-biased opinion piece. Obviously, we will make money if the price of Prince Frog stock declines. This report and all statements contained herein are the opinion of Glaucus Research Group California, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available facts and evidence collected and analyzed, all of which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.

As of the publication date of this report, Glaucus Research Group California, LLC (a California limited liability company) (possibly along with or through our members, partners, affiliates, employees, and/or consultants) along with our clients and/or investors has a direct or indirect short position in the stock (and/or options) of the company covered herein, and therefore stands to realize significant gains in the event that the price of Prince Frog's stock declines. Use Glaucus Research Group California, LLC's research at your own risk. You should do your own research and due diligence before making any investment decision with respect to the securities covered herein. The opinions expressed in this report are not investment advice nor should they be construed as investment advice or any recommendation of any kind.

Following publication of this report, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial opinion. This is not an offer to sell or a solicitation of an offer to buy any security, nor shall any security be offered or sold to any person, in any jurisdiction in which such offer would be unlawful under the securities laws of such jurisdiction. To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. As is evident by the contents of our research and analysis, we expend considerable time and attention in an effort to ensure that our research analysis and written materials are complete and accurate. We strive for accuracy and completeness to support our opinions, and we have a good-faith belief in everything we write, however, all such information is presented "as is," without warranty of any kind—whether express or implied.

If you are in the United Kingdom, you confirm that you are subscribing and/or accessing Glaucus Research Group California, LLC research and materials on behalf of: (A) a high net worth entity (e.g., a company with net assets of GBP 5 million or a high value trust) falling within Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (B) an investment professional (e.g., a financial institution, government or local authority, or international organization) falling within Article 19 of the FPO.

This report includes calculations by Glaucus Research which are based in part on data reported by Nielsen through its Retail Index Service for the Facial, Hand & Body Skin Moisturizer Baby & Child Segment for the period between January 1, 2010 to December 31, 2012 for the China total market. (Copyright © 2013, The Nielsen Company).

Glaucus Research Group California, LLC makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and Glaucus Research Group California, LLC does not undertake a duty to update or supplement this report or any of the information contained herein. By downloading and opening this report you knowingly and independently agree: (i) that any dispute arising from your use of this report or viewing the material herein shall be governed by the laws of the State of California, without regard to any conflict of law provisions; (ii) to submit to the personal and exclusive jurisdiction of the superior courts located within the State of California and waive your right to any other jurisdiction or applicable law, given that Glaucus Research Group California, LLC is a California limited liability company that operates in California; and (iii) that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to use of this website or the material herein must be filed within one (1) year after such claim or cause of action arose or be forever barred. The failure of Glaucus Research Group California, LLC to exercise or enforce any right or provision of this disclaimer shall not constitute a waiver of this right or provision. If any provision of this disclaimer is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of this disclaimer remain in full force and effect, in particular as to this governing law and jurisdiction provision.

ONCE UPON A TIME

PRINCE FROG INTERNATIONAL HOLDINGS LTD (“Prince Frog” or the “Company”) (HK: 1259) is a PRC-based producer of childcare products (e.g., moisturizing lotion, shampoo, and toothpaste) that raised RMB 536mm in a July 2011 Hong Kong IPO.¹ Prince Frog’s brand is built around an animated series based on the Brothers Grimm fairy tale of the [princess and the frog](#), in which a spoiled princess makes a Faustian bargain with an ugly frog only to find that, upon kissing the animal, the frog has metamorphosed into a handsome prince.

The irony of a company based on a fairy tale accused of significantly exaggerating its sales figures should not be lost on investors. In May 2013, a Chinese blogger publicly [questioned](#) the veracity of Prince Frog’s reported sales and concluded that Prince Frog was not, contrary to the Company’s claims in its IPO Prospectus, the #2 brand in children’s lotions and body wash behind Johnson & Johnson. The market seemed to credit the upstart blogger, and the Company’s stock price fell by as much as 20%, reflecting doubts about the authenticity of its financials.



According to the Prince Frog fairy tale, a spoiled princess reluctantly befriends a frog that magically transforms into a handsome prince.

¹ 2011 Annual Report, pg 15.

Prince Frog [responded](#), pointing out that the blogger failed to distinguish between the Company's sales in the children's category (4-12 years old), supposedly its primary segment, and the baby category (0-3 years old), which the Company claimed was less significant. The Company also (correctly) pointed out that the mysterious blogger did not provide independent evidence to corroborate his investment thesis. The controversy intrigued us, so we decided to investigate the blogger's thesis and evaluate the Company's response.

We found a frog masquerading as a prince.

In this report, we present compelling evidence, including Nielsen retail sales data,² a brand awareness survey conducted by the Chinese government, publicly available tax records, and customer SAIC filings, each of which, in our opinion, independently indicates that Prince Frog's actual sales are **less than 25% of the sales figures that the Company reported to investors and regulators in its IPO Prospectus and subsequent public filings.**

Prince Frog will no doubt attempt to rebut our investment thesis by arguing that Euromonitor data independently validates the Company's reported sales. Investors should not be so easily fooled. As we discuss in detail below, *Euromonitor relies on self-reported sales data provided by Prince Frog* to estimate Prince Frog's sales and market share, whereas Nielsen's figures are derived from electronic point-of-sale data (checkout scanners) from Chinese supermarkets, hypermarkets, and drug stores (places where Prince Frog claims that 90% of its products are sold). The Nielsen data is therefore, in our view, a far more credible estimate of Prince Frog's true sales figures.

Ultimately, we believe that Prince Frog has materially overstated the scale and profitability of its business to investors and regulators, and, in doing so, violated Hong Kong securities laws. Given the preponderance of the evidence, we value the Company's shares at **HKD 0.74 to HKD 0.98 per share.**

² This report includes calculations by Glaucus Research which are based in part on data reported by Nielsen through its Retail Index Service for the Facial Hand & Body Skin Moisturizer Baby & Child Segment for the period between January 1, 2010 to December 31, 2012 for the China total market. (Copyright © 2013, The Nielsen Company).

NIELSEN DATA

Independent retail sales data from Nielsen, the globally recognized leader in independent market research, indicates that Prince Frog's actual sales in its best-selling product segment are only a fraction of the Company's reported figures.

1) *The Clock Strikes Midnight*

At a recent conference, Prince Frog investor relations reported sales of RMB 723mm in 2012 (46% of total sales) for children's moisturizing lotions (ages 4-12), which is not only Prince Frog's largest category by sales, it is also its most profitable.³



Because Prince Frog sells its products to distributors at 45%-60% of the retail price,⁴ the retail value of Prince Frog's children's moisturizing lotions must be between **RMB 1,205mm and RMB 1,607mm in 2012**, for the Company's reported financials to be true.⁵

³ Prince Frog 2012 Management Presentation.

⁴ Prince Frog Investor Relations.

⁵ We calculate the implied retail value of Prince Frog's children's moisturizing lotions in 2012 by dividing the Company's reported sales to distributors (RMB 723mm) by the percentage of the retail value accounted for by Prince Frog after the retail channel markup (which Prince Frog's investor relations representative disclosed at a recent public investor forum). The calculation is: $\text{RMB } 723 / 60\% = \text{RMB } 1,205\text{mm}$; $\text{RMB } 723 / 45\% = \text{RMB } 1,607\text{mm}$.

Similarly, Prince Frog's [IPO Prospectus](#) claimed that the retail value of the Company's 2010 sales within China's children's moisturizing lotions category was RMB 527mm, compared with RMB 550mm for China's leading brand, Johnson's Baby. The following table, taken directly from the Prospectus, shows the Company's *claimed spot* (2nd) in the competitive landscape of the children's moisturizing lotions market at the time of its public offering in 2011.⁶

Top ten brands of the children moisturising lotions market in China

Unit: RMB million

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

Source: Euromonitor

Recognizing the need for a truly independent source of retail sales data, we engaged globally recognized research firm Nielsen (www.nielsen.com) to provide us with the same category sales (children's moisturizing lotions in China) for both Prince Frog and Johnson's Baby in the PRC. Below is a cover letter from Nielsen, on the firm's letterhead, summarizing its retail sales data:

⁶ Prospectus, pg. 66.



Attachment
APPENDIX A

Below information was reported by Nielsen in its Retail Index Service for the year 2010, 2011 and 2012 on annual basis.

Market: Total national (City + Town)
Category: Facial, Hand & Body Skin Moisturizer Baby & Child Segment
Period: Between January 1, 2010 to December 31, 2012
Fact Type: Sales Value

For Facial, Hand & Body Skin Moisturizer Baby & Child Segment

Sales Value '000 RMB	2010	2011	2012
Frog Prince	79,885	93,751	134,840
Johnson & Johnson	670,894	669,204	602,702

APPENDIX B

Definition:

Any substance with major purpose of skin moisturizing and (claim to) have the following properties/functions: 1) Moisturizing/Nourishing/Compensation; 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; 6) UV Protection; 7) Oil Control; etc.

Methodology:

The retail tracking provides total market trends and competitive situation by continuously tracking representative retail sample outlets and applying scientific projection factors to estimate the performance of total retail market defined by Nielsen Universe.

Market Coverage:

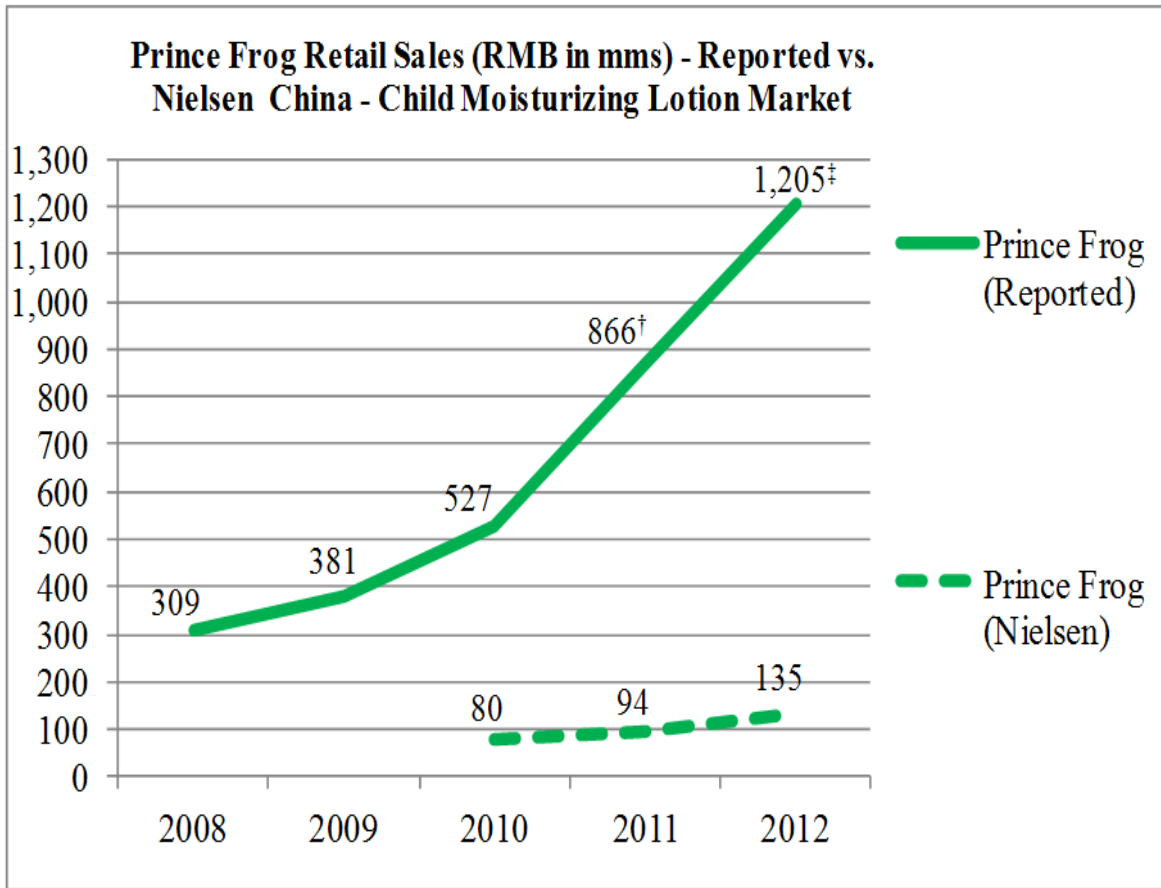
Nielsen's Total (City + Town) Retail Tracking covers 20 provinces in China, but excluding Inner Mongolia, Xingjiang, Tibet, Ganshu, Ningxia, Qinghai and Hainan Island. Meanwhile village is also excluded.

Shop Type:

Retail tracking universe covers all retail outlets selling FMCG, i.e. hyper-market, supermarket, minimarket, convenience store, grocery, and other miscellaneous traditional stores. However, some special channels are not covered, e.g. wholesalers, work units and institutes.



In the following table we compare the **Nielsen** data of Prince Frog's children's moisturizing lotion sales with the figures reported by the **Company**. The discrepancy is obvious.



Reported figures for 2008-2010 are per page 66 of Company IPO prospectus.

[†]Glaucus estimate based on midpoint between 2010 and 2012.

[‡]Calculation based on 2012 metrics provided by Prince Frog.

Nielsen data puts the total retail value of Prince Frog's children's moisturizing lotion products at **RMB 135mm in 2012**, which is **81% less than Prince Frog's reported sales to its distributors** (RMB 723mm) and **89% less than the minimum RMB 1,205mm in 2012 retail sales required** if the Company's reported financials are true.

Likewise, Nielsen data shows **RMB 80mm** in total retail sales of Prince Frog's children's moisturizing lotions in 2010, which is **85% less than the total retail sales of such products reported in Prince Frog's Prospectus** for 2010.

2) *The Accuracy of the Nielsen Data*

Many factors indicate that the Nielsen data accurately captures Prince Frog's reported sales in the Company's key product category.

a. SKU Coverage is Comprehensive

Nielsen's data set tracks sales for 74 Prince Frog SKUs in the children's moisturizing lotion category. The Company's investor relations representative told analysts that of Prince Frog's ~300 total SKUs, it has "over 70" in the children's moisturizing lotion segment, making us confident that Nielsen is capturing sales data for the correct SKUs.

b. Store Coverage is Comprehensive

Nielsen's scanner data captures retail sales that come through electronic points-of-sale within Chinese mainland supermarkets, hypermarkets, international chains and drug stores, where according to Company investor relations, ~90% of Prince Frog's products are sold.⁷ Nielsen also claims that its data tracks sales at traditional grocery stores, general stores and soft drink & ice cream shops where the remaining ~10% of Prince Frog's childcare products are supposedly purchased. The following slide from Nielsen's power point deck explains their tracking methodology:

Nielsen retail index tracking methodology



Source: Nielsen.

⁷ Prince Frog Investor Relations recently told investors at a public conference that in 2012, regional supermarket chains accounted for 60-70% of the Company's sales, and that international chains and hypermarkets in first tier cities accounted for 24% of sales. If true, then at most only 6-16% of sales occurred at "mom and pop" stores.

c. Geographic Coverage is Extensive

Nielsen's geographic coverage is also extensive, covering the provinces home to 157 of the 173 distributors (91%) listed by Prince Frog in its 2011 Prospectus. The following graphic, pulled from Prince Frog's IPO Prospectus,⁸ shows the location of the Company's distributors, which are heavily concentrated in the central, southern and eastern provinces.

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:

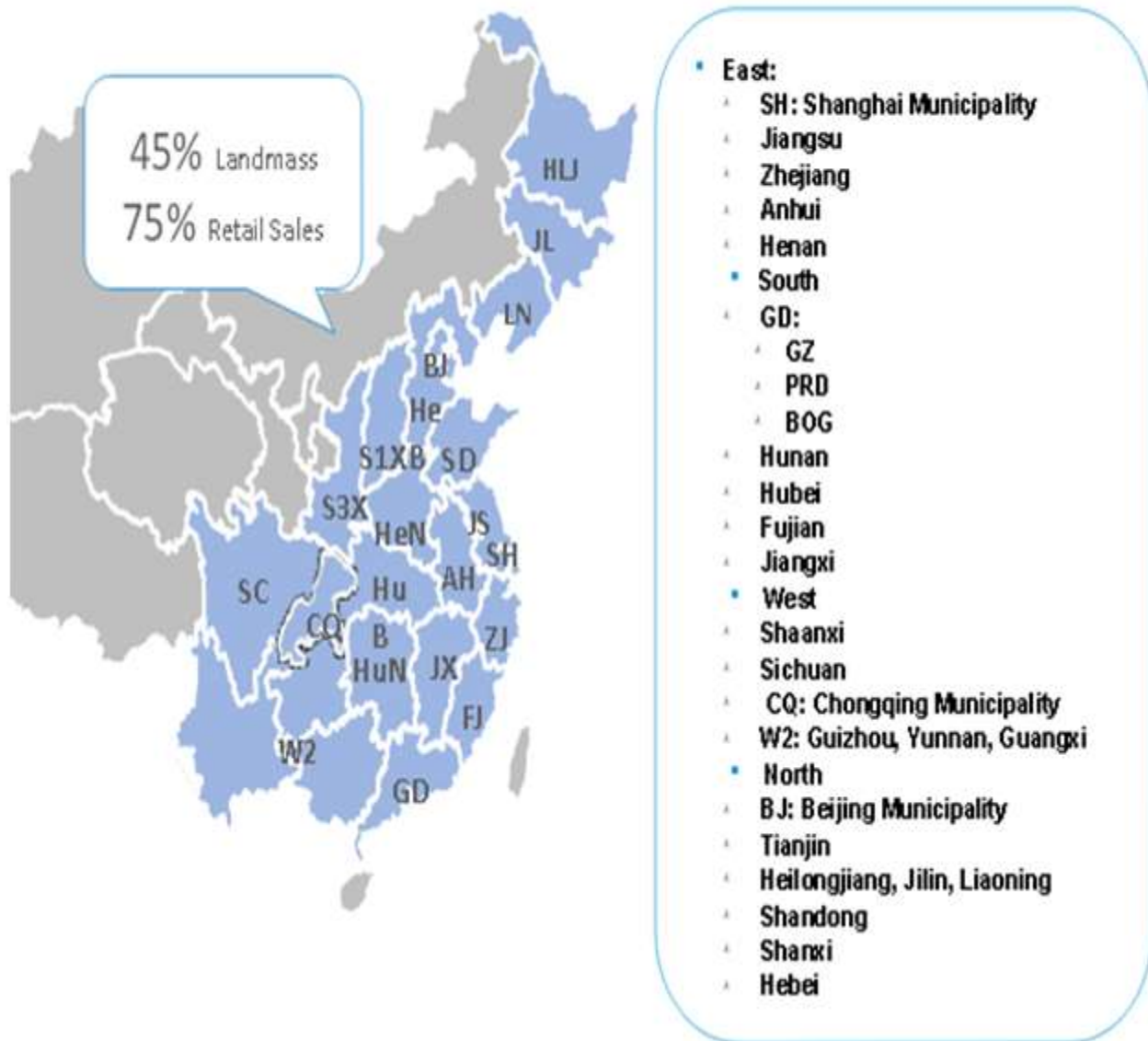


Note: We authorise the same distributor to handle our sales in both Sichuan and Chongqing.

⁸ IPO Prospectus. Pg 127.

Compare Prince Frog's map of its distributors above to the following graphic, which shows Nielsen's geographic coverage.

Geographical Coverage



Source: Nielsen.

The comparison reveals that Nielsen's data covers the provinces in which 91% of the distributors listed in Prince Frog's Prospectus are located. Nielsen's coverage area also includes the first, second and third tier cities in the central and coastal provinces which, according to the Company, have accounted for the bulk of Prince Frog's growth since its IPO. Ultimately, Nielsen covers all but the most remote areas of China, where stores are likely to have much less meaningful sales.

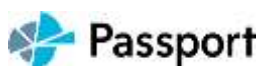
3) *Euromonitor Data about Prince Frog Is Sourced From ... Prince Frog*

Prince Frog will no doubt attempt to rebut the Nielsen data by arguing that Euromonitor data independently validates the Company's reported sales and market share in the children's moisturizing category. The Euromonitor reports are presented in Prince Frog's public filings as an independent and authoritative endorsement of the Company's sales figures, almost as if Euromonitor is a security blanket to which investors might cling if they doubted the authenticity of Prince Frog's growth story.

There is good reason, however, to believe that the data for Prince Frog in the Euromonitor reports is fairly dust. The 2013 Euromonitor report, entitled "*Baby and Child-Specific Products in China – Category Analysis*," can be purchased by any investor through the firm's website (available [here](#)) (the "2013 Euromonitor Report").



In the appendix of the Euromonitor report and in the 'sources' tab on the accompanying excel spreadsheet (excerpted below), other than a handful of trade associations which we believe provide non-company specific data, **the only sources listed by Euromonitor are the subject companies**, including Prince Frog and Prince Frog affiliates Shuangfei Daily Chemicals Co Ltd and Shuangfei Daily Use Chemical Products Co. Ltd.



Key sources per industry irrespective of categories.

Region	Country	Industry	Edition	Source Type	Source
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Hong Kong Yongxing Corp
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Kao Commercial (Shanghai) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Kosé Cosmetics Co Ltd China
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	La Fang International Group
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	L'Oréal China Wuhan Distribution
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	LG group
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Liuzhou Liangmianzhen Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Masson Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Mary Kay Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	LVMH Shanghai
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Mentholatum (Zhongshan) Pharmaceuticals Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Nice Group
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Nanjing Jianong Chemical Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Oriflame Cosmetics (China) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Nivea (Shanghai) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Olay
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Ostown International Group Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Procter & Gamble (Guangzhou) Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Procter & Gamble Co, The
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	San Xiao
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Sanyuanli Yaxue Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Renhe Spring Department Store
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Schick (Guangzhou) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Cogi Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai DHC Business Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Elsker for Mother & Baby co ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Givaudan Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Huayin Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Jahwa Chongqing Branch
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Jahwa United Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Jahwa
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Jiawa
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Meilan Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Nu Skin Daily Health Care Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Shibi Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Soap Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shanghai Zheng Mingming Cosmetics Co
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shenzhen Jiefang Fragrance Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shenzhen Xinlong Industrial Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shiseido China Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shiseido China Co Ltd Chengdu Branch
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shiseido Liyuan Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shuangfei Daily Chemicals Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Shuangfei Daily Use Chemical Products Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Sichuan Cortry Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Sichuan Qianzi Trading Co
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Softto Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Sunstar Inc
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Suzhou De Bao Trading Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Tayoi Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Tianjin Yumeijin (kunming) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Tianjin Yumeijing Group Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Tjoy Customer Management
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Tjoy Sales in Sichuan
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Unilever (China) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Unilever China Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Unilever(China) Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Wal-mart Corp
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Warner-Lambert Guangzhou Co
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Warner-Lambert Guangzhou Ltd(Schick)
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Xian Kaimi Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Yue-Sai Kan-Coty Cosmetics Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Yumeijing Hunan Branch
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Yunnan Baiyao
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Yunnan Baiyao Group Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Yunnan Yayan Trading Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Zhongshan City Gadget Articles Of Everyday Use Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Zhongshan Magic Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Zhongshan Meiri Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Zhongshan Rida Fine Chemical Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Company Sources	Zhuhai Sunrana Cosmetics Co Ltd
Asia Pacific	China	Beauty and Personal Care	2013	Other Sources	Shaanxi Tianlong Co Ltd

© Euromonitor International Ltd 2013

We reached out to a Euromonitor sales representative to inquire about the firm's methodology. The representative explicitly confirmed, in the email below, that Euromonitor reports such as the one included in Prince Frog's Prospectus are **compiled from self-reported data obtained from the subject IPO company**. The correspondence could not be clearer.

> On Sep [REDACTED] 2013, at [REDACTED] "[REDACTED]" [REDACTED] wrote:
>
>> [REDACTED]
>>
>> Sorry, I just needed a quick Yes/No to confirm the following 2 points from our call. If the answers are both yes, you can simply reply "yes to both questions".
>>
>> When Euromonitor is engaged on an IPO prospectus assignment to build a table that might explain where the subject IPO company's sales rank versus its competitors, Euromonitor consultants would:
>> 1) In the case of the (IPO) subject company, Euromonitor would take the data directly from the IPO client (Y/N)?
>>
>> 2) Euromonitor does NOT itself retrieve independent sales data from scanners (Y/N)?
>>
>> Thanks,
>>
>> [REDACTED]
From: [REDACTED]@Euromonitorintl.com]
Sent: [REDACTED] September [REDACTED] 2013 [REDACTED]
To: [REDACTED]
Subject: Re: Custom Research Capabilities

Yes my apologies [REDACTED], the answers should be:

- 1) Yes
- 2) Yes

[REDACTED]
International Business Development Executive Euromonitor International

In its own words, Euromonitor estimates Prince Frog's market share **by relying on sales data provided by Prince Frog**, which renders the Euromonitor data significantly less credible than retail sales data from Nielsen that is built from electronic point-of-sale data generated by independent third parties.

Investors should also note that the bankers, including the Sole Global Coordinator (CCB International Capital (CCB)), the Sole Bookrunner (CCB), the Joint Sponsors and the Joint Lead Managers (CCB and CIMB Securities HK Ltd (CIMB)), **did not independently verify** the data underlying the Euromonitor report as part of their IPO due diligence process.

Investors should not place undue reliance on information derived from the research report and market survey contained in this prospectus

This prospectus contains information derived from the research report by Euromonitor products, the insecticide and air fresheners markets and the market survey from Frost & Sullivan. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Bookrunner, the Joint Sponsors, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information contained in this prospectus.

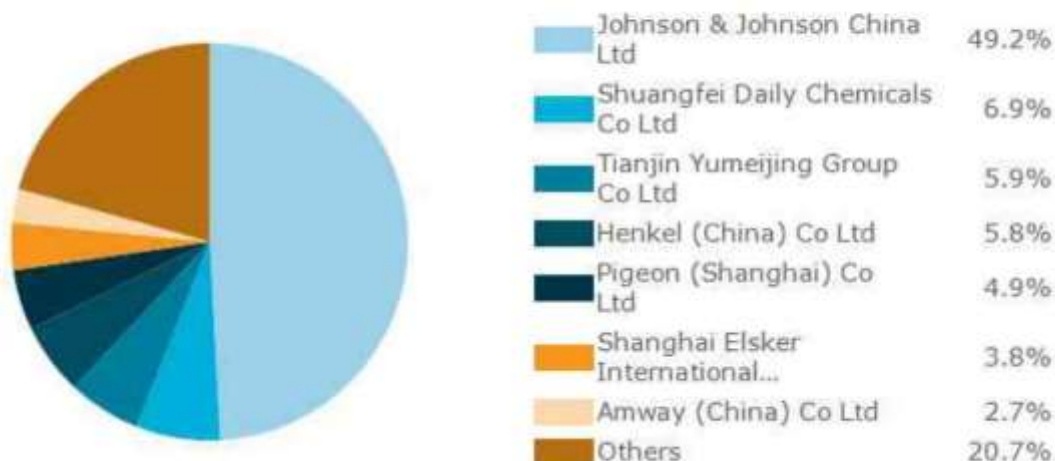
The bankers relied on Euromonitor, but Euromonitor *relied on sales data provided by Prince Frog* to estimate the Company's sales figures and market share. By comparison, Nielsen's figures are derived from independent point-of-sale data (such as checkout scanners) from Chinese supermarkets, hypermarkets, and drug stores (where Prince Frog claims 90% of its products are sold). The Nielsen data is therefore, in our view, a far more credible estimate of Prince Frog's true sales figures.

4) Previous Euromonitor Report Indicates Prince Frog Sales are Less than 25% of Reported

A previous Euromonitor report on baby and child specific products not only further undermines the credibility of Euromonitor's sales data but also indicates that Prince Frog's sales are less than 25% of its reported figures.

An online blog has published excerpts (available [here](#)) of a Euromonitor report on Baby and Child Specific Products dated May 10, 2012 (the "2012 Euromonitor Report"), almost ten months after Prince Frog's IPO. It reports that in 2011, Prince Frog's retail sales in the baby and child specific category (listed in the pie chart below under its pre-IPO predecessor company, Shuangfei Daily Chemical Co. Ltd.) were only **RMB 334.9mm** (a meager 6.9% market share).

Company Shares (by National Brand Owner) Baby and Child-specific Products - China - Retail Value RSP - % 2011



Source: Passport by Euromonitor International

Source: <http://www.docin.com/p-432682926.html>; Euromonitor 2012 Report

Incredibly, between the post-IPO years 2012 and 2013, Euromonitor appears to have **retroactively restated Prince Frog's historical 2011 market share** and retail sales data for the baby and children's category. The following table compares the 2013 and 2012 Euromonitor Reports and highlights the key differences.

Euromonitor - Difference in 2011 Retail Sales					
<i>(Figures are in RMBmm)</i>					
	2013 Report		2012 Report		Difference
	Market Share %	RMBmm	Market Share %	RMBmm	
Total Market Size - Baby and Child Products		7,328.5		4,853.0	2,475.5
Johnson's Baby	32.6%	2,389.1	49.2%	2,387.7	1.4
Frog Prince	14.7%	1,077.3	6.9%	334.9	742.4
Yumeijing	3.9%	285.8	5.9%	286.3	(0.5)
Hai Er Mian	3.9%	285.8	5.8%	281.5	4.3
Pigeon	3.3%	241.8	4.9%	237.8	4.0
Elsker	2.5%	183.2	3.8%	184.4	(1.2)
G&H	1.8%	131.9	2.7%	131.0	0.9
Others	37.2%	2,726.2	20.7%	1,004.6	1,721.6
Total	99.9%	7,321.1	99.9%	4,848.2	2,472.9

Sources:

<http://www.docin.com/p-432682926.html>

Euromonitor International 5/10/2012

Euromonitor International April 2013 Report - Baby and Child-Specific Products in China

Not only does the total 2011 market size for the baby and child-specific products increase from RMB 4.9 billion to RMB 7.3 billion from the 2012 to the 2013 Euromonitor Report, but also Prince Frog's 2011 sales increased from **RMB 334mm to RMB 1,077.3mm** from document to document. To be clear, such data was historical and should therefore have been consistent from one report to the next.

What makes the discrepancy all the more fascinating is that Euromonitor *lowered the market share* for every other brand between the 2012 and the 2013 reports **except** Prince Frog, who's market share increased from 6.9% to 14.7%.

We believe that the massive discrepancy in Prince Frog's historical sales not only further discredits the accuracy of Euromonitor's sales data; it also supports our underlying investment opinion.

According to the retail sales data from the 2012 Euromonitor Report, depending on the amount of the distributor markup, Prince Frog's implied sales are between 16% and 22% of the reported figures for the children's personal care segment. We can calculate Prince Frog's implied sales in the children's personal care segment because Prince Frog's investor relations discloses that the Company sells its products to distributors at 45%-60% of the retail price. The following table sets forth our calculation:

Euromonitor - 2011 Prince Frog Sales (Children's Personal Care Segment)		
<i>(Figures are in RMBmm)</i>	2011	
Prince Frog 2011 Reported Distributor Sales [†]	918	
Prince Frog 2011 Retail Sales According to 2012 Euromonitor Report [‡]	335	
<i>Prince Frog's % of the Retail Price</i>	45%	60%
Estimated Actual 2011 Prince Frog Sales to Distributors	151	201
% of Reported Prince Frog Sales	16%	22%

Sources:

[†]Prince Frog Reported Figure- Children's Personal Care Products

[‡]Euromonitor International 5/10/2012 Baby & Child Specific Products in China

The Euromonitor post-IPO historical data, prior to its retroactive restatement, corroborates the Nielsen data and is another independent data point to support our investment thesis that Prince Frog sales are less than 25% of reported.

5) China Reality Research Report Also Corroborates Nielsen Data

The market has recently been abuzz with talk of an August 2013 study by the bespoke research organization, China Reality Research ("**CRR**") (a division of CLSA), which, according to certain investors and sell-side analysts,⁹ supposedly validates Prince Frog's reported sales figures. However, a closer look at the study reveals that **CRR's data suggests just the opposite conclusion.**

⁹ CLSA released a note to its clients on August 24, 2013, claiming that the CRR study confirms Price Frog's strong positioning in the market and concludes (as part of its 'Buy' recommendation) that there is "nothing wrong with this frog." We respectfully disagree.

What pundits preaching the merits of the CRR study fail to realize is that there is an enormous difference in sales between the #1 or #2 brand (as the Company claims to be) and the #4 brand.

Top ten brands of the children moisturising lotions market in China

Unit: RMB million

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

Source: Euromonitor

The table above is taken directly from the Company's Prospectus and shows that the #4 brand in the children's moisturizing lotions category (Pipedog) reported RMB 107mm in retail sales in 2010.

If CRR's survey of retailers is correct and Prince Frog is actually the **#4 brand**, Prince Frog would have retail sales for this category of roughly RMB 100 million in 2010. Assuming an industry growth rate of 44% between 2010 and 2012 (the growth rate projected by Euromonitor), the #4 brand in children's moisturizing lotion would therefore be expected to have **retail sales of approximately RMB 145mm in 2012**.

Recall that the Nielsen data indicates that the retail sales of Prince Frog's products in the children's moisturizing lotions category were **RMB 135mm** in 2012, **which is almost exactly** what we calculated in the previous paragraph to be the expected sales from the #4 brand. In other words, far from validating the sales figures provided by the Company, CRR's data from *retailers* corroborates the accuracy of the Nielsen data and provides further evidence that the Company's sales are only a fraction of their reported figures.

PRC GOVERNMENT SURVEY: PRINCE FROG NOT EVEN TOP 8 IN BRAND AWARENESS

In its 2013 Interim Results Management Presentation, Prince Frog claimed to be the #1 brand in the children's moisturizing lotions category (with a 30% reported market share) and the #2 brand in the children's bath and shampoo category (with a 17% reported market share).

However, a survey by the Chinese government measuring brand awareness among Chinese consumers found that less than 7% of consumers sampled were aware (unprompted) of Prince Frog's brand, meaning that **Prince Frog did not even place in the Top 8 brands in the Baby/Child Bath and Moisturizing category in any of the last three years.**

The Ministry of Industry and Information Technology of the PRC ("[MIIT](#)") publishes the China Brand Power Index ("[China Brand Power Index](#)") each year, which compiles the results of an extensive survey conducted with the help of a bevy of numerous government bodies, including the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Science and Technology of the State-owned Assets Supervision and Administration Commission of the State Council Development Research Center.

To create the China Brand Power Index, the MIIT surveyed a random **sampling of 13,500 Chinese residents across 30 cities**. The details of the MIIT survey can be found on a government website (available [here](#)), a translated screenshot of which we include below:

C-BPI Research Design
C-BPI研究设计

2013年是C-BPI调查第三个年度，历次调查为了保证样本能够推论中国总体消费者的特征，均采用随机抽样方式在全国范围内进行大规模的调查。

类别	Category	内容	Content
Survey Design	调查对象	15-60岁居民; 一周在家居住5天或以上居民; 非市场调研、媒体等敏感职业人群; 本地居住半年或半年以上;	Resident age: 15-60; Residents who live at home for 5 days or more; Non-market research, media and other sensitive occupational groups; Local residents for six months or more;
	调查地区	中国30个城市	30 cities in China
	调查方法	入户面访+问卷设置	Home visits + questionnaire
Sampling Design	抽样方法	根据人口比例(性别、各年龄段、各区域)进行随机抽样调查	Random Sampling according to proportion of the population (sex, ages, regions).
	样本数量	13500个样本	13500 samples
Analysis Method	分析方法	定量研究	Quantitative research
Survey Method	调查时间	2012年9月22日-2013年1月16日	09/22/2012 - 01/16/2013

Source: <http://www.chn-brand.org/c-bpi/cbpiInfo.aspx>

In order to be listed on the China Brand Power Index, at least 7% of consumers surveyed must be aware of a brand '**unaided**,' which is Madison-avenue jargon meaning that a customer must be able to name the brand **without prompting** when asked to name consumer products in a specific category. This is different from 'aided' brand awareness, where the consumer is asked to identify the brands of which he or she is aware from a list provided by the surveyor.

C-BPI Consumer Inquiry Platform

C-BPI消费者查询平台

数据说明:

- 1、C-BPI是消费者和企业最信赖的品牌价值评价制度。帮助消费者做出明智的购买选择；帮助企业建立品牌管理体系。
- 2、各行业C-BPI上榜品牌必须是“未提示提及率”大于或等于7%的上线品牌。表中所列品牌皆为当年度C-BPI上榜品牌。



Data Description:

1, C-BPI is the brand value evaluation system most trusted by consumers and enterprises. It helps consumers to make wise purchasing decisions and enterprises to build brand management system.

2, The Brands that made the list must have an "Unaided Awareness Ratio" that is greater or equal to 7% of the active brands. Brands listed in the table are the ones that made the C-BPI brand list during that year.

Source: http://www.chn-brand.org/Data_Ts/main_frame.asp

Prince Frog does not appear on the China Brand Power Index for products in the Baby/Child Bathing/Moisturizing category in 2011, 2012, or 2013, suggesting that Prince Frog controls far less market share than it claims in its public filings.

Below we have included translated screenshots of the China Brand Power Index, available [online](#), for the last three years. Notice that Johnson & Johnson dominates the rankings each year and that the China Brand Power Index includes many of Prince Frog’s competitors (e.g., Pigeon, Yumeijing and Haiermian) who are supposedly far behind Prince Frog in sales.

Baby/Child Bathing/Moisturising Product Industry Brand List in Year 2011 Full Score: 1000

2011 年婴儿/儿童洗浴/润肤品行业上榜品牌 (SOURCE: CHN-BRAND/C-BPI 满分为 1000 分)

Rank 排名	Brand 品牌	C-BPI Score C-BPI 得分	Unaided (%) 第一提及 (%) 未提示 (%) 提示后 (%)			Loyalty (%) 忠诚度 (%)		Satisfaction (%) Brand Image (%) 品牌好感 (%) 偏好 (满意) (%)		
			Top of mind (%)	Aided (%)	TOTAL (%)	Brand Image (%)	Purchase Possibility (%)			
J&J	1	强生	547.6	43.4	66.1	86.1	51.9	51.6	52.4	51.6
Baobaojinshui	2	宝宝金水	370.4	20.9	42.5	63.8	46.1	46.7	45.3	46.4
Haiermian	3	孩儿面	259.1	5.3	26.2	53.1	44.1	44.5	43.9	43.8
Liushen	4	六神	258.3	2.1	17.2	46.2	56.5	56.8	52.3	61.7
Anan	5	安安	233.6	4.9	13.2	26.9	53.6	51.0	53.6	56.1
Meijiajing	6	美加净	225.6	1.6	11.4	39.7	52.2	50.5	56.5	48.2
Pigeon	7	贝亲	213.7	3.9	12.1	25.3	49.5	51.9	47.2	50.0
Shimei	8	施美	200.0	1.9	8.8	15.5	53.1	51.2	51.8	56.8
Yumeijing	9	郁美净	190.7	1.4	7.9	27.6	47.3	40.1	51.3	49.0
Carefor	10	爱护	183.2	3.0	11.6	23.2	41.6	39.7	41.3	43.9

Source: http://www.chn-brand.org/Data_Ts/main_frame.asp

Baby/Child Bathing/Moisturising Product Industry Brand List in Year 2012

Full Score: 1000

2012 年婴儿/儿童洗浴/润肤品行业上榜品牌

(SOURCE: CHN-BRAND/C-BPI 满分为 1000 分)

Rank 排名	Brand 品牌	C-BPI Score C-BPI 得分	Unaided (%)			Loyalty (%)				
			第一提及 (%) Top of mind (%)	未提示 (%)	提示后 (%) Aided (%)	Brand Image (%)		Satisfaction (%)		
					TOTAL (%)	品牌形象 (%)	购买可能性 (%) Purchase Possibility (%)	偏好 (满意) (%)		
J&J	1	强生	531.8	40.9	66.2	86.1	49.9	50.7	49.5	49.6
Baobaojinshui	2	宝宝金水	393.6	18.4	44.5	65.2	55.2	54.9	55.9	54.4
Liushen	3	六神	302.6	6.3	33.9	53.9	52.0	50.6	52.4	52.7
Haiermian	4	孩儿面	273.0	5.5	21.7	49.6	52.6	53.3	51.7	53.2
Anan	5	安安	230.4	5.2	15.4	26.2	50.8	51.2	49.6	52.1
Fangfang	6	芳芳	227.9	0.5	15.0	19.7	58.8	59.8	58.0	58.7
Amway	7	安利	226.5	1.5	9.4	17.4	61.5	59.6	63.0	61.3
Sunny Baby	8	阳光宝宝	225.0	0.3	13.7	16.8	59.9	59.8	61.1	58.6
Carefor	9	爱护	220.1	3.6	11.5	16.2	55.5	55.4	55.1	55.9
Xiaodingdang	10	小叮当	209.8	0.4	14.6	23.0	52.0	53.3	52.2	50.6
Kaimi	11	开米	204.5	1.5	13.1	18.4	51.3	44.2	54.4	54.4
Pigeon	12	贝亲	201.1	5.2	12.7	20.6	44.7	45.2	44.3	44.8
Tiaopibao	13	调皮宝	189.6	1.4	7.4	8.9	53.5	52.8	53.6	54.0
Dayanjing	14	大眼睛	182.5	1.7	12.6	16.7	44.6	44.6	45.9	42.8
Chunjuan	15	春娟	182.5	0.8	9.5	12.3	49.4	46.4	50.0	51.5
Meijiajing	16	美加净	168.0	0.3	15.7	31.8	34.6	33.5	35.5	34.5
La Prairie	17	蓓丽	157.0	2.4	7.2	10.0	41.0	39.9	38.6	45.2
Shimei	18	施美	149.7	0.5	8.7	12.3	39.3	38.2	38.9	41.0

Source: http://www.chn-brand.org/Data_Ts/main_frame.asp

Baby/Child Bathing/Moisturising Product Industry Brand List in Year 2013

Full Score: 1000

2013 年婴儿/儿童洗浴/润肤品行业上榜品牌

(SOURCE: CHN-BRAND/C-BPI 满分为 1000 分)

Rank 排名	Brand 品牌	C-BPI Score C-BPI 得分	Unaided (%)			Loyalty (%)				
			第一提及 (%) Top of mind (%)	未提示 (%)	提示后 (%) Aided (%)	Brand Image (%)		Satisfaction (%)		
					TOTAL (%)	品牌形象 (%)	购买可能性 (%) Purchase Possibility (%)	偏好 (满意) (%)		
J&J	1	强生	717.9	69.4	92.0	98.8	52.5	52.2	53.0	52.3
Baobaojinshui	2	宝宝金水	352.7	6.2	52.6	83.1	46.5	46.8	47.6	44.8
Liushen	3	六神	347.3	3.7	51.7	82.6	48.8	48.7	47.6	50.5
Haiermian	4	孩儿面	314.5	5.1	39.1	77.1	46.4	46.6	44.0	49.2
Meijiajing	5	美加净	274.6	2.2	24.4	65.7	50.4	50.1	49.6	51.9
Pigeon	6	贝亲 Pigeon	244.5	4.8	16.2	38.6	51.5	51.4	52.3	50.5
Xiaodingdang	7	小叮当	237.0	2.4	16.9	53.2	46.8	50.1	44.4	46.8
Anan	8	安安	199.2	0.4	7.6	33.0	49.7	38.1	60.7	46.8

Source: http://www.chn-brand.org/Data_Ts/main_frame.asp

As expected, Johnson & Johnson ranked first in the China Brand Power Index every year. In 2013, an impressive 92% of consumers surveyed named Johnson & Johnson unaided.

By contrast, Prince Frog claims to be the #1 or #2 brand in the children's moisturizing and bath product categories. Yet it did not even qualify for the China Brand Power Index in any of 2011, 2012 or 2013, despite the fact that many of its competitors (who supposedly sell far less than Prince Frog) made the list.

We have confirmed that Prince Frog was included in the survey but did not make the lists because it failed to meet the 'unaided' awareness threshold. That is, less than 7% of the respondents surveyed could recall Prince Frog's brand when asked, unprompted, to name brands within the Baby/Child Bathing/Moisturizing category.

The methodology for the survey underpinning the China Brand Power Index is far sounder than the CRR survey. To create the China Brand Power Index, the MIIT surveyed **13,500 randomly selected Chinese residents across 30 cities**. By comparison, the CRR report relied on conversations with **only 242 parents** in the PRC for its conclusion that Prince Frog ranked second behind Johnson & Johnson in brand awareness.

More importantly, **the China Brand Power Index measures 'unaided' brand awareness**, meaning that government surveyors asked Chinese consumers to recall brands without any prompting and without giving the consumer a list of brands. By contrast, **the CRR survey appears to have measured 'aided' brand awareness**, meaning that CRR surveyors prompted consumers with a list of brands that included Prince Frog or simply asked a consumer if he or she was aware of Prince Frog. Obviously, 'unaided' brand awareness is far more coveted than 'aided' brand awareness and much more indicative of a powerful brand.

Further, the China Brand Power Index survey sampled consumers from a broad array of cities, including major cities in regions where Prince Frog supposedly dominates:

China Brand Power Index: Sample Size by City					
City	Sample	City	Sample	City	Sample
Changchun	400	Qingdao	250	Zhengzhou	450
Dalian	350	Shanghai	1000	Lanzhou	300
Harbin	500	Suzhou	500	Xi'an	500
Shenyang	500	Xiamen	400	Xining	150
Fuzhou	300	Beijing	1000	Chengdu	550
Hangzhou	400	Taiyuan	400	Guiyang	300
Hefei	350	Tianjin	500	Kunming	400
Jinan	450	Guangzhou	800	Chongqing	500
Nanchang	250	Shenzhen	400		
Nanjing	400	Changsha	400		
Ningbo	150	Wuhan	650		
TOTAL					13,500

Source: Ministry of Industry and Information Technology

The China Brand Power Index, a government sponsored survey, discredits the results of the CRR brand awareness study and indicates that Prince Frog controls far less market share than the Company claims.

TAX RECORDS

Publicly available tax records, published on a government website, the website of a local business association and in the local newspapers, also suggest that the Company is paying far less tax than it claims in its public filings. According to the Company's IPO Prospectus, Prince Frog's **headquarters, production facilities, and only PRC subsidiary** are located in the city of Zhangzhou, Fujian Province:¹⁰

Head office and principal place of
business in PRC No. 8, North Huancheng Road
Longwen Industrial Development Zone
Zhangzhou
Fujian, PRC

As at the Latest Practicable Date, we leased six properties in PRC, with an aggregate gross floor area of approximately 18,200 square meters. Out of these leased properties, **two are our production premises, offices and warehouse located in Zhangzhou and are used for the production of our skin care and body and hair care products**, the remaining four, located in Zhengzhou, Guangzhou, Linyi and Xi'an, respectively, are all warehouses used for the storage of our products.

Source: Company Prospectus.



¹⁰ In 2008 and 2009, the Company recorded sales through affiliate Fujian Shuangfei, which also does not appear on the government's list of taxpayers in such years despite purportedly paying RMB 27.7mm and 30.4mm in 2008 and 2009, respectively.

Indeed, SAIC filings show that Prince Frog's only PRC operating subsidiary is registered to an address in Zhangzhou:

Basic Registration Information of Foreign Enterprise 外资企业登记基本情况表

企业名称 Enterprise Name	青蛙王子(中国)日化有限公司 Frog Prince (China) Daily Chemicals Co., Ltd.		
住所 Address	漳州市蓝田经济开发区 Zhangzhou Lantian Economic Development Zone		
注册号	350600400007915	核准日期	2013.04.17
法定代表人 (负责人)	李振辉	电话	0596-2172297
邮政编码		副本数	1
企业类型	有限责任公司(台港澳法人独资)	企业人数	其中外方:
成立日期	2005.02.28	营业期限	2005.02.28 至 2055.02.27
行业名称	其他日用化学产品制造	登记机关	漳州市工商行政管理局
投资总额:	美元 13800.00	万元 折人民币:	万元 折美元: 13800.000000 万元
注册资本:	美元 6000.00	万元 折人民币:	万元 折美元: 6000.000000 万元
外方认缴:	美元 6000.00	万元 折人民币:	万元 折美元: 6000.000000 万元
经营范围	发用类、护肤类、香水类、美容修饰类化妆品生产(卫生许可证有效期至2013年12月8日);牙刷、香皂、清新剂、消毒剂、洗手液、洗衣液、扑克牌、尿裤、尿垫生产;牙膏、洗衣粉、洗衣液、空气清新剂、固体清香剂、固体清新剂、扑克牌、卫生用品(湿巾)类、生活用纸、纸尿裤、纸尿片、电热蚊香片、电热液体蚊香、电热液体蚊香器、蚊香、檀香、幽香、杀蟑饵剂、杀虫气雾剂、杀蟑气雾剂、洗手液、牙刷、香皂及化妆品批发。(以上商品进出口不涉及国营贸易、进出口配额许可证、出口配额招标、出口许可证等专项管理的商品)。(以上涉及前置审批许可项目的,只允许在审批许可的范围和有效期内从事生产经营)		
备注	(2007年度年检换照)原注册号为:企独闽漳总字第003084号		
外资到资情况 单位:万美元	出资期别	中方应出资	外方应出资 中方实出资 外方实出资
	1	0	6.500000 0 6.500000
	2	0	200.000000 0 200.000000
	3	0	793.500000 0 793.500000
	4	0	3000.000000 0 3000.000000
	5	0	1500.000000 0 1500.000000
	6	0	100.000000 0 100.000000
	7	0	400.000000 0 400.000000
变更情况	(见附页)		

本机读资料仅供参考,具体情况以书面档案为准

以上资料由漳州市工商行政管理局提供

Administrator for Industry & Commerce of Zhangzhou →



Since 2008, the Zhangzhou government (www.zhangzhou.gov.cn) has recognized the top tax paying companies in its city by including their names on a list, [published on the government website](#) and on the [website](#) of the Zhangzhou Enterprise Association. For example, the [following announcement](#), available on the government's website, recognizes the **143 Zhangzhou businesses that paid over RMB 10mm in PRC taxes in 2010**.

The screenshot shows the official website of the Zhangzhou Municipal Government. The header includes the government's name in Chinese and English, along with navigation links for various services. The main content area features a news article titled "关于表彰二〇一〇年漳州经济建设功臣和纳税大户的决定" (The Decision on the Recognition of 2010 Zhangzhou Economic Development Heroes and Major Taxpayers). The article text mentions that 143 enterprises were recognized as "2010 Zhangzhou Major Taxpayers". A red box highlights this number and the title of the recognition. Below the article, there are links to the issuing authority, the Zhangzhou Municipal Government, and the date of the decision, April 15, 2011.

关于表彰二〇一〇年漳州经济建设功臣和纳税大户的决定

漳州政府网 日期: 2011-05-11 来源: 闽南日报数字报 【字体: 大 中 小】

The Decision on the Recognition of 2010 Zhangzhou Economic Development Heros and Major Taxpayers

关于表彰二〇一〇年漳州经济建设功臣和纳税大户的决定

各县(市、区)委、政府,市直各单位,漳州、常山、古雷开发区:

2010年,我市认真贯彻落实胡锦涛总书记来闽来漳考察重要讲话精神,深入实施“依港立市、工业强市、开放活市、科教兴市”战略,围绕“海西建设,漳州先行”发展主线,扎实推进“五大战役”,全市经济社会持续较快发展,呈现速度与质量同步提升,活力与后劲不断增强的局面。在经济建设主战场,涌现出一批精于管理、善于经营、守法诚信、勇担社会责任的企业和企业家,他们带领广大职工勤奋创业、依法经营、奉献社会,为我市经济社会发展作出了积极贡献。为表彰先进,树立典型,推动发展,经研究,决定授予吴斌等20位企业家“2010年漳州经济建设功臣”荣誉称号;授予华阳电业有限公司等**143家企业“2010年度漳州市纳税大户”荣誉称号**。

希望受表彰的单位和个人珍惜荣誉,再接再厉,再创佳绩;希望全市各条战线和广大干部群众抓住大于“十二五”开局之年新机遇,奋发进取,扎实工作,为加快漳州科学发展、跨越发展作出新贡献。

Honorary title of "Zhangzhou Major Taxpayers in Year 2010" for 143 Enterprises.

中共漳州市委
漳州市人民政府 ← Zhangzhou Municipal Government
2011年4月15日 ← 04/15/2011
 中共漳州市委 漳州市人民政府

The Zhangzhou government lists break out the top tax paying businesses for each calendar year into the following tiers: companies which paid over RMB 100mm in tax (Tier 1), companies which paid between RMB 50mm and 100mm in tax (Tier 2) and companies that paid between RMB 10mm and 50mm in tax in any given year (Tier 3). If Prince Frog's reported financials are true, the Company **should be on the Tier 3 list (i.e., a business that paid at least RMB 10mm in tax) in every year since 2008:**

Prince Frog's Reported PRC Taxes					
(RMB mm)	2008	2009	2010	2011	2012
PRC Taxes Paid	27.7	30.4	16.1	34.9	48.4

Source: Company Filings

Yet Prince Frog does not appear on any of the Zhangzhou government's taxpayer lists from 2008 through 2011, and only appears on the Tier 3 list in 2012. For convenience, the following table provides a hyperlink to the list of major taxpayers (sorted by tier) for each year from 2008 through 2012.

Zhangzhou Government Lists of Highest Taxpaying Businesses			
Year	Tier 1 (Over RMB 100mm)	Tier 2 (RMB 50-100mm)	Tier 3 (RMB 10-50mm)
2008	Tier 1 List	Tier 2 List	Tier 3 List
2009	Tier 1 List	Tier 2 List	Tier 3 List
2010	Tier 1 List	Tier 2 List	Tier 3 List
2011	Tier 1 List	Tier 2 List	Tier 3 List
2012	Tier 1 List	Tier 2 List	Tier 3 List

Source: Zhangzhou Municipal Government P.R.China and Minnan Daily

The government's annual lists of the top local taxpaying businesses are hardly obscure. Every year, the local newspaper, the Minnan Daily, publishes the list in print and on its website to honor the top Zhangzhou businesses, making Prince Frog's absence even more conspicuous:



2

Minna Daily

05/11/2011 Wednesday

要闻

新闻部 电话:0596-2592888 责任编辑:冯建佳 陈建伟 E-mail:ywb@mnb.com.cn

向漳州经济建设功臣和纳税大户致敬!

中共漳州市委 漳州市人民政府

关于表彰二〇一〇年漳州经济建设功臣和纳税大户的决定

各县(市、区)委、政府,市直各单位,漳州、东山、古雷开发区:

2010年,我市认真贯彻落实胡锦涛总书记在闽考察时的重要讲话精神,深入实施“依港立市、工业强市、开放活市、科教兴市”战略,围绕“海西建设、漳州先行”发展主线,扎实推进“五大战役”,全市经济社会持续较快发展,呈现速度与质量同步提升,活力与后劲不断增强的局面。在经济建设主战场,涌现出一批精于管理、善于经营、守法诚信、勇担社会责任的企业和企业家,他们带领广大职工勤奋创业、依法经营、奉献社会,为我市经济社会发展作出了积极贡献。为表彰先进,树立典型,推动发展,经研究,决定授予吴斌等20位企业家“2010年漳州经济建设功臣”荣誉称号;授予华阳电业有限公司等143家企业“2010年度漳州市纳税大户”荣誉称号。希望受表彰的单位和个人珍惜荣誉,再接再厉,再创佳绩;希望全市各奋战在“十二五”开局之年新征途、奋进新征程、扎实工作、为加快漳州科学发展、跨越发展作出新贡献。

中共漳州市委
漳州市人民政府
2011年4月15日

2010年漳州经济建设功臣名单(共20位)

- | | | |
|----------------------------|----------------------|----------------------|
| 吴斌 招商局漳州开发区有限公司常务副董事长 | 赖建平 正兴车轮集团有限公司总经理 | 陈金才 漳州金龙客车有限公司董事长 |
| 王文文 三宝冶金(福建)集团股份有限公司董事长 | 董西商 福建向荣建设集团有限公司总经理 | 邹剑寒 漳州蒙发利实业有限公司董事长 |
| 高耀荣 漳州灿坤实业有限公司董事长 | 吴凯庭 南靖万利达科技有限公司董事长 | 陈才文 漳州天成房地产开发有限公司董事长 |
| 李瑞河 漳州天福集团有限公司董事长 | 陈加霞 福建省联盛纸业有限责任公司董事长 | 陈海瑞 福建省沈惠建设集团有限公司董事长 |
| 俞其兵 漳州旗滨玻璃有限公司董事长 | 李奕福 福建福贡金属包装有限公司董事长 | 曾海山 福建恒盛建设集团有限公司董事长 |
| 章毅新 中国移动通信集团福建有限公司漳州分公司总经理 | 汪秉生 福建闽星集团有限公司董事长 | 梁哲司 福建统一马口铁有限公司董事长 |
| 陈建彪 漳州福盈房地产开发有限公司董事长 | 黄亚河 福建永大集团有限公司董事长 | |

Zhangzhou Major Taxpayers List in Year 2010 (143 in Total)

2010年度漳州市纳税大户名单(共143个)

纳税上亿元企业

- 华阳电业有限公司
- 福建省烟草公司漳州市公司
- 招商局漳州开发区有限公司
- 三宝冶金(福建)集团股份有限公司
- 漳州灿坤实业有限公司
- 福建省电力有限公司漳州电业局
- 漳州天福集团有限公司
- 漳州旗滨玻璃有限公司

纳税5000万元以上、亿元以下企业

- 中国移动通信集团福建有限公司漳州分公司
- 福建福晟集团有限公司
- 福建兆丰房地产有限公司
- 正兴车轮集团有限公司
- 福建向荣建设集团有限公司
- 漳州片仔癀药业股份有限公司
- 南靖万利达科技有限公司
- 福建省联盛纸业有限责任公司
- 福建福贡金属包装有限公司
- 福建闽星集团有限公司
- 福建永大集团有限公司
- 漳州金龙客车有限公司
- 漳州蒙发利实业有限公司
- 漳州特房开发有限公司

Enterprises That Paid More Than 10 million, and Less Than 50 Million in Tax

纳税1000万元以上、5000万元以下企业

- | | | | |
|-----------------|---------------|---------------|---------------|
| 福建省龙海市供电公司 | 漳州招商局地产开发有限公司 | 漳州万祥益集团有限公司 | 福建北方房地产开发有限公司 |
| 漳州天成房地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建省联盛纸业集团有限责任公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建兆丰房地产有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 正兴车轮集团有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建向荣建设集团有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 漳州片仔癀药业股份有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 南靖万利达科技有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建省联盛纸业有限责任公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建福贡金属包装有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建闽星集团有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 福建永大集团有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 漳州金龙客车有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 漳州蒙发利实业有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |
| 漳州特房开发有限公司 | 漳州招商局地产开发有限公司 | 漳州招商局地产开发有限公司 | 漳州北方房地产开发有限公司 |

2 要闻

Minnan Daily 闽南日报

漳州新闻: www.zznw.cn

2013年6月9日 星期日

向工业化提速先进单位和纳税大户致敬!

中共漳州市委 漳州市人民政府 关于表彰2012年度先进单位的决定

中共漳州市委 漳州市人民政府 关于表彰2012年度纳税大户的决定

为表彰先进,树立典型,激励全市广大企业... 中共漳州市委 漳州市人民政府 2013年5月28日

2012年度漳州市纳税大户名单 (共259个)

Zhangzhou Major Taxpayers List in Year 2012 (259 in Total)

纳税超亿元企业

- 福建省烟草公司漳州市公司 华阳电业有限公司 招商局漳州开发区有限公司

纳税5000-10000万元企业

- 漳州大洲房地产开发有限公司 福建东隆饲料有限公司 漳州同安房地产开发有限公司

Enterprises That Paid 10 to 50 Million in Tax

纳税1000-5000万元企业

- 新城区地产集团福建有限公司 漳州新泰房地产开发有限公司 漳州九龙江供水有限公司

中共漳州市委 漳州市人民政府 2013年5月28日

2012年工业化提速考核先进单位名单

- 一、工业化提速综合考核先进单位 第一名:长泰县 第二名:南靖县 第三名:龙文区

Interestingly, Prince Frog appears in Tier 3 in the 2012 list. This does not mean that the Company paid its reported RMB 48mm in taxes in 2012, just that it paid more than RMB 10mm. However, its appearance in 2012 does suggest that if the Company were paying as much in taxes as it claims in its public financials, it would have made the Tier 3 list every year since 2008. It did not.

Prince Frog's conspicuous absence from the list of Tier 3 taxpayers in 2008, 2009, 2010 and 2011 indicate that, contrary to the statements of cash flows in its Prospectus and subsequent annual reports, the Company did not pay over RMB 10mm in PRC taxes in any of those years.

Furthermore, the publicly available taxpayer lists from the Zhangzhou government corroborate the Nielsen data and provides further evidence that the Company is vastly exaggerating its reported sales and profitability.

CUSTOMER SAIC FILINGS

Prince Frog sells its products to distributors in the PRC. According to Prince Frog's 2012 annual report, its top five customers accounted for 14.2% of sales (RMB 223mm). This breaks down to a required average purchase amount from each of its top five customers of **RMB 45mm in 2012**. Prince Frog does not disclose the exact amount of sales to its customers, but Prince Frog investor relations disclosed the identity of the Company's top five customers at a recent investor conference.

Top Customer	Chengdu Shuxiu Trading Company Limited ("Chengdu Shuxiu")
Top 2-5	Zhangzhou Gonghao Trading Company Limited ("Zhangzhou Gonghao") Nanchang Honglilai Cosmetics Marketing Centre ("Nanchang Honglilai") Nanyang Zhong Jing Shang Cheng Wan Yun Department Store ("Nanyang Zhongjing") Xinjiang Jundali Investment Company Limited ("Xinjiang Jundali")

Source: Prince Frog Investor Relations

We reviewed the publicly available SAIC filings for four out of five of the Company's top customers, including Prince Frog's top customer, Chengdu Shuxiu Trading Company Limited ("Chengdu Shuxiu"). These SAIC filings contained financial statements from which we calculated the level of purchasing activity for each such customer (measured by COGS plus the change in inventory).¹¹

Because Chengdu Shuxiu is Prince Frog's top customer, its total purchases should **at the very least be greater than RMB 45mm**, which is the average amount sold to each of Company's top five customers in 2012.

However, financials from Chengdu Shuxiu's SAIC filings, excerpts of which are available in Appendix I, show that in each of the past three years, the Company's top customer has purchased less than the required average.

Prince Frog's Top Customer Analysis			
<i>(Figures are in RMB mm)</i>	2010	2011	2012
Prince Frog Total Turnover	838	1269	1572
% Turnover from Five Largest Customers	17.3%	16.0%	14.2%
Average Purchases from a Top Five Customer	29	41	45
Chengdu Shuxiu Total Purchases (COGS + Change in Inventory)	24	32	36
Assumption % of Distributor Purchases from Prince Frog	75%	75%	75%
Implied Average Purchases by Chengdu Shuxiu from Prince Frog	18	24	27
% of Avg Reported Purchases	62%	59%	60%

Sources: Company Filings and Customer SAIC Filings

¹¹ The SAIC filings for one of the top five customers were not available as of the date of this report.

Chengdu Shuxiu's SAIC filings show that, even making the generous (and probably erroneous) assumption that 75% of the distributor's purchases are from Prince Frog, its purchasing activity in each of the last three years was ~60% of the required amount for an average top 5 customer.

The SAIC filings for three more of the Company's top five customers¹² (excerpts available in [Appendix I](#)) further support our investment thesis. Even if we project that sales increased by 50% in 2012 for both customers for which only FY 2011 SAIC filings were available (Nanchang Honglilai and Xinjiang Jundali), the average purchasing activity from **four of Prince Frog's top five customers in 2012** was only a fraction of the annual purchases required for the Company's financials to be true.

Prince Frog's Top Customer Analysis for 2012	
<i>(Figures are in RMB mm)</i>	2012
Prince Frog Total Turnover	1572
% of Sales to Top Five Customers	14.2%
Required Average Purchases by Top Five Customers	45
<i>COGS + Change in Inventory for Major Customers</i>	
Chengdu Shuxiu	35.6
Nanchang Honglilai‡	6
Xinjiang Jundali‡	15
Zhangzhou Gonghao	1.7
Projected Average Purchases by Top Four Customers	14.6
<i>Assumption % of Distributor Purchases from Prince Frog</i>	75%
Implied Average Purchases by Top Four Customers	10.9
% of Reported Purchases	24%

‡ Projected Purchases for 2012 assuming 50% increase yr/yr from 2011 to 2012

Assuming that Prince Frog accounts for 75% of its customers' purchases, which seems a generous assumption, then the Company's sales to four of its top five customers appear to be only 24% of the amount required for Prince Frog's reported financials to be accurate.

More significantly, customer SAIC filings corroborate the taxpayer lists and the Nielsen data, **with each piece of evidence independently suggesting that Prince Frog's actual sales are less than 25% of the reported figures.**

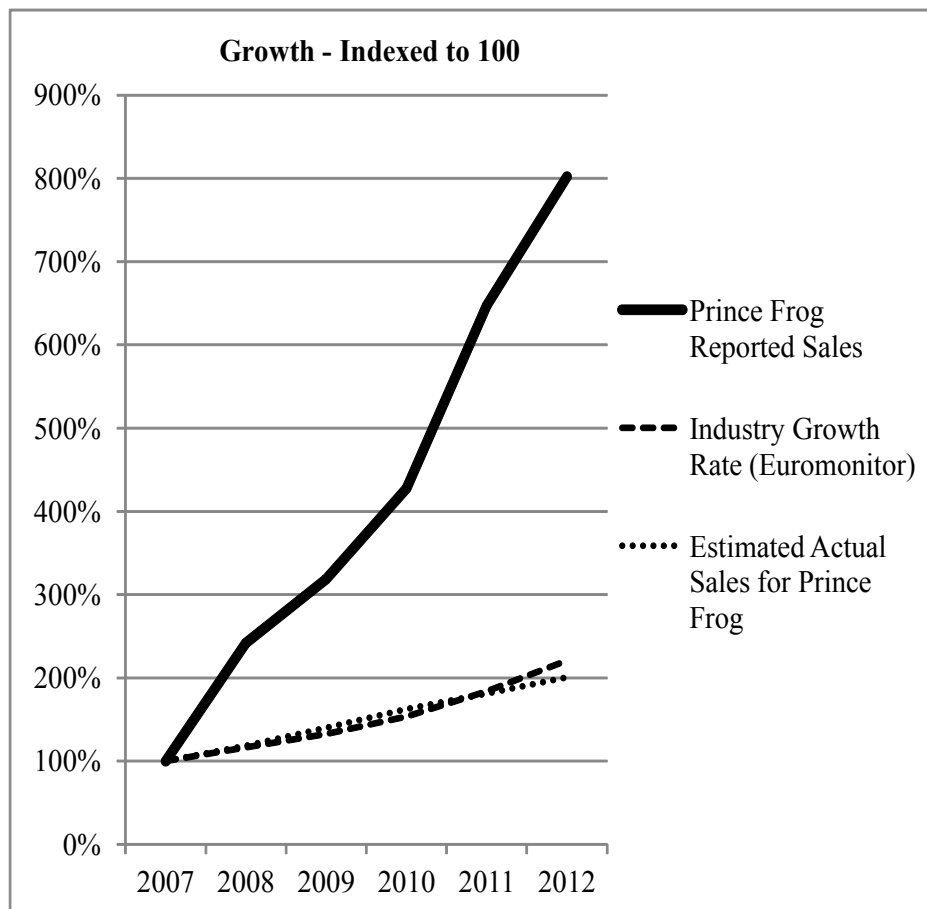
¹² Prince Frog investor relations stated that there is very little change in its top customers from year to year, so we believe we are safe in assuming that since both Nanchang Honglilai and Xinjiang Jundali were top five customers in 2012, they are were also top five customers in 2011.

REPORTED FINANCIALS COVERED IN WARTS

There are also a host of other clues in the Company's reported financials suggesting that Prince Frog is more frog than prince.

1) Reported Sales Grew Seven Times Faster than Industry

Prince Frog's reported sales growth is so meteoric that it defies credibility. In the following graph, we compare Prince Frog's reported sales with the industry growth rate and our estimate, based on Nielsen data, tax records and customer SAIC filings, of Prince Frog's actual sales from 2007 to 2012.



Sources: Reported sales for 2008-2012 are per Company filings; 2007 figure based on Fujian Zhangzhou Economic & Development Zone website; industry growth rate based on Euromonitor's actual (2007-2010) and projected (2011-2012) retail sales value of children moisturizing lotions market in China per page 64 of Prince Frog's IPO prospectus. Glaucus estimated sales based on Nielsen data, SAIC filings, and local tax records.

The comparison reveals that Prince Frog's sales purportedly grew ~700% during a period where the industry, according to Euromonitor, grew at a rate of **only** ~100%. Significantly, our estimate of the Company's sales growth rate over the same period closely matches the ~100% industry growth rate. In our opinion, Prince Frog's reported rate of sales growth deviates so significantly from the industry growth rate that the Company's performance appears too good to be true.

2) 89% ROIC LACKS CREDIBILITY

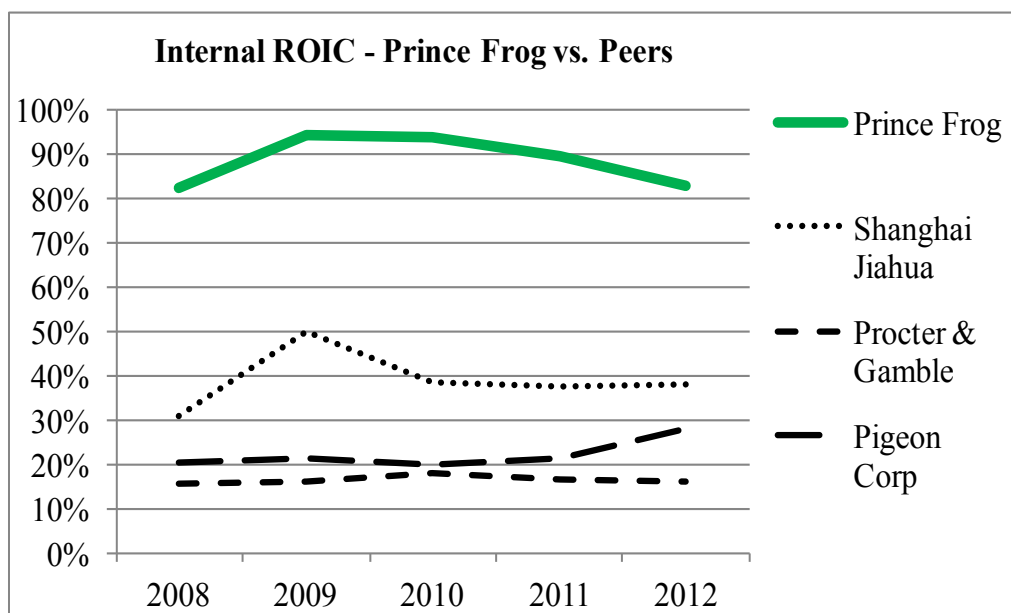
Second, Prince Frog reported an average 89% internal ROIC between 2008 and 2012. Although this red flag was mentioned by the Chinese blogger who (without much evidentiary support) questioned the veracity of Prince Frog's reported figures, we believe it bears mentioning again because this princely rate of return is simply not credible compared with Prince Frog's domestic and international peers, such as Shanghai Jiahua (SH: 600315), Procter & Gamble (NYSE: PG), and Pigeon Corp (Tokyo: 7956), which boasted an average ROIC of around 26% during the same period.

Internal Return on Invested Capital					
	2008	2009	2010	2011	2012
Shanghai Jiahua	31%	50%	38%	37%	38%
Procter & Gamble	27%	28%	31%	28%	28%
Pigeon Corp	14%	19%	20%	18%	20%
Comps Average	24%	32%	30%	28%	29%
Prince Frog	82%	94%	94%	90%	83%

Source: Company Filings

P&G fiscal years ended June 30 are 6 months behind calendar years. Pigeon Corp fiscal years ended Jan 31 are one month ahead of calendar years.

Internal ROIC calculated as EBIT (excluding one-time items) divided by operating net assets (net assets excluding cash, cash equivalents, and debt).

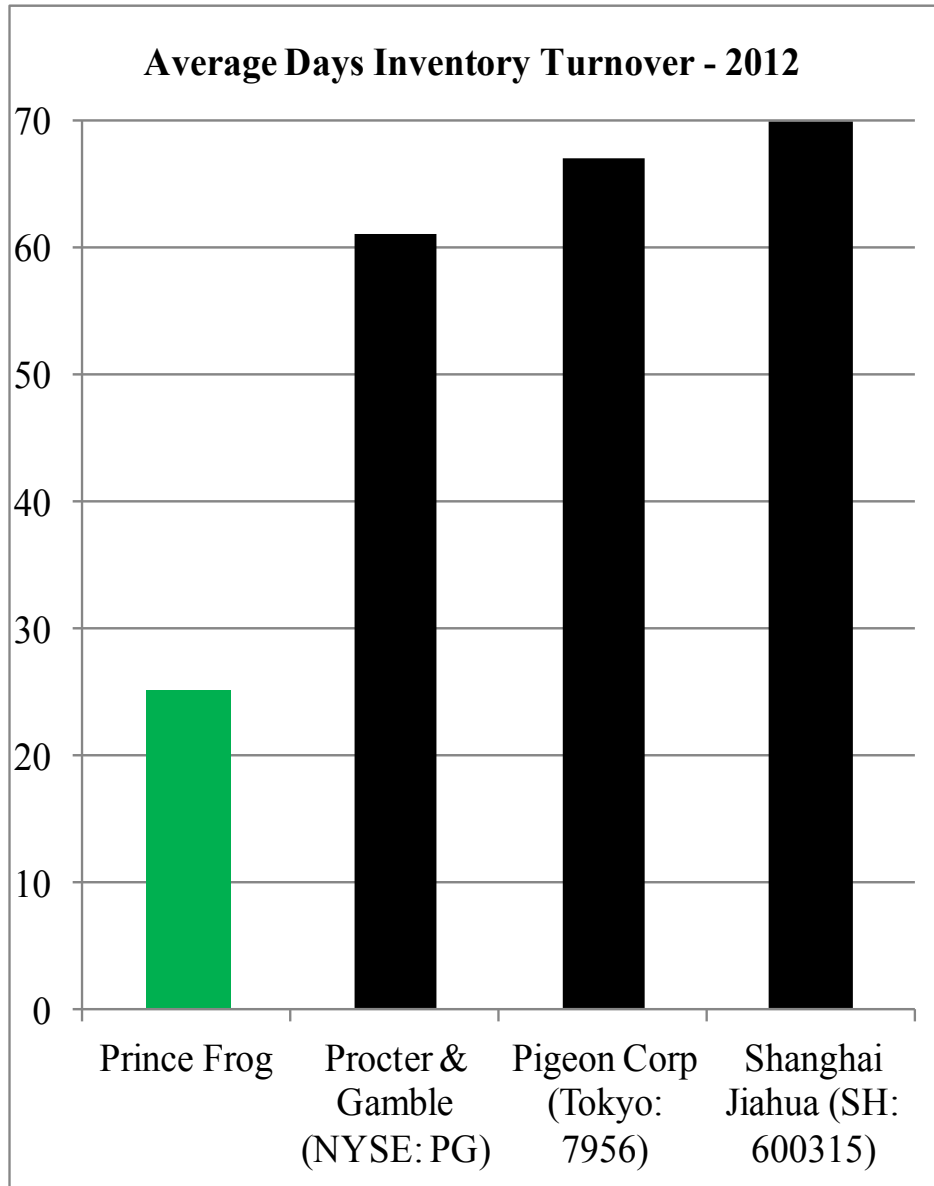


Source: Company filings.

If the Company's ROIC figures are to be believed, Prince Frog has so revolutionized the consumer products industry that it should be the subject of Harvard Business School case studies for decades to come, and business gurus from around the world will descend on Fujian to learn the frog's secrets.

3) *Suspiciously Fast Inventory Turnover Rate*

Prince Frog reported inventory turns of 25.3 days in 2012,¹³ which was more than twice as fast as the inventory turn rate of its peers (e.g. 70 days for Shanghai Jiahua, 61 days for Procter & Gamble, and 68 days for Pigeon Corp).



Such a fast rate is another significant red flag. It simply does not sound credible to us that Prince Frog could turn its inventory every 3.5 weeks. Either Prince Frog, a much smaller company by comparison, has achieved a level of operational efficiency far in excess of these global leaders, or Prince Frog's actual sales and cost of goods are significantly less than reported. Based on the preponderance of the evidence presented herein, we think such purported operational efficiency is a mere fable.

¹³ 2012 Annual Report, pg. 66.

VALUATION

We believe, based on the evidence presented in this report, that Prince Frog's sales are **less than 25% of the reported figure**. Assuming a good portion of those fabricated sales, when restated, fall directly to the bottom line, Prince Frog could be hard pressed to turn a profit. However, with no visibility on the Company's true net income, we cannot say that Prince Frog's equity is worthless nor can we offer any opinion on the value of the Company's shares as a multiple of earnings.



A proper dissection reveals a frog, not a prince

That said, in December 2012, Johnson & Johnson [acquired](#) 100% of Elsker, a close competitor of Prince Frog, for RMB 650mm, or 1.3x trailing 12 months sales of around RMB 500 million. Based on the evidence presented in this report, we believe that Prince Frog's actual total sales figure is no higher than RMB 393mm for 2012, or 25% of the reported figure. A 1.5x multiple on what we estimate to be the Company's true sales figure would imply a valuation of HKD 749 million, or **HKD 0.74 per share**.

For investors who bought Prince Frog's fairy tale growth story, we fear that there will be no happy ending. We believe that the yield would be minimal from any attempted recovery of PRC onshore cash from Prince Frog's balance sheet because creditors would have to prevail against entrenched and connected insiders by litigating in China's byzantine and arbitrary judicial system. According to the Company's 2012 annual report, Prince Frog has already spent 93% of its IPO proceeds on marketing, capital expenditures, and general corporate purposes.

The preponderance of the evidence indicates that, in our opinion, Prince Frog has fabricated the vast majority of its sales; therefore we strongly doubt the existence of its HKD 0.97 per share cash balance. However, if we made the generous assumption that the Company possessed 25% of its reported cash, our valuation would increase from **HKD 0.74 to HKD 0.98 per share**.

The End

* * *

APPENDICES

Customer #1: Chengdu Shuxiu

Income Statement

		Previous Period		损益表	Previous Period		
项 目	行次	上期金额	本期金额	项 目	行次	上期金额	本期金额
		Current Period				Current Period	
一、营业总收入	1	33620289.04	39478589.28	其中：对联营企业和合营企业的投资收益	22		
其中：营业收入	2			三、营业利润（亏损以“-”号填列）	23	334526.08	414524.3
其中：主营业	3			加：营业外收入	24		
务收入				其中：非流动	25		
其他业	4			性资产处置利得			
务收入				非货币	26		
二、营业总成本	5	30867442.41	37175057.08	性资产交换利得（非货币性交易收益）			
COGS				政府补	27		
其中：营业成本	6			助（补贴收入）			
其中：主营业	7			债务重	28		
务成本				组利得			
其他业	8			减：营业外支出	29		
务成本				其中：非流动	30		
营业税金及附加	9	100961.21	62893.2	资产处置损失			
销售费用	10	2316326.52	1834000.11	非货币	31		
管理费用	11			性资产交换损失（非货币性交易损失）			
其中：业	12			债务重	32		
务招待费				组损失			
研究与开发费	13			四、利润总额（亏损总额以“-”号填列）	33	334526.08	414524.3
财务费用	14	1032.82	-7885.43	减：所得税费用	34	83631.52	103631.08
其中：利	15			加：#未确认的投	35		
息支出				资损失			
利	16			五、净利润（净亏损以“-”号填列）	36	250894.56	310893.22
息收入				减：#少数股东损	37		
汇				益			
兑净损失（净收益以“-”号填列）	17			六、归属于母公司所有者的净利润	38	250894.56	310893.22
Δ资产减值损失	18			七、每股收益：	39		
其他	19			基本每股收益	40		
加：公允价值变动收益（损失以“-”号填列）	20			稀释每股收益	41		
投资收益（损失以“-”号填列）	21						

On the balance sheet side, Chengdu Shuxiu’s inventory decreased from RMB 2.1mm to RMB 512,000:

Balance Sheet

资产负债表

Unit: Yuan

编制单位:

年 月 日

金额单位: 元

项 目	行次	期初余额	年末余额	项 目	行次	期初余额	年末余额
流动资产:				流动负债:			
Beg. of Year				End of Year			
货币资金	2	1159333.33	4691390.48	短期借款	48	3320000	3320000
△交易性金融资产	3			△交易性金融负债	49		
#短期投资	4			#应付权证	50		
应收票据	5			应付票据	51		
应收账款	6	2879138.46	9660705.88	应付账款	52	2197321.03	10820106.16
预付款项	7			预收款项	53		
应收股利	8			应付职工薪酬	54	50687.5	50687.5
应收利息	9			其中: 应付工	55		
其他应收款	10	6609.34	6609.34	费 应付福利	56	50687.5	50687.5
存货	11	2131246.06	512427.06	应交税费	57	39491.07	77089.61
Inventory				其中: 应交税	58	39491.07	77089.61
原材料	12			金			
库存商品 (产	13			应付利息	59		
成品)				应付股利	60		
一年内到期的非流	14			其他应付款	61	43416.57	20920.27
动资产				一年内到期的非流	62		
其他流动资产	15			动负债			
流动资产合计	16	6176327.19	15071132.76				

Customer #2: Zhangzhou Gonghao

According to SAIC filings, Zhangzhou Gonghao only had COGS of RMB 1.6mm during 2012:

利润表		单位:人民币千元	
项目	行次	2011	2012
主营业务收入	1	2151	2,103
减: 主营业务成本	2	1906	1,635
主营业务税金及附加	4	6	5
主营业务利润	5	239	463
其他业务利润	6		
资产减值损失			
营业费用		122	310
减: 管理费用	7	95	123
财务费用	8	1	1
营业利润	9	21	29
投资收益	10		
公允价值变动损益			
补贴收入			
营业外收入	11		1
减-营业外支出	12		
以前年度损益调整		-10	
利润总额	14	11	30
减: 所得税	15	24	22
净利润	16	-13	8

On the balance sheet side, Zhangzhou Gonghao's inventory increased from RMB 245,000 to 300,000:

资产负债表		2012年12 月份		单位:人民币千元			
资产	行次	2011	2012	负债及所有者权益	行次	2011	2012
流动资产:				流动负债:			
货币资金	1	443	198	短期借款	46		
短期投资	2			应付票据	47		
应收票据	3			应付账款	48	-855	-410
应收账款净额	6	80	390	预收账款	49		
其他应收款	7	15	16	应付工资	50		
预付账款	9			应付福利费	51	2	2
应收补贴款	10			未交税金	52	1	14
存货	11	245	300	未付股利	53		
待摊费用	13			其他应付款	54	1,255	901
待处理流动资产净损失	14			预提费用	56		
一年内到期的长期债权投资	15			一年内到期长期负债	57		
其他流动资产	16			其他流动负债	58		1
流动资产合计	20	783	916	流动负债合计	65	403	508


Customer #3: Nanchang Honglilai

According to SAIC filings, Nanchang Honglilai only had COGS of RMB 3.9mm during 2011:

Income Statement

Nanchang Honglilai Cosmetics Marketing Centre

编制单位	项目	2011年12月	利润表	This Month	This Year
南昌宏利来化妆品营销中心		December 2011	单位: 元 (保留两位小数)	本月数	本年累计数
			Unit: Yuan		
			行次		
一、主营业务收入			1	350743.93	4151722.41
其中: 出口产品(商品)销售收入			2	0	0
进口产品(商品)销售收入			3	0	0
减: 折扣与折让			4	0	0
二、主营业务收入净额			5	0	0
减: (一) 主营业务成本			6	334405.59	3927506.79
其中: 出口产品(商品)销售成本			7	0	0
(二) 主营业务税金及附加			8	166.36	2151.01
(三) 营业费用			9	0	0
(四) 其它			10	0	0
加: (一) 递延收益			11	0	0
(二) 代购代销收益			12	0	0
(二) 代购代销收益			13	0	0
三、主营业务利润			14	0	0
加: 其它业务利润			15	0	0
减: (一) 存货跌价损失			16	0	0
(二) 管理费用			17	9344.5	220374.78
(三) 财务费用			18	-45.51	825.01
(四) 其它			19	0	0
四、营业利润			20	0	0
加: (一) 投资收益			21	0	0
(二) 期货收益			22	0	0
(三) 补贴收入			23	0	0
其中: 补贴前亏损企业补贴收入			24	0	0



On the balance sheet side, Nanchang Honglilai's inventory increased from RMB 329,000 to 439,000:

Balance Sheet

Nanchang Honglilai Cosmetics Marketing Centre ↓ 资产负债表 ↓ Unit: Yuan

编制单位: **南昌宏利来化妆品营销中心** 2011 年 12 月 31 日 单位: 元 (保留两位小数)

项目	行次	年初数	期末数	项目	行次	年初数	期末数
货币资金	1	17261. ↑	174295. ↑	应付票据	49	0	0
短期投资	2	0	0	应付账款	50	428029.4	775097.34
减: 短期投资跌价准备	3	0	0	预收账款	51	0	0
短期投资净额	4	0	0	代销商品款	52	0	0
应收票据	5	0	0	应付工资	53	0	0
应收股利	6	0	0	应付福利费	54	18303.6	18303.6
应收利息	7	0	0	未交税金	55	4778.95	1764.18
应收账款	8	649305.83	529198.8	应付利润(股利)	56	0	0
其它应收款	9	0	0	其他应缴款	57	201886.26	100
减: 坏帐准备	10	0	0	其他应付款	58	0	0
应收款项净额	11	0	0	预提费用	59	0	0
预付帐款	12	0	0	一年内到期的长 期负债	60	0	0
期货保证金	13	0	0	其它流动负债	61	0	0
应收补贴款	14	0	0	流动负债合计	62	743878.21	888268.12
应收出口退税	15	0	0	长期借债	63	0	0
存货	16	328685.47	438691.18	应付债权	64	0	0
Inventory	17	0	0	长期应付款	65	0	0
产成品(库存商品)	18	0	0	其它长期负债	66	0	0
减: 存货跌价准备(商品 销价准备)	19	0	0	其中: 特准储备 资金	67	0	0
存货净额	20	0	0	专项应付款	68	0	0
代摊费用	21	0	0	长期负债合计	69	0	0
待处理流动资产净损失	22	0	0	递延税款贷项	70	0	0
一年内到期的长期债权 投资	23	0	0	债合计	71	0	0
其他流动资产	24	0	0	*少数股东权益	72	0	0
流动资产合计	25	998252.36	1142185.48				

Customer #5: Xinjiang Jundali

According to SAIC filings, Xinjiang Jundali only had COGS of RMB 5.7mm during 2011:

Income Statement

损益表

Xinjiang Jundali Investment Company Limited 新疆军达利投资有限公司
 报告期: 2011年12月 December 2011

单位: 新疆军达利投资有限公司

项 目	行次	本月数 This Month	本年累计数 This Year
商品销售收入	1	505,779.64	6,564,139.87
减: 销售折扣与折让	2		
商品销售收入净额	3	505,779.64	6,564,139.87
减: 商品销售成本	4	407,821.04	5,707,262.09
COGS			
经营费用	5	35,488.89	401,286.93
商品销售税金及附加	6	2,393.80	5,949.32
二、商品销售利润	10	60,075.91	449,641.53
加: 代购代销收入	11		
三、主营业务利润	14	60,075.91	449,641.53
加: 其他业务利润	15		
减: 管理费用	16	91,019.54	468,443.30
财务费用	17	84,813.90	280,509.39
汇兑损失	18		
四、营业利润	20	-115,757.53	-299,311.16

On the balance sheet side, Xinjiang Jundali's inventory increased from RMB 2.7mm to 7.63mm:

Balance Sheet

资产负债表

Xinjiang Jundali Investment Company Limited 2011年12月
新疆军达利投资有限公司 December 2011

	行次	年初数	期末数	负债及所有者权益	行次	年初数	期末数
		Beg. of Year	End of Year			Beg. of Year	End of Year
金	1	20,922,302.67	12,380,034.93	短期借款	46	2,000,000.00	3,000,000.00
资	2			应付票据	47		
据	3			应付账款	48	-639,037.48	-113,598.65
款	4	1,841,848.71	2,206,656.69	预收账款	49	337,170.81	166,595.47
坏账准备	5			其他应付款	50	1,975.00	5,201,975.00
款净额	6	1,841,848.71	2,206,656.69	应付职工薪酬	51		
款	7	4,105,245.97	5,067,540.69	应付福利费	52		
出口退税	8			未交税金	53	-12,085.10	-18,371.08
补贴款	9			未付利润	54		
应收款	10	1,044,207.21	9,533,852.05	其他未交款	55		
	11	2,654,143.04	7,628,198.78	预提费用	56		
其他业务支出	12			一年内到期的长期负债	57		
费用	13			其他流动负债	58		
流动资产净损失	14						
到期长期债券投资	15						
流动资产	16						
流动资产合计	20	30,567,747.60	36,816,083.34	流动负债合计	65	1,688,023.23	8,238,600.74