# Prince Frog International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1259

# 2013 Prince Frog Interim Report

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# Corporate Information

## BOARD OF DIRECTORS

***Executive Directors***

Mr. Li Zhenhui *(Chairman & Chief Executive Officer)*
Mr. Xie Jinling
Mr. Ge Xiaohua
Mr. Huang Xinwen
Ms. Hong Fang

***Independent Non-executive Directors***

Mr. Chen Shaojun
Mr. Ren Yunan
Mr. Wong Wai Ming

## BOARD COMMITTEES

***Audit Committee Members***

Mr. Wong Wai Ming *(Chairman)*
Mr. Chen Shaojun
Mr. Ren Yunan

***Nomination Committee Members***

Mr. Ren Yunan *(Chairman)*
Mr. Chen Shaojun
Mr. Wong Wai Ming

***Remuneration Committee Members***

Mr. Ren Yunan *(Chairman)*
Mr. Li Zhenhui
Mr. Wong Wai Ming

## JOINT COMPANY SECRETARIES

Ms. Hong Fang
Ms. So Ka Man

## AUDITORS

Ernst & Young

## PRINCIPAL BANKER

Agricultural Bank of China Limited
Zhangzhou Branch

## STOCK CODE

1259

## COMPANY WEBSITE

www.princefrog.com.cn

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

No. 162, North Huancheng Road
Longwen Industrial Development Zone
Zhangzhou, Fujian
The People's Republic of China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 602A-3, 6/F
Ocean Centre, Harbour City
5 Canton Road, Tsimshatsui
Kowloon, Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

# Overview

Prince Frog International Holdings Limited (the "Company" or "Prince Frog", together with its subsidiaries, the "Group") is a leading manufacturer and distributor of children's personal care products in Mainland China. The Frog Prince brand is well received by children with its image of health, energy and vibrancy, and is also recognized by parents for its high quality. The brand has become one of the leading domestic brands of children's personal care products in China. Leveraging on the success of the first season of the Company's Frog Prince animation series, the second season was launched and among the first batch of animations recommended by the State Administration of Radio, Film and Television. The third season of the Frog Prince animation series is due to be launched in the second half of 2013.

As the economy is growing, Chinese consumers are more concerned about children's personal care products. Dedicated to producing this kind of products, the Group keeps improving its products and developing new ones that meet customers' requirements and market demand; increasing funds for research and development; strengthening collaborations with universities and research centres; stepping up advertisements on television, especially children channels, and other media such as newspapers, magazines and books, and proactively carrying out online marketing; adopting unique, innovative marketing strategies and taking care of the development of Chinese children.

Looking ahead, the Company will continue to leverage its leading position, brand recognition, established sales network, strong product development capability, high quality and increasing production capacity to capture the enormous opportunity in the emerging children care industry, developing itself into a top brand in China.

# Management Discussion and Analysis

In the first half of 2013, the Group, leveraging its solid brand image, further expanded its sales channels in second, third and fourth-tier cities to consolidate its market leading position as well as actively opened up sales channels in first-tier cities and international supermarket chains nationwide. Thanks to those efforts, the Group made its presence into additional 2,117 stores, including 268 key account ("KA") stores. In the first half of 2013, the Group achieved solid growth in its operation and was honoured with a number of industry awards while actively seeking external collaboration:

— On 11 January 2013, the Group joined forces with China National Institute of Standardization to set up China's first "Standardization Research Base for Cosmetic Products for Chinese Children" (中國兒童化妝品標準化研究基地) in the new industrial park of Prince Frog.

— On 15 March 2013, Frog Prince branded children's personal care products (body and hair care, skin care, oral care, diaper and tissue products) were honoured as "Stable Qualified Products in National Quality Inspection" (全國品質檢驗穩定合格產品) by China Quality Inspection Association.

— On 15 March 2013, the Company was awarded the title of "Excellent Enterprise for Trustworthy Quality in China" (全國品質誠信承諾優秀企業) by China Quality Inspection Association.

— On 13 April 2013, the Company was awarded the "2013 Jingzheng Service Innovation Award in the Pregnancy, Babies and Children Product Category" (2013京正•中國孕嬰童行業服務創新) by the Beijing Mother-Infant-Child Industry Association, China Trade News, BAMC Top Baby TV, Parenting Science magazine and Beijing Jingzheng International Exhibition Co., Ltd.

— On 20 May 2013, the Company was listed among the "Leading Brands of the 18th China Beauty Expo" (第十八屆中國美容博覽會領銜品牌) granted by the Organization Committee of the 18th China Beauty Expo (Shanghai CBE).

— On 22 May 2013, the Company was awarded the title of "360 Cosmetics Cup - Most Pioneering O2O e-Commerce Company" (360化妝品杯•最新銳O2O電商企業) in the "Chinese O2O e-Commerce Seminar" jointly hosted by 360xh.com, 360° Media Group (360°傳媒集團) and the Asian Association of Washing Products and Cosmetics (亞洲洗滌化妝品協會).

— On 3 June 2013, the Company joined forces with South China University of Technology in setting up China's first "Children's Cosmetics Research Base of the Department of Applied Chemistry of South China University of Technology" (華南理工大學應用化學系兒童化妝品科研基地).

## BUSINESS REVIEW

For the six months ended 30 June 2013, the Group recorded revenue of approximately RMB627.9 million, representing a growth of about 7.9% over RMB582.0 million for the corresponding period in 2012; of which, revenue from children's personal care products as the core business segment amounted to approximately RMB569.1 million, representing an increase of about 43.7% over RMB396.0 million for the corresponding period in 2012. The household hygiene products segment, which was not a core business segment and ceased operations from 1 January 2013, did not make any contribution to the Group's revenue for the period (revenue from this segment for the same period in 2012 amounted to RMB134.9 million).

The steady growth in the Group's principal business in the first half of 2013 was mainly attributable to the following reasons:

### 1. Differentiated animation marketing strategies

In the first half of 2013, the Group continued its adherence to differentiated animation marketing strategies and further pushed through brand promotion. The second season (totalling 52 episodes) of the Company's Frog Prince animation series 'The Frog Prince — Croaking Expedition' had been released by means of pre-movie advertising on 79 TV stations of 19 provinces nationwide during the winter vacation in February 2013, and is being released by means of interstitial advertising on 61 TV stations of 24 provinces nationwide during the summer vacation of 2013.

In addition, the production of the third season (totalling 52 episodes) of the Frog Prince animation series 'Frog Prince — Croaking School of Witchcraft and Wizardry' has been fully completed by far, with relevant application for distribution licence being made. This season is expected to broadcast on CCTV children's channel, all TV stations and online video platforms across the country in the fourth quarter of 2013 and the winter vacation of 2014. To support the launch of the animation series, the grand animation puppet drama 'Frog Prince — Magic Abyss' (《青蛙王子之魔法深淵》) will be performed successively in the theatres of all major cities in the second half of 2013, with Frog Prince's products to be sold at performance venues, which is intended for in-depth promotion of the Frog Prince brand and the cartoon image. Ten performances of this drama have been staged in Qingdao and Tianjin, with another thirty performances to be staged in Beijing, Shijiazhuang and other cities by the end of the year.

The Group entered into a strategic collaboration agreement with Hangzhou Magic Mall Animation Production Co., Ltd. (杭州漫奇妙動漫製作有限公司, a major animation enterprise in China) on 11 May 2013, and both parties will further collaborate in differentiated marketing of the Frog Prince animation series in the future.

2. **More efforts in brand promotion by way of superstar spokesperson**

The Group further leveraged the fame of Ms. Kelly Chen, one of Asia's most popular artists, as the spokesperson of the Frog Prince brand in the form of advertising through print, TV, lamp boxes, billboards, the metro, vehicle wraps on public transport, retail outlet display and online media, accompanied by a series of ground marketing initiatives.

On 21 September 2012, the Group held a grand opening for a talent competition via the Internet under the theme of 'A Future Nurtured in Dreams', and the ten winner babies together with Ms. Kelly Chen shot the music video of the theme song of 'Frog Prince — Croaking School of Witchcraft and Wizardry' in Shanghai on 7 March 2013. Meanwhile, Ms. Kelly Chen would also include the theme song 'Seven-coloured Dreams' of this series into her latest 2013 Cantonese music album. We believe that collaboration with such an influential artist will enable Frog Prince to take a big leap forward in developing its branding.

3. **Vigorous expansion of sales channels**

In the first half of 2013, while tapping further into conventional sales channels, the Group also actively opened up new markets, continuously distributing products to supermarkets and convenience stores via distributors. Distributors of the Group increased to 212 from 197 as at the end of 2012, spreading from provinces to autonomous regions all across the country. The e-commerce channel was also covered. During the first half of 2013, the Group made its new presence into 2,117 large and small supermarket stores in China, including 268 international and regional KA stores such as RT-MART, CR Vanguard, Yonghui Supermarket, Zhejiang Sanjiang Shopping and Shenzhen Rainbow, which greatly raised the brand profile of Frog Prince products. The Group believes that sales contributions from KA stores will account for an increasing share of our total sales.

In addition, the Group actively expanded the e-commerce sales channel, establishing a sales model with Tmall (www.tmall.com) as the core, coupled with the expansion of Jingdong Mall (www.jd.com), China dangdang Inc. (www.dangdang.com), Amazon (www.amazon.cn), Yihaodian (www.yihaodian.com) and other mainstream e-commerce platforms in China. In addition, relying on the active development of online distribution business by professional teams, it has accumulatively developed 271 online distributors, and continuously boosted e-commerce sales by conducting a variety of online marketing activities.

4. **Launch of diverse promotion campaigns**

In the first half of 2013, the Group continuously staged different varieties of promotional events across the country, such as the large-scale offline promotion activities staged over 2,000 times across the country under the themes of 'Approaching Nature for Happy Growth' (親親自然、快樂成長) and 'Lighting up the City and Happy Children's Day' (快樂六一、慧享全城) in April and May respectively, the large-scale offline promotion activities staged on 'June 1' International Children's Day in over 80 cities nationwide under the theme of 'Having a Happy Children's Day Hand-in-hand' (拉鉤一起過，滋潤六一節), together with the launch of 'Children's Day' discount packages and other products, and a series of in-store promotion activities launched during the 'Spring Festival' holidays and the 'Labour Day' golden week including producing diverse stacking patterns of products, distribution of giveaways, promotional items and special offers. In addition, the Group also actively stepped up interaction with consumers during offline promotion activities.

5. **Internet marketing**

In the first half of 2013, the Group continued with all-round online marketing and promotion via Internet communication platforms in seven modes, including weibo marketing, article marketing, knowledge marketing, Q&A marketing, search engine marketing, Internet media collaboration and information detection. Through online competition for 'Caring Mommy', large-scale online voting for 'A Future Nurtured in Dreams', test reports for trial use of products on the mother & baby vertical platform, and operation of three official weibos, we have set up two major online promotion platforms — a social networking platform and a news communication platform in the form of news portal for mother & baby communities, thus starting up communication via social media conducting one-way communication with millions of Internet users as well as two-way interactive communication.

## EXCELLENCE IN QUALITY CONTROL

Product quality and safety control has always been our management focus. Babies' and children's personal care products currently produced by the Group not only meet the national standards of China, but also comply with the requirements on the safety and specification for cosmetic products of the European Union, having passed the "ISO22716 Cosmetics — Good Manufacturing Practices Standards", "ISO9001 Quality Management System Certification", "ISO14001 Environment Management System Certification", and "OHSAS18001 Occupational Safety and Health Management System", as well as the "Cosmetics — Guidelines on Good Manufacturing Practices" Certification System of the United States Food and Drug Administration. Quality inspection is in place for all major production procedures, with routine and spot checks on all raw materials, semi-products and finished products to ensure perfect quality. The Group has also established a special quality control team to exercise strict quality monitoring measures in selecting raw materials and packaging materials.

In the first half of 2013, the Group, leveraging the development of the "Standardization Research Base for Cosmetic Products for Chinese Children", established the Frog Prince standardization committee, which is responsible for collating and amending various management standards and work standards of the Group, and collecting relevant technical standards of the United States, European Union, Japan, South Korea and other countries and regions, so as to pave the way for the formulation of professional technical standards for cosmetics products for Chinese children.

## MORE INVESTMENT IN RESEARCH & DEVELOPMENT (R&D)

In the first half of 2013, the Group scaled up investment in R&D and set up jointly with South China University of Technology the first "Children's Cosmetics Research Base of the Department of Applied Chemistry of South China University of Technology" in South China. We will continue with close collaboration and will work together on a series of scientific research projects with a view to enhancing the Group's capabilities in R&D and applications of babies' and children's personal care products. Meanwhile, we will actively collaborate with industry-leading product content suppliers, in fields such as plant extraction and formula optimization, to develop more natural and moisturizing products to strengthen our core competitiveness.

## SOCIAL RESPONSIBILITY

The public lecture 'Are you loving in an appropriate way', co-sponsored by the Group and the non-profit organization Blue Bird Seeds (青鳥種子) of China Charities Aid Foundation for Children, continued to be conducted in the first half of this year. Experienced child psychology consultants and education experts were invited to the lectures held in Chongqing and Shenyang to discuss perplexing issues encountered by parents in contemporary family education. The events were very well received by parents and teachers.

On 22 April 2013, the Group launched a donation initiative entitled 'Love for Ya'an, Prince Frog in Action' and donations received from all the Company's employees were transferred to China Charities Aid Foundation for Children for post-disaster mental health counselling for children.

On 11 May 2013, the Group and the non-profit organization Blue Bird Seeds (青鳥種子) of China Charities Aid Foundation for Children held a summit forum in Beijing on 'Half-Day Holiday on June 1' to discuss and promote the legislation of a half-day holiday on June 1 and explore the topic of companionship of parents on Children's Day. Ju Ping, a well-known hostess of children's programmes and a dozen representatives of government agencies (including Li Qimin, vice president of China Charities Aid Foundation for Children), children's education experts and legal experts participated in the discussion.

On 6 May 2013, the Group set up the Prince Frog Love Foundation for the purpose of providing help for employees in need. In addition to adopting 'Half-Day Holiday on June 1' as an internal practice, the Group launched various activities on Children's Day, such as giving generous gift packages to employees with children under the age of 14 and organizing 'June 1 Love-for-Kids Day' activities for employees and their children.

## FINANCIAL REVIEW

For the six months ended 30 June 2013, revenue of the Group was approximately RMB627.9 million, representing an increase of about 7.9% over the same period of last year (30 June 2012: RMB582.0 million), of which, revenue from children's personal care products as the core business segment of the Group during the reporting period was approximately RMB569.1 million, representing an increase of about 43.7% over the same period of last year (30 June 2012: RMB396.0 million); and revenue of other products, including OEM products, increased to approximately RMB31.7 million, representing an increase of approximately 29.4% over the same period of last year (30 June 2012: RMB24.5 million).

The household hygiene products segment, which was not a core business segment and ceased operations from 1 January 2013, did not make any contribution to the Group's revenue for the period (revenue from this segment for the same period in 2012 amounted to RMB134.9 million).

The main contributing factors for the growth of core business were that the Group focused its efforts on developing children's personal care products, intensively developed existing distribution channels for children's personal care products and increased the coverage of regional and large-scale supermarket chains, further strengthened brand building through the Frog Prince animation series, commercial advertisements and in-store promotion activities and optimized its product portfolio, thus leading to steady growth of revenue from the Group's principal business.

For the six months ended 30 June 2013, the Group recorded a net profit of approximately RMB72.8 million, representing a decrease of about 28.8% from RMB102.2 million for the corresponding period in 2012, mainly attributable to: (i) the expiry of tax holiday of 50% reduction in Corporate Income Tax in the PRC, the income tax rate applicable to the Group's PRC subsidiary resumed from last year's 12.5% to 25% since 1 January 2013; and (ii) in the Group's advertising strategy for the whole year of 2013, the proportion of advertising expenses for the first half year was larger and the third season of Frog Prince animation to be broadcasted in the second half year would replace more advertisements.

### Gross Profit and Gross Profit Margin

Gross profit of the Group for the six months ended 30 June 2013 was approximately RMB300.6 million, representing an increase of about 21.9% as compared to RMB246.5 million for the six months ended 30 June 2012. During the reporting period, gross profit margin increased by 5.5 percentage points over the same period of last year to about 47.9% (30 June 2012: 42.4%). The main contributing factors were: (i) an increase of approximately 192.3% in revenue of the KA product series with higher gross profit margin to approximately RMB152.6 million from RMB52.2 million for the same period of last year; and (ii) the stripping of the business of household hygiene products with low gross profit margin from 1 January 2013.

### Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of advertising expenses, marketing and promotion expenses, transportation costs and other expenses. Selling and distribution expenses amounted to approximately RMB159.4 million for the six months ended 30 June 2013, representing an increase of about 70.7% as compared to RMB93.4 million for the six months ended 30 June 2012. The main reason for the increase is: strategic increase in advertising expenses for the first half year by the Company in light of the scheduled broadcasting of the third season of Frog Prince animation series invested by the Group on the TV stations nationwide in the second half year which would reduce the advertising expenses for the second half year. Therefore, the selling and distribution expenses accounted for about 25.4% of the Group's revenue during the reporting period, representing an increase of 9.3 percentage points as compared to 16.1% for the six months ended 30 June 2012 and an increase of 2.6 percentage points as compared to 22.8% for the year ended 31 December 2012.

### Administrative Expenses

Administrative expenses primarily consisted of salaries and wages for administrative staff, share option expenses, depreciation, other taxes and other administrative expenses. For the six months ended 30 June 2013, administrative expenses amounted to approximately RMB38.5 million (30 June 2012: RMB35.0 million). The slight increase in administrative expenses was mainly due to the rise in average management staff wages and the increase in share option expenses. Administrative expenses accounted for about 6.1% of the Group's revenue during the reporting period (30 June 2012: 6.0%).

### Finance Costs

The Group had no finance items including bank borrowings during the reporting period.

### Net Profit and Net Profit Margin

For the six months ended 30 June 2013, profit attributable to equity holders of the Company amounted to approximately RMB72.8 million, representing a decrease of about 28.8% as compared to RMB102.2 million for the six months ended 30 June 2012. Net profit margin decreased by 6.0 percentage points to about 11.6% from 17.6% for the six months ended 30 June 2012 with basic earnings per share being approximately RMB7.2 cents (30 June 2012: RMB10.1 cents). The major reasons are as aforementioned: (i) the business of household hygiene products with low gross profit margin ceased in the reporting period; (ii) due to the expiry of tax holiday of 50% reduction in Corporate Income Tax in the PRC, the income tax rate applicable to the Group's PRC subsidiary resumed from 12.5% to 25% since 1 January 2013; and (iii) the strategic increase in advertising expenses of the Group for the first half of 2013.

### Capital Expenditure

For the six months ended 30 June 2013, major capital expenditure of the Group amounted to approximately RMB79.7 million, including that incurred in the construction of the phase II and phase III of the new plant at the new industrial park in Longwen Industrial Development Zone, Zhangzhou, Fujian Province, the PRC.

# Management Discussion and Analysis (continued)

## Financial Resources and Liquidity

As at 30 June 2013, cash and cash equivalents of the Group amounted to approximately RMB767.7 million (31 December 2012: RMB642.9 million). Current ratio was about 7.0 (31 December 2012: 10.0) while gearing ratio (bank borrowings to total equity) was zero (31 December 2012: zero). The decrease in current ratio was mainly due to increase in other payables and accruals which leads to increase in current liabilities. Our liquidity remained healthy.

## Trade Receivables Turnover Days

During the reporting period, trade receivables turnover days came to 39 days (31 December 2012: 24 days), calculated as the average of the beginning and ending balances of trade receivables for the period/year divided by total revenue for the period/year and multiplied by 180 days for half year/366 days for a year. The Group usually grants a credit period of 30-60 days to our customers and the trade receivables turnover days were within the normal credit period. Trade receivables turnover days for the six months ended 30 June 2012 was 42 days and was comparable to 39 days for the six months ended 30 June 2013. The decrease in trade receivables turnover days was mainly due to the increase in efforts for collection of receivables by the Group.

## Trade and Bills Payables Turnover Days

During the reporting period, trade and bills payables turnover days came to 41 days (31 December 2012: 31 days), calculated as the average of the beginning and ending balances of trade and bills payables for the period/year divided by cost of sales for the period/year and multiplied by 180 days for half year/366 days for a year.

The Group normally settles the trade and bills payables within one to six months, and has kept a good record in repayment. The Group considered such balances as normal and healthy. For the six months ended 30 June 2012, trade and bills payables turnover days came to 45 days, as compared with 41 days for the six months ended 30 June 2013. The decrease was mainly because the Group settled more promptly to suppliers with low liquidity but good credit standing.

## Inventory Turnover Days

During the reporting period, inventory turnover days came to 32 days (31 December 2012: 25 days), calculated as the average of the beginning and ending inventories for the period/year divided by cost of sales for the period/year and multiplied by 180 days for half year/366 days for a year. For the six months ended 30 June 2012, inventory turnover days were 38 days. The decrease in inventory turnover days was mainly due to the early arrival of the 2012 Chinese New Year Holiday, which resulted in larger inventory balances at the beginning of 2012. The Group considered such turnover days as normal and healthy.

## Bank Borrowings

As at 30 June 2013, the Group had no bank borrowings (31 December 2012: Nil).

### Available-for-sale Investments

As at 30 June 2013, the carrying amounts of the Group's available-for-sale investment amounted to RMB3.0 million (31 December 2012: RMB95.9 million, the principals and interests of which have been fully recovered during the period), which was the financial products issued by China Construction Bank. The principal and interests were fully recovered on 9 July 2013.

### Risk of Foreign Exchange

As at 30 June 2013, the Group was not exposed to any major risks of foreign exchange fluctuations and new foreign exchange forward contracts have been signed to hedge against foreign exchange fluctuations.

### Contingent Liabilities

As at 30 June 2013, the Group did not have any material contingent liabilities (31 December 2012: Nil).

## FUTURE PROSPECTS

Looking ahead, China has committed itself to a shift in economic structure that promotes more growth from domestic consumption and investment rather than relying significantly on export. The national 12th Five Year Plan (2011-2015) clearly indicates that the government would address the evolving mode of economic development and focus on stimulating domestic demand by continued urbanization and a notable rise of personal disposable income, especially for the mid-to-low income population. All of the aforementioned changes will translate into greater opportunities for retailing and the fast moving consumer goods industry.

Since the implementation of the 'one-child' policy, there have been more and more one-child families in China, which resulted in a family structure with four grandparents, two parents and one child in one family. As such, both grandparents and parents are willing to splurge and dote on the only child.

Parents perceive children's personal care products as a means to show their love for their kids, therefore they are inclined to purchasing relevant products with assured quality. Generally, parents would rather reduce their own expenditure than save money on the children. In recent years, more and more Chinese consumers continue to increase spending on children's personal care products.

Meanwhile, according to public media reports, Chinese authorities have attempted to relax the 'one-child' policy in some areas under certain circumstances. Accordingly, it is estimated that China might see another baby boom in the coming years, sustaining demand for children's personal care products.

In light of the potentially huge market demand for personal care products for children, the Group will continue to focus on the development of this core business segment in the future. Our Frog Prince brand will target personal care products for children aged 3-12, leveraging its core brand value of "Better nourished babies, happier mothers".

# Management Discussion and Analysis (continued)

When it comes to distribution channels, the Group will continue to pursue its "Branding comes first" philosophy and press ahead with transforming its sales channels. The Group will increase its market share in first-tier cities and supermarket chains operated by international giants across China, while constantly consolidating and boosting market penetration in second, third and fourth-tier cities, so as to increase its sales revenue. The Group will also synchronize online and offline marketing to generate synergy in an effort to reach niche markets via the e-commerce channel.

In terms of product offering, the Group will market its market-leading skin lotion products for children as the Group's core offerings, which would in turn help boost the market share of other offerings. Further, the Group will gradually shift the positioning of products from middle-end to middle and high-end, which will be achieved through constant improvement of products, upgrading of packaging and design of outward appearance, in accordance with the preferences and consumption habits of different consumers.

As for marketing, the Group will continue to make use of an animated cartoon culture as a differentiated marketing strategy, injecting into the brand different cultural connotations through animated cartoons and community activities to cultivate consumer identification with the brand and to enhance consumer loyalty.

The Group will complete the construction of plants in the new industrial park as planned, and will add equipments of a higher level of automation to expand capacity to meet market demand. Meanwhile, the Group will also step up the work for the "Standardization Research Base for Cosmetic Products for Chinese Children" in conjunction with the Standardization Administration of the PRC, as well as the work for "Children's Cosmetics Research Base of the Department of Applied Chemistry of South China University of Technology" in conjunction with South China University of Technology, with a view to increasing the Group's R&D input and strengthening its core competitiveness.

Looking ahead, the Group will continue to adhere to its mission, which is: "To provide safer, more reliable and more professional personal care products for children and develop into a top brand in the world's babies' and children's personal care industry" and, capitalizing on the enormous business opportunities brought about by the fast expansion of China's consumer market, focus on the steady and healthy growth of our core business to generate higher shareholder value.

## EMPLOYEES AND REMUNERATION

As at 30 June 2013, the Group employed 1,929 employees (31 December 2012: 1,406 employees). In addition to basic salaries, year-end bonuses may be offered to those staff members with outstanding performance. Constituent companies of the Group established in Mainland China are also subject to social insurance contribution plans required by the PRC government. In accordance with the relevant national and local labour and social welfare laws and regulations, constituent companies of the Group established in Mainland China are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance.

In addition, share options were granted on 14 October 2011 and 21 June 2012, respectively, to reward staff members who make contributions to the success of the Group. The directors believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

The Group also provides training to its employees to help them master relevant skills.

## DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend to shareholders of the Company for the six months ended 30 June 2013.

# Unaudited Condensed Consolidated Interim Financial Statements

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding period in 2012 and the relevant explanatory notes are set out below. The condensed consolidated results are unaudited, but have been reviewed by the audit committee of the Company.

## Condensed Consolidated Income Statement

For the six months ended 30 June 2013

| | Notes | Six months ended 30 June 2013 *RMB'000* (unaudited) | 2012 *RMB'000* (unaudited) |
|---|---|---|---|
| REVENUE | 4 | **627,873** | 582,017 |
| Cost of sales | | **(327,275)** | (335,485) |
| Gross profit | | **300,598** | 246,532 |
| Other income and gains | 4 | **7,073** | 4,823 |
| Selling and distribution expenses | | **(159,375)** | (93,441) |
| Administrative expenses | | **(38,453)** | (35,034) |
| Other operating expenses | | **(1,316)** | (74) |
| Finance costs | 5 | **—** | (902) |
| PROFIT BEFORE TAX | 6 | **108,527** | 121,904 |
| Income tax expense | 7 | **(35,685)** | (19,679) |
| PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD | | **72,842** | 102,225 |
| EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY | 9 | | |
| Basic | | **RMB7.2 cents** | RMB10.1 cents |
| Diluted | | **RMB7.2 cents** | RMB10.1 cents |

Details of the dividend are disclosed in note 8 to the condensed consolidated interim financial statements.

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| PROFIT FOR THE PERIOD | **72,842** | 102,225 |
| Other comprehensive income: | | |
| Other comprehensive income may be reclassified to income statement in subsequent periods: | | |
| Exchange differences on translating foreign operations | **525** | 1,103 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY FOR THE PERIOD | **73,367** | 103,328 |

# Condensed Consolidated Statement of Financial Position

30 June 2013

| | Notes | 30 June 2013 RMB'000 (unaudited) | 31 December 2012 RMB'000 (audited) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | **248,165** | 174,575 |
| Prepaid land lease payments | | **19,381** | 19,598 |
| Intangible assets | | **3,783** | 4,503 |
| Prepayments and deposits | | **45,099** | 68,198 |
| Total non-current assets | | **316,428** | 266,874 |
| CURRENT ASSETS | | | |
| Inventories | | **71,772** | 42,837 |
| Trade receivables | 11 | **157,153** | 115,990 |
| Amount due from a related company | | **5,375** | 9,915 |
| Prepayments, deposits and other receivables | | **22,805** | 8,851 |
| Available-for-sale investments | | **3,000** | 95,920 |
| Entrusted loan receivable | | **—** | 80,000 |
| Pledged deposits | | **1,215** | 1,148 |
| Cash and cash equivalents | | **767,696** | 642,877 |
| Total current assets | | **1,029,016** | 997,538 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 12 | **82,494** | 65,158 |
| Other payables and accruals | | **46,460** | 23,534 |
| Tax payable | | **17,023** | 11,190 |
| Total current liabilities | | **145,977** | 99,882 |
| NET CURRENT ASSETS | | **883,039** | 897,656 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,199,467** | 1,164,530 |
| NON-CURRENT LIABILITY | | | |
| Deferred tax liabilities | 13 | **6,900** | 4,900 |
| Net assets | | **1,192,567** | 1,159,630 |

# Condensed Consolidated Statement of Financial Position (continued)

30 June 2013

| | Notes | **30 June 2013** ***RMB'000*** **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|---|
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | 14 | **8,385** | 8,366 |
| Reserves | | **1,184,182** | 1,151,264 |
| Total equity | | **1,192,567** | 1,159,630 |

**Li Zhenhui**
*Director*

**Hong Fang**
*Director*

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

| | Attributable to ordinary equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital *RMB'000* | Share premium *RMB'000* | Share option reserve *RMB'000* | Capital reserve *RMB'000* | Statutory reserve fund *RMB'000* | Capital redemption reserve *RMB'000* | Exchange fluctuation reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
| At 1 January 2013 (audited) | 8,366 | 571,012 | 7,724 | 11 | 62,147 | 8 | 4,117 | 506,245 | 1,159,630 |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | 525 | — | 525 |
| Profit for the period | — | — | — | — | — | — | — | 72,842 | 72,842 |
| Total comprehensive income for the period | — | — | — | — | — | — | 525 | 72,842 | 73,367 |
| Exercise of share options | 19 | 5,605 | (1,577) | — | — | — | — | — | 4,047 |
| Equity-settled share option arrangements | — | — | 3,774 | — | — | — | — | — | 3,774 |
| 2012 final dividend declared and paid | — | (48,251) | — | — | — | — | — | — | (48,251) |
| At 30 June 2013 (unaudited) | 8,385 | 528,366* | 9,921* | 11* | 62,147* | 8* | 4,642* | 579,087* | 1,192,567 |

# Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2013

| | Attributable to ordinary equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital *RMB'000* | Share premium *RMB'000* | Treasury shares# *RMB'000* | Share option reserve *RMB'000* | Capital reserve *RMB'000* | Statutory reserve fund *RMB'000* | Exchange fluctuation reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
| At 1 January 2012 (audited) | 8,368 | 608,412 | — | 1,083 | 11 | 35,418 | 3,188 | 291,872 | 948,352 |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | 1,103 | — | 1,103 |
| Profit for the period | — | — | — | — | — | — | — | 102,225 | 102,225 |
| Total comprehensive income for the period | — | — | — | — | — | — | 1,103 | 102,225 | 103,328 |
| Repurchase of shares | — | — | (2,211) | — | — | — | — | — | (2,211) |
| Equity-settled share option arrangements | — | — | — | 2,580 | — | — | — | — | 2,580 |
| 2011 final dividend declared and paid | — | (36,862) | — | — | — | — | — | — | (36,862) |
| At 30 June 2012 (unaudited) | 8,368 | 571,550* | (2,211)* | 3,663* | 11* | 35,418* | 4,291* | 394,097* | 1,015,187 |

* These reserve accounts comprise the consolidated reserves of RMB1,184,182,000 (30 June 2012: RMB1,006,819,000) in the condensed consolidated statement of financial position.

\# During the period ended 30 June 2012, the Company repurchased its 1,000,000 ordinary shares at prices ranging from HK$2.60 to HK$2.78 per share at a total consideration of approximately HK$2,711,000 (equivalent to RMB2,211,000). The repurchased shares were subsequently cancelled on 16 July 2012.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| NET CASH FLOWS FROM/(USED IN): | | |
| Operating activities | **56,742** | 53,270 |
| Investing activities | **107,443** | (132,277) |
| Financing activities | **(45,047)** | (69,073) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | **119,138** | (148,080) |
| Cash and cash equivalents at beginning of period | **642,877** | 735,597 |
| Effect of foreign exchange rate changes, net | **(319)** | 2,461 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **761,696** | 589,978 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | **767,696** | 675,874 |
| Non-pledged time deposits with original maturity of more than three months when acquired | **(6,000)** | (85,896) |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | **761,696** | 589,978 |

# Notes to the Condensed Consolidated Interim Financial Statements

30 June 2013

## 1. CORPORATE INFORMATION

Prince Frog International Holdings Limited was incorporated as an exempted company with limited liability in the Cayman Islands on 11 January 2011. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business is located at No. 162 North Huancheng Road, Longwen Industrial Development Zone, Zhangzhou City, Fujian Province, the People's Republic of China (the "PRC").

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sale of personal care products. There were no significant changes in the nature of the Group's principal activities during the period.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board and the disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2012, except in relation to the following new and revised International Financial Reporting Standards ("new IFRSs") which are effective for the Group's financial year beginning on 1 January 2013.

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans* |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | *Joint Arrangements* |
| IFRS 12 | *Disclosure of Interests in Other Entities* |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance* |
| IFRS 13 | *Fair Value Measurement* |
| IAS 1 Amendments | Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* |
| IAS 19 Amendments | Amendments to IAS 19 *Employee Benefits* |
| IAS 27 (Revised) | *Separate Financial Statements* |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures* |
| IFRIC 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual Improvements Projects* | Annual Improvements to IFRSs 2009 - 2011 Cycle |

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Other than as further explained below regarding the impact of amendments to IAS 1, the adoption of the new IFRSs has had no significant financial effect on these financial statements.

The IAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that may be reclassified (or recycled) to profit or loss at a future point of time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has four reportable operating segments as follows:

(a) the children's personal care products segment manufactures and trades Frog Prince branded skin care, body and hair care, oral care and diaper and tissue products;

(b) the household hygiene products segment manufactures and trades Shuangfeijian branded insecticide products and Shenhuxi branded air freshener;

(c) the adults' personal care products segment manufactures and trades Frog Prince branded oral care products and other skin care products; and

(d) the other products segment comprises, principally, the manufacture of skin care products, body and hair care products for branding and resale by others.

The Group ceased its business operation of household hygiene products from 1 January 2013.

## 3. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income derived from banks, other unallocated income and gains, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

| | Children's personal care products *RMB'000* | Household hygiene products *RMB'000* | Adults' personal care products *RMB'000* | Other products *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Six months ended 30 June 2013** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | **569,101** | **—** | **27,026** | **31,746** | **627,873** |
| **Segment results** | **234,211** | **—** | **12,621** | **6,765** | **253,597** |
| Interest income derived from banks | | | | | **2,912** |
| Other unallocated income and gains | | | | | **4,161** |
| Corporate and other unallocated expenses | | | | | **(152,143)** |
| Profit before tax | | | | | **108,527** |
| **Six months ended 30 June 2012** | | | | | |
| **Segment revenue:** | | | | | |
| Sales to external customers | 395,999 | 134,898 | 26,589 | 24,531 | 582,017 |
| **Segment results** | 176,473 | 34,221 | 6,683 | 4,754 | 222,131 |
| Interest income derived from banks | | | | | 3,489 |
| Other unallocated income and gains | | | | | 1,334 |
| Corporate and other unallocated expenses | | | | | (104,148) |
| Finance costs | | | | | (902) |
| Profit before tax | | | | | 121,904 |

# Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2013

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| *Revenue* | | |
| Sales of goods | **627,873** | 582,017 |
| *Other income and gains* | | |
| Interest income derived from banks | **2,912** | 3,489 |
| Net income derived from available-for-sale financial assets | **1,729** | — |
| Interest income derived from an entrusted loan receivable | **1,174** | — |
| Government subsidies* | **504** | 887 |
| Net fair value gains on foreign exchange derivative financial instruments — transactions not qualified as hedges | **213** | 129 |
| Others | **541** | 318 |
| | **7,073** | 4,823 |
| | **634,946** | 586,840 |

* There are no unfulfilled conditions or contingencies relating to these subsidies.

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Interest on bank borrowings wholly repayable within five years | **—** | 902 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Cost of inventories sold | **327,275** | 335,485 |
| Depreciation* | **5,911** | 4,784 |
| Amortisation of prepaid land lease payments | **217** | 217 |
| Amortisation of intangible assets | **720** | 720 |
| Minimum lease payments under operating leases on land and buildings* | **769** | 2,279 |
| Loss on disposal of items of property, plant and equipment# | **119** | — |
| Employee benefit expenses* (including directors' remuneration): | | |
| Wages and salaries | **34,388** | 31,055 |
| Equity-settled share option expense | **3,774** | 2,580 |
| Retirement benefit scheme contributions | **1,406** | 1,177 |
| | **39,568** | 34,812 |
| Research and development costs#,^ | **3,028** | 2,687 |

# These amounts are included in "Administrative expenses" in the condensed consolidated income statement.

^ The research and development costs for the six months ended 30 June 2013 include RMB2,047,000 (six months ended 30 June 2012: RMB1,600,000) relating to rental expenses of research and development centers and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

* Included in the respective balances are the following amounts which are also included in cost of inventories sold disclosed above:

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Depreciation | **3,943** | 3,284 |
| Minimum lease payments under operating leases on land and buildings | **—** | 1,162 |
| Employee benefit expenses | **14,393** | 13,532 |
| | **18,336** | 17,978 |

## 7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2012: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Current — Mainland China | | |
| Charge for the period | **33,685** | 19,679 |
| Deferred | **2,000** | — |
| Total tax charge for the period | **35,685** | 19,679 |

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law was approved and became effective on 1 January 2008. The PRC Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic and foreign-invested enterprises at 25%.

Pursuant to the Notice on the Implementation of Enterprises Income Tax Transition Preferential Policy issued by The State Council of the PRC on 26 December 2007, effective from 1 January 2008, Frog Prince (China) Daily Chemicals Co., Ltd. ("Frog Prince (China)"), a wholly-owned subsidiary of the Group operating in Mainland China, which is a wholly-foreign-owned enterprise, was exempted from the PRC corporate income tax from 1 January 2008 to 31 December 2009 and is entitled to a 50% reduction of the prevailing tax rate from 1 January 2010 to 31 December 2012. With effect from 1 January 2013, the applicable tax rate is 25%.

## 8. DIVIDEND

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Dividend paid during the period: Final in respect of the financial year ended 31 December 2012 — HK6.0 cents (approximately RMB4.8 cents) (2011: HK4.5 cents (approximately RMB3.7 cents)) per ordinary share | **48,251** | 36,862 |

The directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2013 (30 June 2012: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to the equity holders of the Company of RMB72,842,000 (2012: RMB102,225,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2013 of 1,009,222,320 (2012: 1,008,250,000).

The calculation of diluted earnings per share amount is based on the profit for the period attributable to the equity holders of the Company of RMB72,842,000 (2012: RMB102,225,000). The weighted average number of ordinary shares of 1,014,515,424 (2012: 1,011,696,326) used in the calculation is the weighted average number of ordinary shares of 1,009,222,320 (2012: 1,008,250,000) in issue during the period ended 30 June 2013, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares during the period of 5,293,104 (2012: 3,446,326).

## 10. PROPERTY, PLANT AND EQUIPMENT

| | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| At beginning of period/year, net of accumulated depreciation | **174,573** | 142,517 |
| Additions | **79,675** | 42,590 |
| Disposals | **(172)** | (355) |
| Depreciation provided during the period/year | **(5,911)** | (10,177) |
| At end of period/year, net of accumulated depreciation | **248,165** | 174,575 |

Included in property, plant and equipment is a building with a carrying amount of approximately RMB19,362,000 (2012: Nil) of which the Group has not yet obtained the building ownership certificate.

## 11. TRADE RECEIVABLES

| | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Trade receivables | **157,153** | 115,990 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days to 60 days.

## 11. TRADE RECEIVABLES (continued)

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

| | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Within 30 days | **99,155** | 65,362 |
| 31 to 60 days | **52,342** | 43,017 |
| 61 to 90 days | **2,264** | 5,784 |
| 91 to 180 days | **3,392** | 1,827 |
| | **157,153** | 115,990 |

## 12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Within 1 month | **67,751** | 37,300 |
| 1 to 3 months | **14,743** | 27,858 |
| | **82,494** | 65,158 |

The trade and bills payables are non-interest-bearing and are normally settled on one to six months' terms. The bills payables were secured by the pledge of certain of the Group's time deposits amounting to RMB1,215,000 and RMB1,148,000 as at 30 June 2013 and 31 December 2012, respectively.

## 13. DEFERRED TAX LIABILITIES

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 30 June 2013, there were no significant unrecognised deferred tax liabilities (31 December 2012: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiary expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

## 14. ISSUED CAPITAL

| | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Authorised: | | |
| 5,000,000,000 ordinary shares of HK$0.01 each | **41,524** | 41,524 |
| Issued and fully paid: | | |
| 1,010,464,000 (2012: 1,008,026,000) ordinary shares of HK$0.01 each | **8,385** | 8,366 |

## 14. ISSUED CAPITAL (continued)

A summary of the movements during the period in the Company's issued share capital is as follows:

| | Notes | Number of ordinary shares of HK$0.01 each | Nominal value of ordinary shares HK$'000 | Nominal value of ordinary shares RMB'000 |
|---|---|---|---|---|
| As at 1 January 2012 and 30 June 2012 | | 1,008,250,000 | 10,083 | 8,368 |
| Repurchase and cancellation of shares | (a) | (1,000,000) | (10) | (8) |
| Exercise of share options | (b) | 776,000 | 8 | 6 |
| As at 31 December 2012 and 1 January 2013 | | 1,008,026,000 | 10,081 | 8,366 |
| Exercise of share options | (c) | 2,438,000 | 24 | 19 |
| As at 30 June 2013 | | 1,010,464,000 | 10,105 | 8,385 |

*Notes:*

(a) During the year ended 31 December 2012, the Company repurchased its 1,000,000 ordinary shares at prices ranging from HK$2.60 to HK$2.78 per share at a total consideration of approximately HK$2,711,000 (equivalent to RMB2,211,000). The 1,000,000 repurchased ordinary shares were cancelled during that year. The premium of approximately HK$2,701,000 (equivalent to RMB2,203,000) paid on the repurchase of such shares was debited to the share premium account and an amount of HK$10,000 (equivalent to RMB8,000) was transferred from retained profits of the Company to the capital redemption reserve.

(b) During the year ended 31 December 2012, the subscription rights attached to 776,000 share options granted under the 2011 Options (as defined in note 15) were exercised at the subscription price of HK$1.92 per share, resulting in the issue of 776,000 shares of HK$0.01 each for a total cash consideration before expenses of approximately HK$1,490,000 (equivalent to RMB1,207,000, representing nominal value of ordinary shares of RMB6,000 and share premium of RMB1,201,000). An amount of approximately HK$571,000 (equivalent to RMB463,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(c) During the six months ended 30 June 2013, the subscription rights attached to 2,078,000 and 360,000 share options granted under the 2011 Options (as defined in note 15) and 2012 Options (as defined in note 15) were exercised at the subscription price of HK$1.92 and HK$2.94 per share, respectively, resulting in the issue of an aggregate of 2,438,000 shares of HK$0.01 each for a total cash consideration before expenses of approximately HK$5,048,000 (equivalent to RMB4,047,000, representing nomial value of ordinary shares of RMB19,000 and share premium of RMB4,028,000). An amount of approximately HK$1,980,000 (equivalent to RMB1,577,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

## 15. SHARE OPTION SCHEME

On 22 June 2011, the Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include, among others, the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the Company's shareholders. The Scheme was conditionally approved on 22 June 2011, and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective on 15 July 2011 upon the listing of the Company's shares on the Main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding the independent non-executive director who or whose associate is the grantee of the option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 15. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme at the end of the reporting period:

| | **30 June 2013** | | 31 December 2012 | |
|---|---|---|---|---|
| | **Weighted average exercise price** *HK$ per share* | **Number of options** *'000* | Weighted average exercise price *HK$ per share* | Number of options *'000* |
| At 1 January | **2.37** | **21,304** | 1.92 | 12,966 |
| Granted during the period/year | **—** | **—** | 2.94 | 9,394 |
| Forfeited during the period/year | **2.48** | **(598)** | 1.92 | (280) |
| Exercise of share options | **2.07** | **(2,438)** | 1.92 | (776) |
| At 30 June/31 December | **2.41** | **18,268** | 2.37 | 21,304 |

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

| 2013 Number of options *'000* | Exercise price *HK$ per share* | Exercise period |
|---|---|---|
| 9,564 | 1.92 | 14-10-2012 to 13-10-2021 |
| 8,704 | 2.94 | 21-06-2013 to 20-06-2022 |
| 18,268 | | |

| 2012 Number of options *'000* | Exercise price *HK$ per share* | Exercise period |
|---|---|---|
| 11,910 | 1.92 | 14-10-2012 to 13-10-2021 |
| 9,394 | 2.94 | 21-06-2013 to 20-06-2022 |
| 21,304 | | |

## 15. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year ended 31 December 2011 (the "2011 Options") was RMB7,817,000 (RMB0.60 each). The fair value of the share options granted during the year ended 31 December 2012 was RMB8,329,000 (RMB0.89 each) (the "2012 Options"). The Group recognised share option expenses of a total RMB3,774,000 (2012: RMB2,580,000) in respect of the 2011 Options and 2012 Options during the period ended 30 June 2013.

The fair values of equity-settled share options granted during the years ended 31 December 2012 and 2011 were estimated as at the date of grant, using a trinomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **Share options granted on** | |
|---|---|---|
| | **21 June 2012** | 14 October 2011 |
| Dividend yield *(%)* | **1.78** | 1.75 |
| Expected volatility *(%)* | **37.6** | 38.17 |
| Risk-free interest rate *(%)* | **1.0** | 1.33 |
| Expected life of options *(year)* | **8 - 10** | 8 - 10 |
| Price of the Company's shares at date of grant *(HK$ per share)* | **2.94** | 1.92 |

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 18,268,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,268,000 additional ordinary shares of the Company and additional share capital of approximately HK$183,000 (equivalent to approximately RMB146,000) and share premium of approximately HK$43,770,000 (equivalent to approximately RMB34,865,000), before issue expenses.

At the date of approval of these condensed consolidated interim financial statements, the Company had 18,180,000 share options outstanding under the Scheme, which represented approximately 1.80% of the Company's shares in issue as at that date.

## 16. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouses and office premises under operating lease arrangements. Leases for properties are negotiated for terms of six months to three years (31 December 2012: six months to five years) with an option for renewal after that date, at which times all terms will be renegotiated.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 June 2013 *RMB'000* (unaudited) | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Within one year | 1,414 | 1,212 |
| In the second to fifth years, inclusive | 419 | 496 |
| | 1,833 | 1,708 |

## 17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments at the end of the reporting period:

| | 30 June 2013 *RMB'000* (unaudited) | 31 December 2012 *RMB'000* (audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Construction of buildings | 125,735 | 201,673 |
| Purchase of items of property, plant and equipment | 6,598 | 3,683 |
| | 132,333 | 205,356 |
| Contracted for commitment in respect of investment in a wholly-foreign-owned subsidiary in the PRC | — | 25,142 |
| | 132,333 | 230,498 |

## 18. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

| | Notes | Six months ended 30 June<br>**2013**<br>***RMB'000***<br>**(unaudited)** | <br>2012<br>*RMB'000*<br>(unaudited) |
|---|---|---|---|
| Related companies: | | | |
| Sales of products | (a) | **162** | 357 |
| Rental expenses | (b) | **124** | 1,704 |
| Subcontracting fees | (c) | **—** | 5,710 |

*Notes:*

(a) Sales to a related company, Shuangfei Daily Chemicals (USA) Inc. ("Shuangfei (USA)"), which is controlled by Mr. Li Zhenhui ("Mr. Li") and Mr. Xie Jinling ("Mr. Xie"), were made on mutually agreed terms.

(b) Frog Prince (China), a wholly-owned subsidiary of the Group, and Fujian Shuangfei Daily Chemicals Co., Ltd. ("Fujian Shuangfei"), a domestic enterprise under the laws of the PRC controlled by Mr. Li and Mr. Xie, entered into buildings, equipment and vehicles lease agreements on 1 January 2010 and two supplementary lease agreements on 26 January 2011 and 14 February 2011. Pursuant to these agreements, Frog Prince (China) leased from Fujian Shuangfei the production premises and office building with a total floor area of 14,097 square metres and certain machinery, furniture, fixtures, office equipment and motor vehicles. Except for the leasing of buildings with a total floor area of 4,846 square metres which is for a fifty-nine months lease period ending 1 December 2014 with a fixed monthly rental payable of approximately RMB27,000, the other terms of the lease under the agreements are three years with a fixed monthly rental payable of approximately RMB53,000 for the production premises and office building and approximately RMB204,000 for the machinery, furniture, fixtures, office equipment and motor vehicles. The directors confirmed that the rentals charged under equipment and vehicles lease agreements were made on mutually agreed terms. The lease of buildings with a total floor area of 4,846 sqaure metres was early terminated on 31 December 2012.

On 1 January 2013, Frog Prince (China) and Fujian Shuangfei entered into a supplementary lease agreement. Pursuant to this agreement, Frog Prince (China) leases from Fujian Shuangfei an office building with a total floor area of 2,437 square metres which is for a lease period of thirty-six months ending 31 December 2015 with a fixed monthly rental payable of approximately RMB21,000.

(c) The directors confirmed that the subcontracting fees paid to Fujian Shuangfei were made on mutually agreed terms.

## 18. RELATED PARTY TRANSACTIONS (continued)

(ii) Commitments with related parties

On 1 January 2013, Frog Prince (China) and Fujian Shuangfei entered into a supplementary lease agreement. Pursuant to this agreement, Frog Prince (China) leases from Fujian Shuangfei an office building with a total floor area of 2,437 square metres which is for a lease period of thirty-six months ending 31 December 2015 with a fixed monthly rental payable of approximately RMB21,000. The amount of total rental expenses incurred for the period is included in note 18(i)(b) to the condensed consolidated interim financial statements. The Group expects total rental expenses payable to Fujian Shuangfei during the period from July to December 2013, years ending 31 December 2014 and 2015 to be approximately RMB126,000, RMB252,000 and RMB252,000, respectively.

(iii) Compensation of key management personnel of the Group

| | **Six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (unaudited) |
| Short term employee benefits | **2,140** | 1,947 |
| Post-employment benefits | **12** | 8 |
| Equity-settled share option expense | **1,623** | 1,591 |
| Total compensation paid to key management personnel | **3,775** | 3,546 |

The related party transactions in respect of items (i)(a), (i)(b) and (i)(c) above constituted continuing connected transactions, as defined in Chapter 14A of the Listing Rules.

## 19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 27 August 2013.

# Supplementary Information to the Interim Report

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ("IPO")

The Company was listed on the Stock Exchange on 15 July 2011. The net proceeds from the Company's issue of new shares after deducting underwriting commissions and related expenses amounted to approximately HK$646 million (approximately RMB536 million).

As at 30 June 2013, the net proceeds of IPO had been utilised as follows:

| | **Planned amount per prospectus** *HK$ million* | **Actual net IPO proceeds** *HK$ million* | **Amount utilised up to 30 June 2013** *HK$ million* | **Balance as at 30 June 2013** *HK$ million* |
|---|---|---|---|---|
| Strengthening the marketing and promotion of products, expanding and strengthening management of sales networks and channels | 285.5 | 258.4 | 255.9 | 2.5 |
| Expanding and enhancing production facilities and capacities | 214.1 | 193.8 | 193.8 | — |
| Expanding products offerings | 107.1 | 96.9 | 96.9 | — |
| Enhancing research and development capabilities | 35.7 | 32.3 | 12.0 | 20.3 |
| Working capital and other general corporate purposes | 71.3 | 64.6 | 64.6 | — |
| Total | 713.7 | 646.0 | 623.2 | 22.8 |

# Supplementary Information to the Interim Report (continued)

## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Details of movements of the Company's share options granted under the share option scheme for the six months ended 30 June 2013 are as follows:

| | | | Number of options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name or category of participants | Date of grant | Exercise price per share *(HK$)* | Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period *(Note 1)* | Cancelled during the period | Forfeited/ lapsed during the period | Outstanding as at 30 June 2013 | Exercise period *(Note 2)* |
| **Executive Directors** | | | | | | | | | |
| Mr. Li Zhenhui | 14 October 2011 | 1.92 | 800,000 | – | – | – | – | 800,000 | A |
| (also a substantial | | | 600,000 | – | – | – | – | 600,000 | B |
| shareholder) | | | 600,000 | – | – | – | – | 600,000 | C |
| | | | 2,000,000 | – | – | – | – | 2,000,000 | |
| | 21 June 2012 | 2.94 | 144,000 | – | – | – | – | 144,000 | D |
| | | | 108,000 | – | – | – | – | 108,000 | E |
| | | | 108,000 | – | – | – | – | 108,000 | F |
| | | | 360,000 | – | – | – | – | 360,000 | |
| *Sub-total* | | | *2,360,000* | – | – | – | – | *2,360,000* | |
| Mr. Xie Jinling | 14 October 2011 | 1.92 | 400,000 | – | – | – | – | 400,000 | A |
| (also a substantial | | | 300,000 | – | – | – | – | 300,000 | B |
| shareholder) | | | 300,000 | – | – | – | – | 300,000 | C |
| | | | 1,000,000 | – | – | – | – | 1,000,000 | |
| | 21 June 2012 | 2.94 | 320,000 | – | – | – | – | 320,000 | D |
| | | | 240,000 | – | – | – | – | 240,000 | E |
| | | | 240,000 | – | – | – | – | 240,000 | F |
| | | | 800,000 | – | – | – | – | 800,000 | |
| *Sub-total* | | | *1,800,000* | – | – | – | – | *1,800,000* | |

## SHARE OPTION SCHEME (continued)

| Name or category of participants | Date of grant | Exercise price per share (HK$) | Number of options: Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Cancelled during the period | Forfeited/ lapsed during the period | Outstanding as at 30 June 2013 | Exercise period (Note 2) |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Mr. Ge Xiaohua | 14 October 2011 | 1.92 | 400,000 | – | (400,000) | – | – | – | A |
| | | | 300,000 | – | – | – | – | 300,000 | B |
| | | | 300,000 | – | – | – | – | 300,000 | C |
| | | | 1,000,000 | – | (400,000) | – | – | 600,000 | |
| | 21 June 2012 | 2.94 | 320,000 | – | – | – | – | 320,000 | D |
| | | | 240,000 | – | – | – | – | 240,000 | E |
| | | | 240,000 | – | – | – | – | 240,000 | F |
| | | | 800,000 | – | – | – | – | 800,000 | |
| *Sub-total* | | | *1,800,000* | – | *(400,000)* | – | – | *1,400,000* | |
| Mr. Huang Xinwen | 14 October 2011 | 1.92 | 200,000 | – | (200,000) | – | – | – | A |
| | | | 300,000 | – | – | – | – | 300,000 | B |
| | | | 300,000 | – | – | – | – | 300,000 | C |
| | | | 800,000 | – | (200,000) | – | – | 600,000 | |
| | 21 June 2012 | 2.94 | 320,000 | – | – | – | – | 320,000 | D |
| | | | 240,000 | – | – | – | – | 240,000 | E |
| | | | 240,000 | – | – | – | – | 240,000 | F |
| | | | 800,000 | – | – | – | – | 800,000 | |
| *Sub-total* | | | *1,600,000* | – | *(200,000)* | – | – | *1,400,000* | |
| Ms. Hong Fang | 14 October 2011 | 1.92 | 400,000 | – | – | – | – | 400,000 | A |
| | | | 300,000 | – | – | – | – | 300,000 | B |
| | | | 300,000 | – | – | – | – | 300,000 | C |
| | | | 1,000,000 | – | – | – | – | 1,000,000 | |
| | 21 June 2012 | 2.94 | 320,000 | – | – | – | – | 320,000 | D |
| | | | 240,000 | – | – | – | – | 240,000 | E |
| | | | 240,000 | – | – | – | – | 240,000 | F |
| | | | 800,000 | – | – | – | – | 800,000 | |
| *Sub-total* | | | *1,800,000* | – | – | – | – | *1,800,000* | |

## SHARE OPTION SCHEME (continued)

| Name or category of participants | Date of grant | Exercise price per share (HK$) | Number of options: Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Cancelled during the period | Forfeited/ lapsed during the period | Outstanding as at 30 June 2013 | Exercise period (Note 2) |
|---|---|---|---|---|---|---|---|---|---|
| **Independent Non-executive Directors** | | | | | | | | | |
| Mr. Chen Shaojun | 14 October 2011 | 1.92 | 40,000 | – | – | – | – | 40,000 | A |
| | | | 30,000 | – | – | – | – | 30,000 | B |
| | | | 30,000 | – | – | – | – | 30,000 | C |
| | | | 100,000 | – | – | – | – | 100,000 | |
| | 21 June 2012 | 2.94 | 40,000 | – | – | – | – | 40,000 | D |
| | | | 30,000 | – | – | – | – | 30,000 | E |
| | | | 30,000 | – | – | – | – | 30,000 | F |
| | | | 100,000 | – | – | – | – | 100,000 | |
| *Sub-total* | | | *200,000* | – | – | – | – | *200,000* | |
| Mr. Ren Yunan | 14 October 2011 | 1.92 | 40,000 | – | – | – | – | 40,000 | A |
| | | | 30,000 | – | – | – | – | 30,000 | B |
| | | | 30,000 | – | – | – | – | 30,000 | C |
| | | | 100,000 | – | – | – | – | 100,000 | |
| | 21 June 2012 | 2.94 | 40,000 | – | – | – | – | 40,000 | D |
| | | | 30,000 | – | – | – | – | 30,000 | E |
| | | | 30,000 | – | – | – | – | 30,000 | F |
| | | | 100,000 | – | – | – | – | 100,000 | |
| *Sub-total* | | | *200,000* | – | – | – | – | *200,000* | |
| Mr. Wong Wai Ming | 14 October 2011 | 1.92 | 40,000 | – | – | – | – | 40,000 | A |
| | | | 30,000 | – | – | – | – | 30,000 | B |
| | | | 30,000 | – | – | – | – | 30,000 | C |
| | | | 100,000 | – | – | – | – | 100,000 | |
| | 21 June 2012 | 2.94 | 40,000 | – | – | – | – | 40,000 | D |
| | | | 30,000 | – | – | – | – | 30,000 | E |
| | | | 30,000 | – | – | – | – | 30,000 | F |
| | | | 100,000 | – | – | – | – | 100,000 | |
| *Sub-total* | | | *200,000* | – | – | – | – | *200,000* | |
| **Total for directors** | | | **9,960,000** | – | **(600,000)** | – | – | **9,360,000** | |

## SHARE OPTION SCHEME (continued)

| Name or category of participants | Date of grant | Exercise price per share (HK$) | Number of options: Outstanding as at 1 January 2013 | Granted during the period | Exercised during the period (Note 1) | Cancelled during the period | Forfeited/ lapsed during the period | Outstanding as at 30 June 2013 | Exercise period (Note 2) |
|---|---|---|---|---|---|---|---|---|---|
| **Employees of the Group in aggregate** | 14 October 2011 | 1.92 | 1,978,400 | – | (1,478,000) | – | (52,000) | 448,400 | A |
| | | | 1,915,800 | – | – | – | (108,000) | 1,807,800 | B |
| | | | 1,915,800 | – | – | – | (108,000) | 1,807,800 | C |
| | | | 5,810,000 | – | (1,478,000) | – | (268,000) | 4,064,000 | |
| | 21 June 2012 | 2.94 | 2,213,600 | – | (360,000) | – | (132,000) | 1,721,600 | D |
| | | | 1,660,200 | – | – | – | (99,000) | 1,561,200 | E |
| | | | 1,660,200 | – | – | – | (99,000) | 1,561,200 | F |
| | | | 5,534,000 | – | (360,000) | – | (330,000) | 4,844,000 | |
| **Total for employees** | | | **11,344,000** | **–** | **(1,838,000)** | **–** | **(598,000)** | **8,908,000** | |
| **TOTAL** | | | **21,304,000** | **–** | **(2,438,000)** | **–** | **(598,000)** | **18,268,000** | |

*Notes:*

1. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$4.32.

2. The respective exercise periods of the share options granted are as follows:

   A: From 14 October 2012 to 13 October 2021
   B: From 14 October 2013 to 13 October 2021
   C: From 14 October 2014 to 13 October 2021
   D: From 21 June 2013 to 20 June 2022
   E: From 21 June 2014 to 20 June 2022
   F: From 21 June 2015 to 20 June 2022

   The vesting period of the share options is from the date of grant until the commencement of the exercise period.

3. The number and/or exercise price of the options may be subject to adjustments in the case of rights or bonus issues, or other changes in the Company's share capital.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, the interests of the directors of the Company in the shares and underlying shares of the Company, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### A. Long positions in the ordinary shares of the Company

| Name of director | Nature of interests | Number of ordinary shares interested | Percentage+ of the Company's issued share capital |
|---|---|---|---|
| Mr. Li Zhenhui | Interest of controlled corporations *(Note 1)* | 324,308,500 | 32.10% |
| Mr. Xie Jinling | Interest of controlled corporation *(Note 2)* | 159,383,500 | 15.77% |
| Mr. Ge Xiaohua | Beneficial owner | 400,000 | 0.04% |
| Mr. Huang Xinwen | Beneficial owner | 400,000 | 0.04% |

*Notes:*

1. These shares were held by Prince Frog International Company Limited, a wholly-owned subsidiary of Zhenfei Investment Company Limited, which in turn was a controlled corporation of Mr. Li Zhenhui. Accordingly, Mr. Li Zhenhui was deemed to be interested in these shares pursuant to Part XV of the SFO.

2. These shares were held by Jinlin Investment Company Limited, a controlled corporation of Mr. Xie Jinling. Accordingly, Mr. Xie Jinling was deemed to be interested in these shares pursuant to Part XV of the SFO.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2013.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### B. Long positions in the underlying shares of the Company — physically settled unlisted equity derivatives

| Name of director | Nature of interests | Number of underlying shares interested | Percentage+ of underlying shares over the Company's issued share capital |
|---|---|---|---|
| Mr. Li Zhenhui | Beneficial owner | 2,360,000 | 0.23% |
| Mr. Xie Jinling | Beneficial owner | 1,800,000 | 0.18% |
| Mr. Ge Xiaohua | Beneficial owner | 1,400,000 | 0.14% |
| Mr. Huang Xinwen | Beneficial owner | 1,400,000 | 0.14% |
| Ms. Hong Fang | Beneficial owner | 1,800,000 | 0.18% |
| Mr. Chen Shaojun | Beneficial owner | 200,000 | 0.02% |
| Mr. Ren Yunan | Beneficial owner | 200,000 | 0.02% |
| Mr. Wong Wai Ming | Beneficial owner | 200,000 | 0.02% |

*Note:* The underlying shares stated above refer to the share options granted by the Company under the Scheme. Details of these share options as required to be disclosed pursuant to the Listing Rules are set out in the section headed "Share option scheme" and note 15 to the condensed consolidated interim financial statements.

+ The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 30 June 2013.

Save as disclosed above and in the section headed "Share option scheme", as at 30 June 2013, none of the directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

# Supplementary Information to the Interim Report (continued)

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in the ordinary shares of the Company

| Name of substantial shareholder | Nature of interests | Number of ordinary shares interested | Percentage+ of the Company's issued share capital |
|---|---|---|---|
| Prince Frog International Company Limited | Beneficial owner *(Note 1)* | 324,308,500 | 32.10% |
| Zhenfei Investment Company Limited | Interest of controlled corporation *(Note 1)* | 324,308,500 | 32.10% |
| Jinlin Investment Company Limited | Beneficial owner *(Note 2)* | 159,383,500 | 15.77% |
| Neuberger Berman LLC | Investment manager *(Note 3)* | 51,408,300 | 5.09% |
| Neuberger Berman Holdings LLC | Interest of controlled corporation *(Note 3)* | 51,408,300 | 5.09% |
| Neuberger Berman Group LLC | Interest of controlled corporations *(Note 3)* | 51,408,300 | 5.09% |
| JPMorgan Chase & Co. | Interest of controlled corporations *(Note 4)* | 19,044,000 | 1.88% |
| | Custodian corporation/ approved lending agent *(Note 5)* | 72,279,021 | 7.15% |
| | | 91,323,021 | 9.03% |

*Notes:*

1. These shares were held by Prince Frog International Company Limited, a wholly-owned subsidiary of Zhenfei Investment Company Limited, which in turn was a controlled corporation of Mr. Li Zhenhui, an executive director of the Company. The above interest of Zhenfei Investment Company Limited and Prince Frog International Company Limited was also disclosed as the interest of Mr. Li Zhenhui in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

2. The above interest of Jinlin Investment Company Limited was also disclosed as the interest of Mr. Xie Jinling, an executive director of the Company, in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

3. These shares were held by Neuberger Berman LLC, a wholly-owned subsidiary of Neuberger Berman Holdings LLC, in the capacity as an investment manager. Neuberger Berman Holdings LLC was a wholly-owned subsidiary of Neuberger Berman Group LLC. Accordingly, Neuberger Berman Holdings LLC and Neuberger Berman Group LLC were deemed to be interested in these shares held by Neuberger Berman LLC pursuant to the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

### Long positions in the ordinary shares of the Company (continued)

*Notes:* (continued)

4. These shares were held by J.P. Morgan Clearing Corp, a wholly-owned subsidiary of J.P. Morgan Securities LLC, which in turn was a wholly-owned subsidiary of J.P. Morgan Broker-Dealer Holdings Inc. J.P. Morgan Broker-Dealer Holdings Inc was a wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. was deemed to be interested in these shares held by J.P. Morgan Clearing Corp pursuant to the SFO.

5. These shares in lending pool were held by JPMorgan Chase Bank, N.A., a wholly-owned subsidiary of JPMorgan Chase & Co.. Accordingly, JPMorgan Chase & Co. was deemed to be interested in these shares in lending pool held by JPMorgan Chase Bank, N.A..

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2013.

Save as disclosed above, as at 30 June 2013, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding directors' dealings in the Company's securities. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard sets out in the Model Code during the six months ended 30 June 2013.

## COMPLIANCE WITH THE WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard sets out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 June 2013.

# Supplementary Information to the Interim Report (continued)

## CORPORATE GOVERNANCE

The board of directors of the Company is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2013, except for the following deviation:

### Code Provision A.2.1

This code provision stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. Mr. Li Zhenhui ("Mr. Li") currently holds the positions of Chairman and Chief Executive Officer of the Company. He is the founder of the Group and has over 19 years of experience in personal care products industry. The board of directors of the Company believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Li provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The board of directors of the Company also considers that the current structure of vesting the roles of Chairman and Chief Executive in the same person will not impair the balance of power and authority between the board and the management of the Company.

## UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company are set out below:

— Mr. Ren Yunan was appointed as an independent non-executive director of Vision Fame International Holding Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1315) on 28 May 2013.

— Mr. Wong Wai Ming resigned as the chief financial officer of Baofeng Modern International Holdings Company Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1121) on 31 May 2013.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2013.

# Supplementary Information to the Interim Report (continued)

## AUDIT COMMITTEE

The Audit Committee of the Company, comprising the Company's three independent non-executive directors, has reviewed the unaudited condensed consolidated results of the Company for the six months ended 30 June 2013, including accounting principles and practices adopted by the Group, and discussed financial reporting matters.

## CORPORATE COMMUNICATIONS

In accordance with the Listing Rules, the Company has ascertained shareholders' wishes regarding their preferences on the language (i.e. English and/or Chinese) and means of receipt (i.e. in printed form or via the Company's website) of the Company's corporate communications#. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications via the Company's website, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communications will promptly upon request be sent the corporate communications in printed form free of charge. Shareholders have the right at any time to change their choice of language and means of receipt of the Company's corporate communications.

Shareholders may request for printed copy of the Company's corporate communications or change their choice of language and means of receipt of the Company's corporate communications by sending reasonable prior notice in writing to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Shareholders may also send such a notice by email to prince.ecom@computershare.com.hk.

Shareholders who have chosen to receive the corporate communications in either English or Chinese version will receive both English and Chinese versions of this interim report since both languages are bound together into one booklet.

# *The Company's corporate communications refer to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) annual report; (b) interim report; (c) notice of meeting; (d) listing document; (e) circular; and (f) form of proxy.*

By order of the Board
**Li Zhenhui**
*Chairman*
27 August 2013