# PRINCE FROG INTERNATIONAL HOLDINGS LIMITED
# 青蛙王子國際控股有限公司

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

**(Stock code: 1259)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

## FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The Group's revenue for the period increased by about 7.9% over the same period in 2012 to approximately RMB627.9 million, of which, revenue of children's personal care products, which was a core business segment, increased by about 43.7% to approximately RMB569.1 million.

The household hygiene products segment, which was not a core business segment, ceased operations from 1 January 2013 and therefore 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).

Gross profit increased by about 21.9% over the same period in 2012 to approximately RMB300.6 million. Gross profit margin increased by 5.5 percentage points to about 47.9%.

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 during the period resumed from 12.5% for last year to 25%.

Profit attributable to the equity holders of the Company for the period decreased by about 28.8% over the same period in 2012 to approximately RMB72.8 million.

The board of directors (the "**Board**") of Prince Frog International Holdings Limited (the "**Compan** ") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as 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 as 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*

| | | **Si months ended 30 June** | |
|---|---|---|---|
| | | **2013** | 2012 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(unaudited)** | (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*

| | Si 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 | | **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 | 10 | **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 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

*30 June 2013*

| | Notes | **30 June 2013** *RMB'000* **(unaudited)** | 31 December 2012 *RMB'000* (audited) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 11 | **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 | | **6,900** | 4,900 |
| **Net assets** | | **1,192,567** | 1,159,630 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | | **8,385** | 8,366 |
| Reserves | | **1,184,182** | 1,151,264 |
| **Total equit** | | **1,192,567** | 1,159,630 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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 children's 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 ("**ne IFRSs**") which are effective for the Group's financial year beginning on 1 January 2013.

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

| | |
|---|---|
| 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 |

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 diapers 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.

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.

## 3. OPERATING SEGMENT INFORMATION (continued)

| | Children's personal care products | Household h giene products | Adults' personal care products | Other products | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Si 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 |
| **Si 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 |

## 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:

| | Si 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 | **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

| | Si 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:

| | Si 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 |

## 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.

| | **Si 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 |

## 8. DIVIDEND

| | **Si 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. 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.

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.

## 10. TRADE RECEIVABLES (continued)

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** | 31 December 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (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 |

## 11. 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** | 31 December 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (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.

## 12. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | **30 June 2013** | 31 December 2012 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(unaudited)** | (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 |

## 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 Revie

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.

**E cellence in Qualit  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 Responsibilit**

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 Revie**

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 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 due to: 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.

*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 around 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 the 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".

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

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.

## 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.

## 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.

## 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 GOVERNANCE

The Board 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 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 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.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.princefrog.com.cn) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The Company's interim report for the six months ended 30 June 2013, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the Board
**Prince Frog International Holdings Limited**
**Mr. Li Zhenhui**
*Chairman*

Zhangzhou, PRC
27 August 2013

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