中國兒童護理有限公司

China Child Care Corporation Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1259

ANNUAL REPORT **2016**

Contents

This annual report, in both English and Chinese versions, is available on the Company's website at www.princefrog.com.cn.

Shareholders may at any time change their choice of language(s) (either English only or Chinese only or both languages) of the corporate communications of the Company (the "Corporate Communications").

Shareholders may send their request to change their choice of language(s) of Corporate Communications by notice in writing to the Company's Branch Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tsai Wallen *(Chairman)*
Mr. Ge Xiaohua
Mr. Huang Xinwen
Mr. Li Zhouxin *(Chief Financial Officer)*
Mr. Ma Chi Ming

Non-executive Director

Mr. Ren Yunan

Independent Non-executive Directors

Mr. Tsao Benedict
Ms. Chan Sze Man
Mr. Ma Kwun Yung Stephen

BOARD COMMITTEES

Audit Committee

Ms. Chan Sze Man *(Chairman)*
Mr. Tsao Benedict
Mr. Ma Kwun Yung Stephen

Nomination Committee

Ms. Chan Sze Man *(Chairman)*
Mr. Tsao Benedict
Mr. Ma Kwun Yung Stephen

Remuneration Committee

Ms. Chan Sze Man *(Chairman)*
Mr. Ma Chi Ming
Mr. Ma Kwun Yung Stephen

COMPANY SECRETARY

Ms. So Yee Kwan

AUDITOR

CCTH CPA Limited

PRINCIPAL BANKERS

Agricultural Bank of China Limited – Zhangzhou Branch
Bank of Communications Co., Ltd. – Hong Kong 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. 8, North Wuqiao Road
Lantian Economic Development Zone
Zhangzhou City, Fujian Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
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

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Child Care Corporation Limited (the "Company", together with its subsidiaries, the "Group", stock code: 1259.HK), I would like to extend my sincere gratitude to all shareholders and all sectors of the community for your constant support, and present the financial results and operating performance of the Group for the year ended 31 December 2016 to the shareholders.

The year 2016 witnessed an intricate and complex international situation as well as uncertainties in global politics and economy. China also experienced a slowdown in economic growth, with its annual GDP growth being gradually stabilized at 6.7%, which accordingly resulted in a slowdown in consumption growth. The total retail sales of consumer goods in China grew by 0.4% year on year in 2016, significantly lower than that in 2015 which is 10.7%. Meanwhile, the concept, structure and mode of consumption had undergone great changes in mainland China, which brought about fierce competition in the market.

Adhering to its long-established accurate brand advertising and differentiated marketing strategies, the Group continued to promote itself through the two-way interactive marketing mode which covered both the off-line and on-line promotions, thus consolidating its position as a leader in the industry of personal care products. In a bid to enhance its competitiveness, the Group also kept launching new products, upgrading its existing products offering and increasing efforts in research and development. In addition, the Group expanded into money lending and trading of commodities businesses, with an aim to diversify its operations.

For the year ended 31 December 2016, the Group's operating revenue amounted to approximately RMB999.5 million, representing an increase of approximately 9.4% from RMB913.7 million for the year ended 31 December 2015. Loss attributable to equity holders of the Company amounted to approximately RMB111.2 million as compared to loss of RMB50.3 million for the corresponding period in 2015; basic loss per share attributable to equity holders of the Company was RMB11.0 cents as compared to basic loss per share of RMB5.0 cents for the corresponding period in 2015.

Looking into 2017, we will see a number of uncertainties persist in world economy, downward pressure continue to confront China's economy and the industry of consumer goods still be subject to the pressure of transformation. In this context, the Group will make better use of the resources available to the Group, and continue to develop diversified business while strengthening its core business of personal care products, striving to effectively improve its profitability and interests of shareholders.

Chairman's Statement (continued)

On behalf of the Board, I would like to take this opportunity to express my gratitude to all our employees and the management for their hard work and contribution in the past year. I would also like to extend my appreciation again to all our shareholders for your support, as well as your kind understanding and recognition of the Group's future development plan.

China Child Care Corporation Limited
Chairman
Mr. Tsai Wallen

28 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

Personal Care Products

During the reporting period, the revenue from children's personal care products of the Group was approximately RMB536.4 million, representing a decrease of about 30.4% over the same period of last year (31 December 2015: RMB770.5 million). The decrease was primarily due to continuous effect from slowing growth of economy of China and the shift of spending habit of the consumers to e-commerce. The revenue from adults' personal care products and other products including OEM products was approximately RMB178.6 million, representing an increase of about 24.7% over the same period of last year (31 December 2015: RMB143.2 million). The personal care products business recorded loss of approximately RMB86.4 million during the year.

The Release of "China Children's Care Bluebook"

In the first half of 2016, the Group gathered experts in children's education, psychology, safety, skin and oral cavity to establish the first professional committee for children's care in China, and strategically cooperated with the world's leading maternal and infant care online platform Babytree to jointly prepare "China Children's Care Bluebook" based on the big data platform of Babytree. The bluebook takes the form of children asking questions and experts giving advice to promote basic knowledge for caring children above three years old to the society from three aspects: children's psychological health, safety education and physical development. After "China Children's Care Bluebook" was released with great fanfare in Shanghai Beauty Expo in May 2016, this bluebook was also distributed for public welfare through China Women's Development Foundation (中國婦女發展基金會).

In December 2016, the Group transformed the essential contents in "China Children's Care Bluebook" into paintings, making it an educational book suitable for children. The series of painting book for children of "Growth Record of Prince Frog" have five episodes in total, which were created based on the cartoon images of Prince Frog and its little partners, to display the growth knowledge for children in the form of fable stories. The Group is of the view that the release of "China Children's Care Bluebook" shall bring practical and scientific childcare knowledge to large groups of first-time mothers in China and further improve popularity and reputation of the Group's brand.

Prince Frog Kindergarten Care Stations

Starting from July 2016, the Group set up kindergarten care stations, in the name of "Prince Frog", in 200 kindergartens in four cities, i.e. Nanjing, Wuhan, Zhengzhou and Chengdu. By providing the Company's products to children in kindergartens for trial use, the Group promoted knowledge of washing, care and oral cavity to the children in kindergartens, making the image of Prince Frog accompanying the children deeply rooted among people, and therefore affected the consuming preference of users and real purchasers to a certain extent. At the same time, the Group promoted the information of the brand of Prince Frog to parents and their children in 200 kindergartens in the form of distributing posters in kindergartens, to further improve the awareness for brand among consumers.

Management Discussion and Analysis (continued)

Operating of "Prince Frog Children Centres"

Starting from 2016, the Group constantly developed "Prince Frog Childcare Centres" in key stores and supermarkets in various provinces and cities across the country. In addition to setting up an exclusive shelf area for displaying a full range of Prince Frog products, the Group also provided children's play areas including entertainment facilities, such as slides and beach ball pools, with a view to establishing a professional brand image for Prince Frog Childcare. Throughout 2016, the Group set up 9 stores of "Prince Frog Children Centres" in a total of 9 cities across the country, and in 2017, the Group will also promote to other key supermarkets and stores across the country for the purpose of providing families with a secure, healthy and happy shopping and amusement place and developing an innovative brand marketing mode.

Launch of Diverse Promotion Campaigns

In 2016, the Group launched the two-way interactive marketing campaigns which covered both the off-line and on-line promotions. To name a few, the Group held nearly 100 large-scale promotional activities in approximately 70 cities of key provinces across the country under the theme of "Cheer for China, Enjoy Olympics and Win a Trip" (喝彩中國，趣享奧運遊禮) in May and June 2016; on "June 1" International Children's Day of 2016, the Group, through cooperation with Tuniu.com (途牛網), held nearly 1,200 large-scale outdoor roadshows in approximately 100 cities nationwide at the same time under the theme of "Enjoy June 1, Touring Disneyland" (玩轉六一，暢遊迪士尼); the Group held more than 130 large-scale promotional activities in nearly 70 cities of key provinces across the country under the theme of "Happy Back-to-School Season, Sharing Moisture with Fun" (快樂升學季，滋潤趣分享) in August and September 2016; and held nearly 170 large-scale promotional activities in more than 60 cities across the country during Christmas holiday in 2016 under the theme of "Magic Christmas, Sharing Fun with Moisture" (魔幻聖誕，趣享加倍潤) to increase brand visibility; in the meantime, based on the media preference of target consumers, the Group launched all-around brand marketing and promotion through various platforms including new media, social network platform and China Railway High-speed media.

Continuous Introduction of New Products and Products Upgrading

To satisfy different needs of consumers and to respond to a continuous decrease in the sales volume of products with old package, the Group made the largest adjustments to products in 2016, including (1) releasing "Natural Herb Caring" (植愛草本) series of skin care and bath products for children, where this series of products is mainly made from natural herbs and food-grade raw materials and without any harmful chemical additives, which make the products more suitable for children's tender skin; (2) an overall upgrading of 2 key series of products of "Moisture" (倍潤) and "Mild" (自然至親), with product packaging designed in combination with "Augmented Reality" games to achieve communication and interaction with consumers on product packaging; and (3) releasing of "Aiyaxing" (愛芽星) series of children's oral care products, promoting a scientific tooth care concept of "fresh and mothproof in the morning, and antibacterial and tooth strengthening at night", to help parents solving any issues of children arising from brushing teeth, and making children enjoy brushing teeth and professional care for teeth in order to care for children's healthy and happy growth.

Management Discussion and Analysis (continued)

Excellence in Quality Control

Products manufactured by the Group have always complied with the relevant laws and regulations, and have passed the re-certification of five key management systems, which are ISO9001 quality management system, ISO14001 environmental management system, OHSAS18001 occupational health and safety management system, ISO22716 and "Cosmetics – Guidelines on Good Manufacturing Practices" (GMPC) of the United States Food and Drug Administration in 2016.

In 2016, the Group was awarded the title of "Provincial-level Enterprise Technology Centre" by seven authorities, including Fujian Provincial Economic and Information Technology Commission (福建省經濟和信息化委員會), Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office of the State Administration of Taxation (福建省國家税務局), Fujian Local Taxation Bureau (福建省地方税務局), Fuzhou Customs District (福州海關) and Xiamen Customs District (廈門海關), which provides a strong support to the Group to carry out technical innovation in the future. The Group was also awarded the titles of "Leading Quality Brand in National Children Care Industry" (全國兒童護理行業質量領先品牌), "National Reliable Quality Product" (全國質量信得過產品) and "Excellent Enterprise for Trustworthy Quality Product and Service in China" (全國產品和服務質量誠信示範企業) by China Quality Inspection Association (中國質量檢驗協會).

Continuous Investment in Research & Development ("R&D")

In 2016, the Group continued to cooperate with South China University of Technology (華南理工大學) 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. In the meantime, the Group actively cooperated with leading raw material suppliers in the industry, including but not limited to BASF (巴斯夫), SOLVAY (索爾維), SYMRISE (德之馨), DOW (陶氏) and DOW CORNING (道康寧), and entered into a strategic cooperation agreement with BASF to cooperate on the basic application of new materials and new technologies in the future, thus improving the core competitiveness of the Group.

The Group's R&D center of 1,200 sqm located in Zhangzhou, PRC has been put into use, which includes advanced chemical analysis and microbiological challenge laboratory. Alternative method of animal experiments has also been widely used in R&D of children's personal care products. Capabilities in R&D and detection of the Group have also been growing, and pH value testing capability has passed verification by a third party. All of these provide a strong support for R&D of our personal care products.

Management Discussion and Analysis (continued)

Frog Prince (China) Daily Chemicals Co., Ltd. ("Frog Prince (China)", a wholly-owned subsidiary of the Company) was granted the High-New Technology Enterprise Certificate and also submitted applications for patents (as of 31 December 2016, the Group possessed or was authorized for 49 patents, of which 1 patent was in the process of registration and applications for 14 patents were in process in a proactive manner) from time to time, successful filing of which will further prove the Group's R&D capability in children's cosmetics and can protect the Group's independent intellectual property.

Social Responsibility

In January 2016, the Group together with China Women's Development Foundation (中國婦女發展基金會) organized the nationwide charity project titled "Safeguard the Childhood" (守護童年), and donated children's personal care products with a total value of RMB1.0 million to left-behind children and families in poor areas.

On 23 January 2016, the Group worked with China National Committee for The Wellbeing of The Youth Charity Culture Centre (中國關心下一代工作委員會公益文化中心), China Foundation for the Development of Social Culture (中華社會文化發展基金會), China Education Television Association (中國教育電視協會) and Union of Chinese Talent Education Development (中國特長生教育發展聯盟) to launch the event of the Social, Art and Educational Innovation and Development of Youth Forum and the 2016 China – We Are Family Charity Project (青少年社會藝術教育創新發展論壇暨2016中華大家園公益項目). The event set a "Prince Frog Award" to reward youth's and children's outstanding performances and to support children from poor families to participate in educational activities for students with special talents.

In June 2016, the Group donated RMB1.0 million to China Women's Development Foundation (中國婦女發展基金會) to re-launch the charity project titled "Safeguard the Childhood" (守護童年), which was hosted by the All China Women's Federation (全國婦聯) and co-sponsored by China Women's Development Foundation (中國婦女發展基金會) together with over 100 nonprofit organizations, and a charity summer camp named Prince Frog "First Class of Safety" (安全第一課) was carried out during the summer holiday. In addition, the Group together with China Women's Development Foundation (中國婦女發展基金會) donated relief supplies with a total value of RMB300,000 to areas affected by heavy rainfall in Yancheng, Jiangsu Province, care and love from Prince Frog for the children in affected areas were sent out in the first instance.

In September 2016, to meet the 28th "9•20 National Day for Loving and Caring Teeth", Frog Prince (China) carried out a series of activities of loving and caring teeth, which not only invited children into the Oral Health Education Base of Fujian Dental Disease Prevention and Control Center (福建牙病防治中心口腔健康教育基地) in Prince Frog Industrial Park to participate in the experiential activity of "Little Classroom for Loving Teeth" (愛牙小課堂), but also organized large-scale oral cavity free diagnosis activities in Zhongshan Park in Zhangzhou together with Culture, Education, Health & Sports Committee of Municipal Consultative Conference (市政協文教衛體委), the Health and Family Commission (市衛生計生委) and relevant oral cavity departments.

Management Discussion and Analysis (continued)

In December 2016, Prince Frog walked into 6 primary schools in Guizhou Province together with China Association of Fragrance Flavour and Cosmetics Industries (中國香料香精化妝品工協會) and tens of representatives from flavour and cosmetics industries, and carried out "Walking into Guizhou – Loving Bag Donation Activity by Flavour and Cosmetics Industries in China" (走進貴州——中國香化行業愛心書包捐贈活動), which donated stationery and daily supplies including bags, school uniforms, moisturisers and lip balms.

In 2016, the Group conducted 13 interactive experiential activities at the tourism factory that is located in Zhangzhou City, Fujian Province, enabling more children to take a closer look at Prince Frog.

Operation of an Online Platform

In the fourth quarter of 2016, the Group commenced the operation of an online platform focusing on the children, babies and parents (the "CBP") markets through acquisition of the 51% of the issued shares of Marvel Paramount Holdings Limited, including the provision of marketing, marketing consulting and promotional service, e-commerce business and retail of CBP's products.

The subsidiary operates an online CBP information platform at MyBB.com.hk ("MYBB") and mobile app namely MyBB APP which offer forum, blog and updated information in relation to CBP to parents, pregnant women and women preparing for pregnancy. MYBB also operates one retail store in Hong Kong and online stores for sales of CBP's products for members in Hong Kong, PRC and Australia. MYBB also engages in organising CBP-related marketing and promotional activities, playgroups and talks in Hong Kong.

During the year, the operation of online platform contributed a total revenue of approximately RMB4.8 million for the Group, and recorded a profit of approximately RMB4.6 million. The Board believes that this business can create synergy to existing businesses of the Group, including the promotion of "Frog Prince" and other PRC CBP brands in Hong Kong market through MYBB, the promotion of MYBB CBP information platform in PRC market through "Frog Prince", and the integration of online to offline operation thus broaden the Group's revenue streams.

Money Lending Business

The Group commenced its money lending business in the fourth quarter of 2016, and the target customers of the Group were those who seek for loans of significant amount and are able to provide guarantees for relevant loans. During the year, the Group had provided loans of approximately RMB116.1 million, with an average annual interest rate of approximately 30%. All the loans granted by the Group were secured by mortgages, charge on shares or charge on assets. The money lending business recorded a positive profit of approximately RMB2.2 million during the year.

On 1 November 2016, the Group (i) entered into loan agreement A with customer A and customer B; and (ii) entered into loan agreement B with customer A, customer B and customer C respectively. Pursuant to loan agreement A and loan agreement B, the Company agreed to grant the loans with principal amounts of approximately HK$12.4 million and HK$8.6 million respectively and a term of 12 months from the drawdown date of the loans. The loans bearing interest at a rate of 24% per annum respectively.

Management Discussion and Analysis (continued)

The loans are secured by first legal mortgage in respect of a resident property and a car parking space located in Causeway Bay and second mortgage in respect of a residential property located in North Point respectively. Prior to entering into loan agreement A and loan agreement B, there is one loan granted by the Group to customer A and customer B collectively under the other existing loan agreement for the principal amount of approximately HK$29.2 million for a term of 12 months.

Details of the loan and the provision of financial assistance are set out in the Company's announcement dated 1 November 2016.

Trading of Commodities

The Group's business segment of trading of commodities was put into operation in the fourth quarter of 2016. A total of 54,562 metric tons of crude palm oil was traded during the year, contributing a total revenue of approximately RMB275.6 million to the Group. The operation of trading of commodities recorded a positive profit of approximately RMB8.8 million.

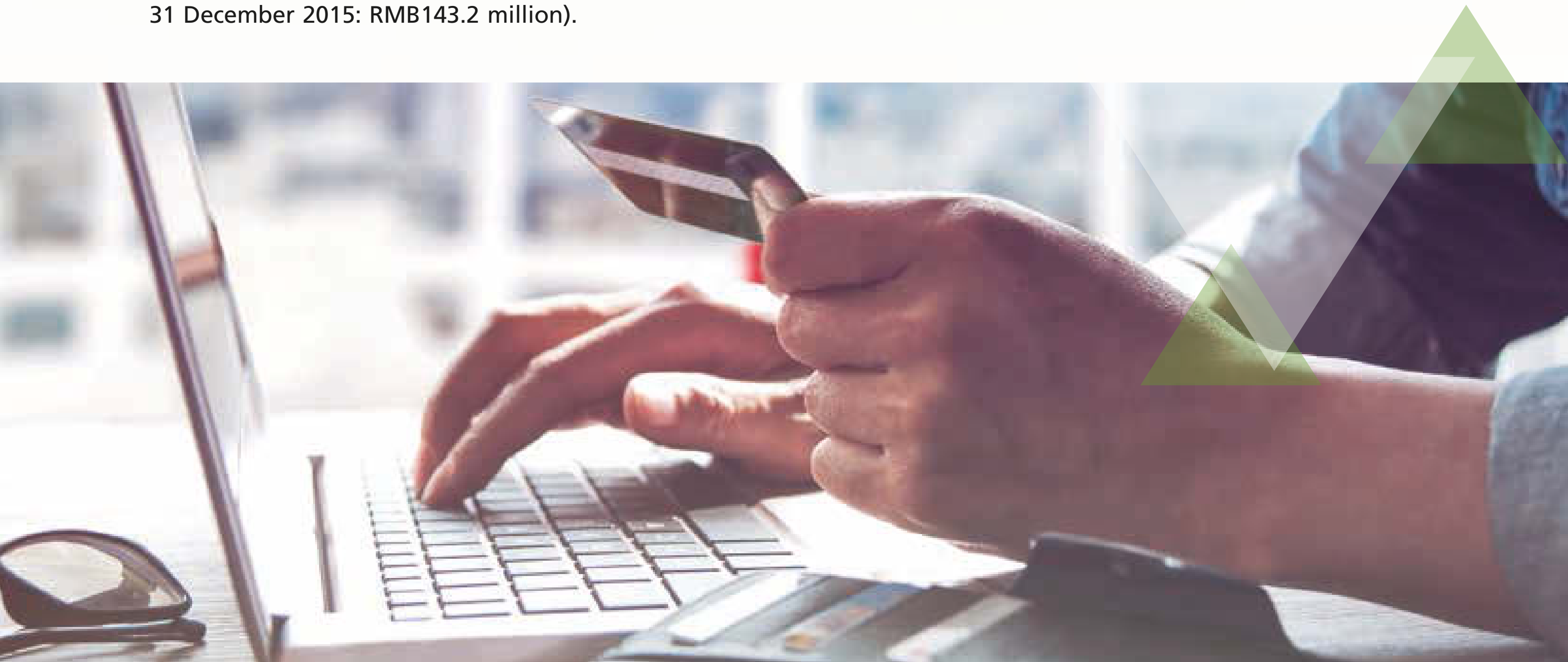
The Board believes that commencing the operation of trading of commodities by the Group is able to expand the business network of the Group in the field of commodities trading, and therefore is of great importance. The Group will negotiate with suppliers and customers in order to achieve more favourable trading terms in future trades.

FINANCIAL REVIEW

For the year ended 31 December 2016, the turnover of the Group was approximately RMB999.5 million, representing an increase of about 9.4% as compared with RMB913.7 million for the year ended 31 December 2015.

During the reporting period, the revenue from children's personal care products of the Group was approximately RMB536.4 million, representing a decrease of about 30.4% over the same period of last year (for the year ended 31 December 2015: RMB770.5 million).

The revenue from adults' personal care products and other products including OEM products was approximately RMB178.6 million, representing an increase of about 24.7% over the same period of last year (for the year ended 31 December 2015: RMB143.2 million).



Management Discussion and Analysis (continued)

During the year, the operation of an online platform contributed a total revenue of RMB4.8 million for the Group.

During the year, the money lending business contributed a total revenue of RMB4.1 million for the Group.

The Group's business segment of trading of commodities contributed a total revenue of approximately RMB275.6 million to the Group.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year ended 31 December 2016 was approximately RMB355.4 million, representing a drop of about 1.0% as compared with RMB359.2 million for the year ended 31 December 2015. During the reporting period, the gross profit margin decreased by around 3.7 percentage points over the same period of last year to about 35.6% (for the year ended 31 December 2015: 39.3%). The decrease in gross profit margin was primarily due to a decease in overall gross profit margin of the Group resulted from lower gross profit margin for the business of trading of commodities.

The total gross profit for children's and adults' personal care products and other products including OEM products was about RMB335.9 million for the year ended 31 December 2016, representing a decrease of about 6.5% as compared with RMB359.2 million of the year ended 31 December 2015. Gross profit margin increased to about 47.0%, representing an increase of around 7.7 percentage points compared with same period of last year. The increase was mainly due to the decreased discount provided to distributors by the Group in 2016.

The gross profit for operation of an online platform for the year ended 31 December 2016 was about RMB4.8 million.

The gross profit for money lending business for the year ended 31 December 2016 was about RMB4.1 million.

The gross profit for trading of commodities for the year ended 31 December 2016 was about RMB10.6 million and the gross profit margin was about 3.8%.

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 RMB329.5 million for the year ended 31 December 2016, representing an increase of about 2.8% as compared with RMB320.4 million for the year ended 31 December 2015. The selling and distribution expenses accounted for about 33.0% of the revenue during the reporting period (for the year ended 31 December 2015: 35.1%), among which, advertising and promotion expenses, as a percentage of revenue, decreased from 25.8% for the year ended 31 December 2015 to about 23.4% for the year ended 31 December 2016, a decrease of around 2.4 percentage points. The transportation expenses and other expenses, as a percentage of revenue, increased around 0.3 percentage point to about 9.6% for the year ended 31 December 2016 as compared with the same period of 2015 (for the year ended 31 December 2015: 9.3%).

Management Discussion and Analysis (continued)

Administrative Expenses

Administrative expenses primarily consisted of salaries and wages for administrative staff, depreciation, share option expenses and other expenses. Administrative expenses of the Group amounted to approximately RMB99.7 million for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB95.0 million), representing an increase of about 4.9%. The administrative expenses increased mainly due to the raise of salary of administrative personnel of the Group, depreciation expenses and share options expenses during the reporting period. Administrative expenses accounted for about 10.0% of the Group's revenue for the year ended 31 December 2016 (for the year ended 31 December 2015: 10.4%).

Finance Costs

The Group had finance costs of approximately RMB596,000 for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB6,000).

Business Combination

In the fourth quarter of 2016, the Group acquired 51% of equity interests in Marvel Paramount Holdings Limited, an investment holding company incorporated in the British Virgin Islands with limited liability, from an independent third party.

Marvel Paramount Holdings Limited and its subsidiary (the "Acquired Group") are primarily engaged in the operation of an online platform focusing on the CBP markets, including the provision of marketing, marketing consulting and promotional service, e-commerce business and retail of CBP's products. The subsidiary operates an online CBP information platform at MYBB and mobile app namely MyBB APP which offer forum, blog and updated information in relation to CBP to parents, pregnant women and women preparing for pregnancy. MYBB also operates one retail store in Hong Kong and online stores for sales of CBP products for members in Hong Kong, PRC and Australia. MYBB also engages in organising CBP-related marketing and promotional activities, playgroups and talks in Hong Kong.

The consideration of the said acquisition was RMB104,010,000, which was payable in cash and subject to downward adjustment. The total identifiable net assets acquired less non-controlling interests amounted to RMB753,000. Accordingly, goodwill of RMB103,257,000 was resulted at the date of acquisition.

Pursuant to the relevant acquisition agreement, the vendor guarantees to the Company that the net profit after tax of the Acquired Group (based on its audited financial statements) for each of the two financial years ending 31 March 2017 and 31 March 2018 (the "Accumulated Guaranteed Profit") shall be not less than HK$8,000,000 and HK$16,000,000 respectively.

An impairment loss of goodwill of RMB20,000,000 was made during the year ended 31 December 2016 (for the year ended 31 December 2015: Nil)

On 30 April 2015, the Group acquired 80% equity interests in Fujian Azalli Daily Chemicals Ltd. (福建愛潔麗日化有限公司) (the "Acquired Company"), a company established in the PRC and a former supplier of the Group, from an independent third party. The principal activity of the Acquired Company is manufacture of toothpaste products. Such acquisition was for expanding the oral care product line under children's personal care products category of the Group. The consideration for the acquisition amounted to RMB50,773,000, which was satisfied by cash, and the total identifiable net assets acquired less non-controlling interests amounted to RMB14,916,000. Accordingly, goodwill of RMB35,857,000 was resulted at the date of acquisition.

Due to the deteriorating operating performance of the toothpaste business, which was included in children's personal care products segment, an impairment loss of goodwill of RMB2,000,000 was made during the year ended 31 December 2016 (for the year ended 31 December 2015: impairment loss of goodwill of RMB17,500,000).

Management Discussion and Analysis (continued)

Disposal

On 21 December 2016, Frog Prince (China), a wholly-foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company, Fujian Herun Supply Chain Management Co., Ltd. (福建和潤供應鏈管理有限公司) ("Fujian Herun"), a company established in the PRC with limited liability, and the subscriber entered into a capital increase agreement, pursuant to which the subscriber agreed to make a capital contribution of RMB33,000,000 to Fujian Herun. An amount of RMB18,439,000 (being the proportionate share of the carrying amount of the net assets of Fujian Herun) has been transferred to non-controlling interests. The difference of RMB14,561,000 between the increase in the non-controlling interests and the consideration has been credited to retained earnings. Following the completion of the capital increase, the Group's interest in Fujian Herun was diluted from 100% to 75%, resulting in a deemed disposal of 25% equity interest in Fujian Herun by the Group. Upon completion of the capital increase, Fujian Herun remains as a subsidiary of the Company, and its financial results and position continue to be consolidated into the consolidated financial statements of the Company.

The capital contribution to be made by the subscriber under the capital increase agreement will be utilised by Fujian Herun for the development of the distributorship network for its products in the PRC. The capital increase, apart from providing an immediate funding and increasing the liquidity of Fujian Herun in developing its distributorship sales business, also introduces the subscriber as a strategic shareholder of Fujian Herun, for its expertise in the investment of supply chain management related businesses, rich resources and relationship network in the field of consumer goods and extensive experience in optimising sales network. The Company believes that the capital increase, by introducing new funding and the subscriber as a strategic shareholder of Fujian Herun, would assist Fujian Herun in developing and strengthening its distributorship sales business by leveraging on the financial strengths and extensive business networks of the subscriber.

Net Loss and Net Loss Margin

For the year ended 31 December 2016, loss attributable to equity holders of the Company amounted to approximately RMB111.2 million as compared with loss attributable to equity holders of the Company of RMB50.3 million for the year ended 31 December 2015. The net loss margin was about 11.0% as compared with 5.5% of net loss margin for the year ended 31 December 2015, with basic loss per share of approximately RMB11.0 cents (basic loss per share for the year ended 31 December 2015: RMB5.0 cents). This is mainly attributable to the facts that revenue of the Group decreased as mentioned above but the investments in brand building, promotion and the fixed expenses of the Company remained. Furthermore, for the year ended 31 December 2016, the Group made provisions for impairment of goodwill and loss on change on fair value of investment properties of RMB22.0 million and RMB7.3 million respectively (for the year ended 31 December 2015: RMB17.5 million and gain on change in fair value of RMB3.8 million, respectively). In addition, the Group made an allowance for doubtful debts for trade and bills receivables of RMB4.8 million (2015: Nil).

Capital Expenditure

For the year ended 31 December 2016, the Group's material capital expenditure amounted to approximately RMB7.4 million (for the year ended 31 December 2015: RMB23.7 million), mainly used for renovation of our plants, consolidation work of our plants and acquisition of new equipments.

Financial Resources and Liquidity

As at 31 December 2016, cash and cash equivalents of the Group amounted to approximately RMB614.5 million (31 December 2015: RMB968.8 million). The current ratio was 3.4 (31 December 2015: 6.1). Our liquidity remained healthy. The uses of balance of cash and cash equivalents were mainly as follows: firstly, strengthening the marketing and promotion for brand and products; secondly, developing money lending business; and thirdly, pursuing of the potential opportunity for acquisition and other investment in a timely manner.

Management Discussion and Analysis (continued)

Trade and Bills Receivables

During the reporting period, the Group's trade and bills receivables were approximately RMB134.1 million (31 December 2015: approximately RMB41.2 million). The Group usually grants a credit period of 30 to 60 days to our customers. The increase in trade and bills receivables for the period was mainly due to substantial increase in sales volume of its children's personal care products in December 2016 comparing with that of the same period of 2015. For the year ended 31 December 2016, the Group made an allowance for doubtful debt of approximately RMB4.8 million (2015: Nil).

Loan and Interest Receivable

During the reporting period, the Group's loan and interest receivables were approximately RMB125.3 million (31 December 2015: Nil). During the year, the Group had provided loans of approximately RMB116.1 million, with an average annual interest rate of approximately 30%. All the loans granted by the Group were secured by mortgages, charge on shares or charge on assets.

Trade and Bills Payables

During the reporting period, trade and bills payables were approximately RMB93.7 million (31 December 2015: approximately RMB84.9 million). The increase in trade and bills payables was mainly because the Group strengthened its bargaining power by conducting bulk procurements with the suppliers, and therefore the relevant payment terms in contracts became more favorable. The Group settled its payables within one to six months in general and kept good payment records.

Inventories

During the reporting period, inventories of the Group were approximately RMB30.9 million (31 December 2015: approximately RMB27.0 million. The increase in inventories, as compared with the same period of 2015, was mainly because the Group increased its inventory level due to substantial increase in sales volume of its children's personal care products in December 2016 comparing with that of the same period of 2015. As at 31 December 2016, the inventory balance increased by about 14.2% over the same period of 2015.

Gearing Ratio

As at 31 December 2016, current assets of the Group were approximately RMB1,087.6 million, total assets were approximately RMB1,687.0 million, current liabilities were approximately RMB318.9 million and total liabilities were approximately RMB336.9 million. The gearing ratio (total liabilities/total assets) of the Group was approximately 20.0% (31 December 2015: 11.9%).

Bank Borrowing

As at 31 December 2016, the Group had bank borrowing of RMB110.9 million (31 December 2015: RMB50.0 million). Facilities were made by the Group with banks for Hong Kong borrowings with a pledged bank deposit in the PRC.

Management Discussion and Analysis (continued)

Pledge of Assets

As at 31 December 2016, the Group had pledged deposits of RMB124.9 million (31 December 2015: RMB4.5 million) for short-term borrowings and bills payable.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of sustainable operations and maintain a healthy capital ratio in order to support its businesses and maximise the shareholders' interests. The Group continued to emphasise the appropriate mix of equity and debt to ensure an efficient capital structure in order to reduce capital cost.

Risk of Foreign Exchange

As at 31 December 2016, the Group was not exposed to any major risks from foreign exchange fluctuations and new foreign exchange forward contracts have been signed to manage the risk of foreign exchange fluctuations.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liability. As at 31 December 2015, the Group entered into a banking facility arrangement with a bank in Mainland China for providing guarantees to the bank in connection with the amounts advanced by the bank to certain of the Group's customers for the settlement of the trade balances due from these customers to the Group. As at 31 December 2015, the Group pledged deposits of RMB2,000,000 placed with the bank for this banking facility arrangement, and executed guarantees of a total of approximately RMB36,110,000 to the bank in connection with the amounts advanced to these customers by the bank, of which approximately RMB6,701,000 was utilised as at 31 December 2015.

OUTLOOK

The Group will continue to strengthen, develop and diversify its business portfolio and to further establish a sustainable investment portfolio. Personal care products business is still the core of the Group's business portfolio. New businesses and existing business, including money lending business, operation of an online platform and trading of commodities are developing on an on-going basis, and their proportions in the Group's business portfolio may increase.

Given the slowdown of China's economic growth, and the consumption habits of Chinese consumers have been switched, including: (i) the switch of consumption patterns to electronic commerce and mobile internet; and (ii) the decline of brand loyalty of consumers, the Group is prudent to the future performance of "Prince Frog" brand in children's personal care product industry. In response to the above adverse business environment, the Group will strengthen the promotion of the offline terminal sales to avoid further decline in sales revenue. Meanwhile, the Group will review the current investment on and the return from its "Prince Frog" brand to avoid the continuous loss of personal care products business.

Management Discussion and Analysis (continued)

Looking ahead, the Group expects that the money lending business will record a high growth. The Group will invest more financial resources to expand this business in the coming year, including possible promotion and marketing through media platform. The Group may consider putting certain marketing efforts to promote our brand through various public media. In the coming year, we will expand the business into the personal loan market. In view of the uncertain economy outlook, the Group will operate and expand the business in a cautious and risk-balanced manner to maintain a balanced portfolio. The Group will also expand the mortgage business to corporate clients.

The Group will make better use of internal resources to expand businesses of different scopes to make the Group's business more diversified and to improve the profitability of the Group and the interests of shareholders more effectively. The Group will notice and consider from time to time other investment opportunities, and as appropriate. The Company will make an announcement according to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or "HKEx") as and when appropriate.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Group employed 1,254 employees (as at 31 December 2015: 1,154 employees).

In addition to basic salaries, year-end bonuses may be awarded by the Group 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 labor 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, a share option scheme was adopted by the Company in June 2011 to reward staff members who make contributions to the success of the Group. The directors of the Company believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

To meet the urgent needs for building a team of talents to facilitate the rapid development of the Company, the Group set up a Prince Frog Business College in 2013 to provide training to employees and help them to master relevant skills. The college held 228 courses, which covered fields like corporate strategy and culture, industry overview, professional knowledge, etc., in 2016.

Directors, Secretary and Senior Management Biographies

DIRECTORS

Executive Directors

Mr. Tsai Wallen (蔡華綸), aged 57, was appointed as an executive director of the Company on 19 July 2016. He was also appointed as the Chairman of the Company on 28 November 2016. Mr. Tsai served as an executive director of Dejin Resources Group Company Limited (a company listed on the Stock Exchange; stock code: 1163) from 3 June 2013 to 12 August 2015. Mr. Tsai had also worked as the general manager of Forestry Business at Dejin Resources Group Company Limited. Mr. Tsai started investing in Hong Kong stock market in 1993. Mr. Tsai has over 30 years of experience in realty, investment and timber business. Mr. Tsai graduated in San Francisco City College.

Mr. Ge Xiaohua (葛曉華), aged 47, is an executive director of the Company and a vice general manager of Frog Prince (China) (a wholly-owned subsidiary of the Company). Mr. Ge is currently responsible for the daily administration of R&D Center and Human Resources Center of the Group. He joined the Group in January 2002 and has successively been responsible for the Group's production management and domestic marketing management. Prior to joining the Group, he worked for Nanjing Phosphate Fertilizer Factory (南靖磷肥廠) from March 1991 to August 1997, for Fujian Fulong Biological Products Co., Ltd. (福建福龍生物製品有限公司) from September 1997 to February 1999 and for Zhangzhou Ge Laiya Cosmetics Co., Ltd. (漳州格萊雅化妝品有限公司) as a manager from March 1999 to December 2001. He received a diploma in chemical technology from Fujian Chemical Industry School (福建化工學校) in 1988 and a diploma in economic management from the Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in 1997.

Mr. Huang Xinwen (黃新文), aged 50, is an executive director of the Company and a vice general manager of Frog Prince (China) (a wholly-owned subsidiary of the Company). Mr. Huang has about 12 years of experience in the international trade, and is currently responsible for the Group's international trade and production management. He joined the Group in May 1995 as a part time manager of the equipment division and formally joined the Group as a manager of the international division in March 2003. In August 2004, he was appointed as the manager of the international trade department of the Group, and was appointed as the vice general manager of the Group in October 2006. Mr. Huang was appointed as a director of Prince Frog (HK) Daily Chemicals Company Limited (a wholly-owned subsidiary of the Company) on 12 October 2016. Prior to joining the Group, he once served at the production department of an aluminum container company in Zhangzhou City, Fujian Province. He received a diploma in light industry machinery from Longxi Area Technical School (龍溪地區工業學校) in 1986.

Directors, Secretary and Senior Management Biographies (continued)

Mr. Li Zhouxin (李周欣), aged 33, was appointed as an executive director of the Company on 27 January 2016. He is also the Chief Financial Officer of the Company, primarily responsible for developing the Company's strategic development plans, managing the Company's financial affairs, and assessing the external investment projects and internal audit affairs. Mr. Li joined the Group in November 2011 as the director of strategic development center of Frog Prince (China) (a wholly-owned subsidiary of the Company). Since 1 January 2014, he has served as the chief financial officer of Frog Prince (China), responsible for comprehensive financial management of Frog Prince (China). Mr. Li is currently a director of Frog Prince (China). Mr. Li is also a director of Overseas Travel Science and Technology Limited and Prince Frog (HK) Daily Chemicals Company Limited (wholly-owned subsidiaries of the Company). Mr. Li was also appointed as a director of Prince Frog Investment Limited (a wholly-owned subsidiary of the Company) on 12 October 2016. Prior to joining the Group, Mr. Li worked as an auditor and assistant manager of the audit division at KPMG Consulting (China) Co. Ltd. from August 2007 to December 2010. From December 2010 to November 2011, he served as finance manager at a company listed on the main board of NASDAQ. Mr. Li is currently the Vice Chairman of the 8th Executive Committee of the Youth Business Association of Fujian Province (福建省青年商會). Mr. Li graduated from Fuzhou University with a bachelor degree in finance in 2007. Mr. Li is a PRC certified public accountant (non-practising) and a certified management accountant recognised by Institute of Management Accountants USA. Mr. Li also holds a Certification in Risk Management Assurance accredited by The Institute of Internal Auditors.

Mr. Ma Chi Ming (馬志明), aged 37, was appointed as an executive director and a member of the Remuneration Committee of the Company on 27 January 2017. He obtained Certificate III in Information Technology and Certificate in English for Technical and further education from Sydney Institute of Technology in Australia in 1998 and 1997 respectively. He has over 10 years of experience in sales and business development, formulating marketing strategy as well as monitoring corporate strategy and administration. He also has over 3 years of management experience in money lending business. He is currently an independent non-executive director of L & A International Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange (the "GEM"); stock code: 8195).

Non-executive Director

Mr. Ren Yunan (任煜男), aged 41, was appointed as an independent non-executive director of the Company on 18 February 2011, re-designated to a non-executive director on 16 October 2015. He has served as the Vice Chairman of the Board from 16 October 2015 to 27 January 2017. Mr. Ren graduated from Peking University with a bachelor degree in law in 1997 and received a master degree in law from Harvard Law School in 1999. Mr. Ren was appointed as Managing Director, Private Equity, of CITIC Securities International Company Limited with effect from 5 April 2017. Mr. Ren was appointed as an independent non-executive director of Ronshine China Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 3301) in January 2016, as an independent director of SPI Energy Co., Ltd. (a company listed on the NASDAQ; stock code: SPI) in April 2015, and as a non-executive director of Labixiaoxin Snacks Group Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1262) in February 2015. From June 2016 to October 2016, Mr. Ren has served as a supervisor (as shareholders' representative) of the fifth session of the supervisory committee of Dongjiang Environmental Company Limited (東江環保股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 895) and the Small and Medium Enterprise Board of the Shenzhen Stock Exchange (stock code: 2672). From March 2012 to June 2015, Mr. Ren has served as an independent director and the chairman of audit committee of IDI, Inc. (a company listed on New York Stock Exchange AMEX; stock code: IDI).

Directors, Secretary and Senior Management Biographies (continued)

Independent Non-executive Directors

Mr. Tsao Benedict (曹斌), aged 39, was appointed as an independent non-executive director of the Company, and a member of both of the Audit Committee and the Nomination Committee of the Company on 19 July 2016. Mr. Tsao has served as an agency manager in Ageas Insurance Company (Asia) Limited since 2013. Prior to that, Mr. Tsao served as a district manager in AIA American International Assurance from 1999 to 2013. Mr. Tsao had sufficient knowledge and over 15 years of experience in the insurance industry, and provided consultation as well as services from assets structuring to assets management with a broad client base. Mr. Tsao also possesses extensive knowledge in the financial markets mainly in investment of different kinds of funds, capital market, commodities and financial derivatives. Mr. Tsao was graduated from Simon Fraser University in 1999.

Ms. Chan Sze Man (陳詩敏), aged 35, was appointed as an independent non-executive director of the Company on 20 September 2016. She is also the Chairman of each of the Audit Committee, the Remuneration Committee, and the Nomination Committee of the Company. Ms. Chan received a Bachelor's Degree in Business Administration (majoring in Accountancy) from The Hong Kong University of Science and Technology. Ms. Chan is a member of the Hong Kong Institute of Certified Public Accountants and has over 16 years of experience in accounting and auditing for Hong Kong listed companies and private companies. Ms. Chan is now the chief financial officer and the company secretary of a company listed on the Main Board of the Stock Exchange and an independent non-executive director of Millennium Pacific Group Holdings Limited (a company listed on the GEM; stock code: 8147). Ms. Chan has also been serving as an independent non-executive director on the board of Sunrise (China) Technology Group Limited (a company listed on the GEM; stock code: 8226) for the period from October 2012 to April 2015.

Mr. Ma Kwun Yung Stephen (馬冠勇), aged 36, was appointed as an independent non-executive director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company on 15 March 2017. Mr. Ma has over 7 years of experience in renewable energy management. He obtained a Bachelor degree of Business Systems from Monash University in Australia in 2003 and a Master degree of Applied Finance from The University of Melbourne, Australia in 2005. He is a director and a shareholder of EcoSmart Energy Management Limited, a private company principally engaged in the provision of design, consultation and building of energy projects to private and listed companies.

COMPANY SECRETARY

Ms. So Yee Kwan (蘇漪筠), aged 35, was appointed as a company secretary of the Company on 24 January 2014. Ms. So is a Manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated Business, Corporate and Investor Services. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many companies listed on the Stock Exchange for the past 12 years. Ms. So is a Chartered Secretary and an Associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. So received a Bachelor's degree in International Business Management from Oxford Brookes University in the United Kingdom and a Master of Arts in Professional Accounting and Information Systems from City University of Hong Kong.

Directors, Secretary and Senior Management Biographies (continued)

SENIOR MANAGEMENT

Mr. Liu Longping (劉龍平), aged 39, is the vice general manager and the general manager of the domestic marketing business of Frog Prince (China) (a wholly-owned subsidiary of the Company). Mr. Liu has more than 15 years of experience in sales and marketing. He joined the Group in February 2001 and is responsible for marketing of the children's personal care products of the Group. He received a diploma in foreign economy and financial accounting from Fujian Quanzhou Cishan Finance School (福建泉州慈山財經學校) in 1998 and received a diploma in human resource management from Fujian Agriculture and Forestry University (福建農林大學) in 2007.

Mr. Chen Wanjin (陳萬金), aged 45, joined the Group on 30 April 2015. Mr. Chen established Fujian Azalli Daily Chemicals Ltd. (福建愛潔麗日化有限公司) (i.e, Azalli, a subsidiary of the Company) in 2002 and was the general manager responsible for the daily operation and management of Azalli. He was appointed as a vice general manager of Frog Prince (China) (a wholly-owned subsidiary of the Company) in September 2015. Mr. Chen currently serves as a member of the 5th Council (2014-2017) of China Oral Health Foundation (中國牙病防治基金會第五屆理事會), as a member of the 3rd Preventive Dentistry Professional Committee (第三屆預防口腔醫學專業委員會) under Fujian Stomatological Association (福建省口腔醫學會) and also as a member of the 2nd session of Zhangzhou Association of Enterprises and Entrepreneurs (漳州市企業與企業家聯合會). Mr. Chen received a diploma majoring in public relations and secretary at Fujian Economic School in June 1995. He was conferred two professional and technical qualifications of "Junior Assistant Economist" and "Intermediate Chemical Engineer" from the Public Servant Bureau of Fujian Province (福建省公務員局) and the Office of Human Resources Development of Fujian Province (福建省人力資源開發辦公室) respectively in December 2012 and January 2014.

Ms. Han Xinbin (韓新彬), aged 39, is the production manager of Frog Prince (China) (a wholly-owned subsidiary of the Company). Ms. Han has nearly 15 years of experience in the children's daily chemicals industry of China. She joined the Group in October 2001 and is primarily responsible for management of the production and supply chain of the Group. Prior to joining the Group, she worked for Fujian Longxi Instrument Meter Factory (福建龍溪儀錶廠) from 1996 to 1998. Ms. Han received a diploma in accounting from Xiamen University in 2000.

Mr. Wen Wenzhong (溫文忠), aged 50, is the manager of the research and development and quality guarantee department of Frog Prince (China) (a wholly-owned subsidiary of the Company). Mr. Wen has over 26 years of experience in the research and development of children's personal care products. He joined the Group in May 2005 and is responsible for research and development of our children's personal care products and the management of quality control. Prior to joining the Group, he served as a project engineer in the Research Laboratory of Zhangzhou Chemicals Factory (漳州市化學品廠研究所) for 15 years. Mr. Wen currently serves as a member of National Technical Committee on Fragrance and Flavor Cosmetic of Standardisation Administration (全國香料香精化妝品標準化技術委員會). He received a master degree in organic chemical science from Dalian University of Technology in 1990.

Corporate Sustainability – Environmental and Social

This report follows the Environmental, Social and Governance (ESG) Reporting Guide Appendix 27 of the Main Board Listing Rules.

BOUNDARIES & SCOPE

Our report focuses on our own operations & subsidiaries in Hong Kong (HK) & People Republic of China (PRC) in 2016.

Group office in HK

- China Child Care Corporation Limited

Subsidiaries – Investment holding offices in HK

- Prince Frog Investment Limited
- Prince Frog (HK) Daily Chemical Company Limited
- Plan Ace Holdings Limited
- Joint Success International Investments Limited
- Future Elite Ventures Limited
- Brisk Day Limited
- Amazing Gear Limited
- Easy Honour Limited
- Marvel Paramount Holdings Limited (acquired in December 2016)

Other Subsidiaries in HK

- Axis Consulting Services Company Limited (money leading)
- Focus Great Limited (trading of commodities)
- MyBB Media Company Limited (acquired in December 2016)

Head Office and Principal Place of Business in Fujian, PRC

- 青蛙王子(中國)日化有限公司 ("Frog Prince China") (personal care products)
- 福建愛潔麗日化有限公司 ("Fujian Azalli Daily Chemicals") Limited
- 福建和潤供應鏈管理有限公司 ("Fujian Herun")
- 福建省青蛙王子品牌管理有限公司 ("Fujian Frog Prince Brand")

The Group is principally engaged in the manufacture and sale of personal care products, trading of commodities, money lending, operation of an online platform and investment holding.

Frog Prince (China) is a wholly-owned subsidiary of the Group, which principally engages in the design, manufacture and sales of personal care products in the PRC.

Other new business segments established in 2016 include money lending, trading of commodities, as well as in operation of an online platform focusing on the children, babies and parents (the "CBP") markets to provide marketing, marketing consulting and promotional service, e-commerce business and retail of CBP's products.

Corporate Sustainability – Environmental and Social (continued)

This report will present its company-wide commitment to sustainable development during the year 2016 under review. It will cover the significant environmental and social achievements and impact arising from the activities of the Group office and subsidiaries in HK, Head Office & major manufacturing site in Zhangzhou City, Fujian Province, PRC.

SUSTAINABILITY VISION AND FOCUS

The Group takes an integrated approach to sustainability, incorporating environmental and social considerations into our decision-making and actions. We focus on minimizing the impact of our manufacturing operations in Fujian, PRC on the environment and creating positive impact in the community through our business. In doing so, we are guided by a set of core sustainability values and an effective governance structure.

Our Group believes that promoting sustainability is as important as achieving medium and long-term business growth. It has therefore made continuous efforts to maintain a high degree of sustainability in its Group Office & the subsidiaries in HK, as well as Head Office and manufacturing site in Zhangzhou City, Fujian Province, PRC. Moreover, it values opportunities to learn more about the needs and expectations of the communities in which it operates, as well as those of other stakeholders.

STAKEHOLDER GROUP & ENGAGEMENT

Stakeholder engagement is an integral part of our business development and commitment to corporate sustainability. We develop medium and long-term relationships with stakeholders and consider their views on our business development through various formal and informal, independent and internal stakeholder engagement exercises.

Through our stakeholder engagement exercise for the Sustainability Report and regular engagement activities, we are able to keep an ongoing dialogue with our stakeholders, enabling us to make more informed decisions, and better assess and manage any resulting impact.

(1) Investors and shareholders

- Annual General Meeting
- Investor briefings and press conferences
- Face-to-face meetings
- Conference calls
- Corporate website

(2) Customers

- Annual customer satisfaction survey
- Organizing public events
- Periodic campaign to raise service standards and maintain customer satisfaction
- Guest comment card and client feedback survey
- Designated customer hotline
- Corporate website
- Social media (e.g. online platform at MyBB.com.hk and mobile app)

Corporate Sustainability – Environmental and Social (continued)

(3) Business partners

- Face-to-face meetings
- Independent interviews
- Briefing sessions and seminars

(4) Suppliers

- Face-to-face meetings
- Daily work review
- Supplier assessment
- Independent interviews

(5) Employees

- Training, seminars, briefing sessions
- Social Club activities
- 24-hour Employee Assistance Hotline
- Face-to-face meetings
- Independent focus groups and interviews
- Recreational and volunteering activities

(6) Communities & NGOs

- Employee volunteering activities
- Participation in programs initiated by NGOs
- Organizing public events
- Independent interviews

The Group is considering to establish a more formal stakeholder engagement process and a Sustainability Steering Committee to strengthen its management's efforts to promote sustainability through good corporate governance, environmental protection, community investment and workplace practices. To demonstrate its commitment to transparency and accountability to its stakeholders, the Group incorporate this Sustainability Report to the Annual Report 2016 in compliance with the Appendix 27 Environmental, Social and Governance (ESG) Reporting Guide issued in December 2015 by HKEx, which is applicable to all listed companies on the Main Board of HKEx.

Corporate Sustainability – Environmental and Social (continued)

ENVIRONMENTAL AREA (A)

The Group is committed to protecting the environment and environmental considerations are taken into account very seriously during our decision-making process. Our Board of Directors has overall responsibility for environmental considerations across the Group while each business segment has its own responsibility to implement appropriate environmental measures.

A1 Emissions

In Hong Kong and the Fujian Province, PRC, key air pollutants are identified as: nitrogen oxides ("NOX"), sulphur oxides ("SOX") and respiratory suspended particles ("RSP", also known as Particulate Matter ("PM")). These pollutants tend to be generated by motor vehicles, marine vessels, power plants, and industrial and commercial processes locally. NOX and SOX emissions are also generated from cement, construction and textiles industries.

Another area of emission is known as greenhouse gas ("GHG") emissions. The majority of GHGs are emitted from fossil fuel consumption. The two main sources of GHG emissions are: Electricity purchased from power companies; and Gas purchased from Towngas.

The Group has established a series of policies and guidelines to meet the statutory requirement on emission by local government in HK and PRC. To meet the requirement of relevant China Laws, our manufacturing site in Zhangzhou City, Fujian Province, PRC, Frog Prince (China) has successfully obtained "Certificate on Pollution Control arising from Air Emission" 《污染物排放許可證》which is valid and effective up to 19 May 2021.

Moreover, all our hazardous waste from manufacturing site in Zhangzhou City, Fujian Province, PRC has been properly handle with care. Firstly, we apply the permit approval from the local Environmental Bureau in Zhangzhou City, Fujian Province, PRC. With the valid "transfer permit", we use the professional service of Waste Treatment & Disposal Company (福建綠洲固體廢物處置有限公司) for final disposition.

We try to make use the recycle process to reduce unnecessary solid waste as much as possible to minimize the adverse impact on the environment in Zhangzhou City, Fujian Province, PRC. For those unused material or those could not be recycled, we use the professional company in this filed (漳州市藍田開發區公共事業管理中心) for final disposition.

A2 Use of Resources

By implementing appropriate Energy & Material Management Program in each business segment where we operate, we can positively influence our environmental and economic impact while ensuring business continuity. Currently, our Head Office & manufacturing site in Zhangzhou City, Fujian, PRC, Frog Prince (China) has set up a Committee with a Project Leader to push for more efficient energy & material consumption and fulfill the program's goals.

Our short and medium-term goals are to:

- Implement a good energy & material usage performance monitoring system
- Engage third party logistics services suppliers that meet our environmental standards (as necessary & appropriate)
- Report energy & material usage performance in the annual reporting cycle
- Invest in energy-efficient hardware that is in line with our environmental policies
- Increase staff awareness and commitment

Corporate Sustainability – Environmental and Social (continued)

Our long-term goals are to:

- Reduce energy & material costs, wherever possible
- Define best practice benchmarks for energy consumption & material usage within our Group
- Measure our performance against benchmark levels
- Give higher priority to energy efficiency equipment & investments
- Where possible, to use energy & material from sustainable sources
- Where possible, to negotiate better energy costs with utilities companies

A3 Environmental Impact and Natural Resources

We strive to minimize the environmental impact of our operations by implementing a variety of green measures, including responsible use of resources, reducing carbon emissions, energy saving, waste management and pollution prevention.

We recognize that our operations have an environmental impact, particularly through:

- Lighting, heating and cooling of our offices, stores and warehouses
- Fuel consumption of distribution fleets
- Generation of certain hazardous (e.g. bulb use) and non-hazardous waste
- The manufacturing of chemical products in Zhangzhou City, Fujian Province

As a result, the Group is committed to:

- Enhancing our contributions to environmental sustainability through sustainable development initiatives and implementing good environmental practices
- Regularly reviewing our business practices to identify how we can use resources like energy, water and other raw materials sustainably and more efficiently, while reducing waste and greenhouse gas emissions
- Communicating to suppliers our expectations of responsible and sustainable sourcing and manufacturing will cover relevant aspects respectively
- Recycling program for unused or damaged electrical and electronic equipment
- Reduction of printing paper and finished good packing paper usage
- Various energy savings initiatives, including LED light usage
- Reducing distribution of single-use plastic carrier bags and encouraging the use of more environmentally-friendly carrier bags

Our Head Office and manufacturing site in Zhangzhou City, Fujian Province, PRC, Frog Prince (China) has successfully obtained "Certificate of Environmental Protection and Management " ISO14001 which is valid and effective up to 24 January 2019.

Corporate Sustainability – Environmental and Social (continued)

SOCIAL AREA (B)

B1 Employment

Generally speaking, the Group Office and the subsidiaries in Hong Kong, as well as the Head Office and manufacturing site in Zhangzhou City, Fujian Province, PRC, Frog Prince (China) have a series of written policies and guidelines on the following areas for reference:

- Compensation & dismissal
- Recruitment & promotion
- Working hour
- Rest period
- Equal opportunity
- Diversity
- Anti-discrimination
- Other benefit & welfare

B2 Health & Safe Working Environment

Health and safety issues are important focus areas across all our operations in HK and in Zhangzhou City, Fujian Province, PRC.

The Group is committed to:

- Creating a safe, healthy and supportive environment for all employees
- Providing a working environment that is free from all forms of discrimination
- Ensuring employees at every level receive an appropriate induction so they have the best possible start in our organization
- Providing ample opportunities to enhance one's skill, optimize performance and progress one's career through on-the-job training and well-defined career pathways
- Maintaining proper systems to ensure equal opportunities and competitiveness in staff remuneration and recognition
- Ensuring the company sets clear expectations for individual behavior. This is an integral part of the Group's Human Resources Policy

The Group office & subsidiaries in HK

In our Hong Kong offices, fire safety measures are in place at all our premises. Our Estate Management has been working with the Fire Services Department of the Hong Kong Government to arrange relevant seminars and fire drills to raise employees' awareness on fire safety.

Regular safety inspections and improvement works on our premises are conducted to safeguard our employees and users of our buildings. We keep track of the latest government information on the spread of communicable diseases and provide prompt preventive advice and measures on our intranet.

Corporate Sustainability – Environmental and Social (continued)

Head Office and Manufacturing site in PRC

In Mainland China, our Head Office in Zhangzhou City, Fujian Province, PRC, Frog Prince (China) for child cares products continued to run Safety Operation periodic training to reinforce the culture of safe operation, strengthen employees' awareness on safety and improve their knowledge of work safety law. We also published safety management regulations and guidelines which were distributed to relevant staff.

Our Head Office in Zhangzhou City, Fujian Province, PRC set medium and long term targets on the overall operation safety and establish an occupational health and safety committee. Committee members include senior management staff of the Head Office, are responsible for internet security, road safety, fire safety, occupational safety and health, risk management and safety training. We have conducted various training and workshops during the year, covering safe storage of hazardous chemicals, fire rescue and first aid.

B3 Development and Training

We aim to recruit the best talent who fit our business needs. We create an environment where employees can develop their full potential and contribute their skills and experiences to the medium & long-term development of the Group:

- Organized in-house and external training courses and seminars for staff
- Emphasized health and safety
- Encouraged work-life balance
- Employee Assistance Program offered
- Stress management and wellness-related training and counselling services
- Created a new internship programs to provide job training and career coaching opportunities

To meet the urgent needs for building a team of talents to cope with the development of the Group, our Head Office in Fujian Province, PRC set up an internal department named Frog Prince Business College in 2013 to provide training to employees and help them to master relevant skills. The college offered 228 courses, among which, 52 courses in business school, 130 sessions of internal training, 46 sessions of outside training, covered fields, such as corporate strategy and culture, industry overview, professional knowledge, etc., in 2016.

Corporate Sustainability – Environmental and Social (continued)

B4 Labour Standards

The Group has established standard on recruitment and dismissal in line with the Labour Law & regulation of HK Government and related local Bureau in Fujian Province, PRC.

In particular, the Group is committed to ensure that the goods and services we produce in all our operations in HK and Fujian, PRC are not made at the expense of anyone's childhood or by employee/worker with unlawful identity.

Below summarized our steps for all occasions, we keep child labor and employee/worker with unlawful identity out of their supply chains

- *Engage consumers & clients*

  It is the Group belief that most consumers & clients worldwide are willing to pay more for goods and services that are produced/provided responsibly. Companies that can show consumers their goods were made without child labor and employee/worker with unlawful identity can tap into this growing demand.

- *Support employee & worker voice*

  Listening to employee and workers is one of the most effective ways a company can monitor its supply chains. By respecting employee and workers, the Group can help ensure that they are eliminating and not enabling abusive forms of labour in their supply chains.

- *Be transparent*

  It is the Group's belief that disclosure can be a powerful demonstration of our commitment to making things right.

- *Practice due diligence*

  We perform risk and impact assessments which help us to "see" our supply chains better. These assessments are integral to a responsible due diligence process. They are an essential tool for the Group seeking sustainability in their supply chains.

- *Put in place meaningful grievance mechanisms*

  It is the Group's belief that we should ensure that safe, accessible channels are available to all employee and workers to lodge complaints about any issue related to their code of conduct. Standard procedures have also been in place for handling and resolving complaints to protect employee and workers from reprisal.

- *Link with other supplier incentives*

  The Group is committed to integrate child labor and other human rights issues by appropriate occasions into other dealings with suppliers, making them complementary and mutually-reinforcing.

Corporate Sustainability – Environmental and Social (continued)

B5 Supplies Chain Management

The Group is committed to:

- Supporting the interests of our customers by focusing on product and service quality, value and safety
- Providing products and service that comply with all applicable legislations in their distribution markets
- Maintaining clear and constant customer communications channels, listening actively to feedback and responding swiftly to complaints
- Safeguarding our operations against unfair business practices
- Ensuring business contracts clearly set out the agreed terms, conditions and the basis of our relationship
- Communicating to our suppliers the importance of responsible sourcing and social compliance in the areas of health, safety and worker welfare
- Encouraging suppliers and contractors to adopt responsible business policies and practices for mutual benefit
- Offering more sustainable Own Brand products and choices to our customers

Own Brand Product Packaging

The Group readily reports information on packaging waste generated by Own Brand products as legally required in various Markets. Together with our internal development teams and suppliers, we aim to reduce the amount of packaging used in our Own Brand products, wherever possible, while ensuring they still perform two essential functions:

- To contain and preserve our products throughout their lifetime

- To provide all required legal written information to our customers

B6 Product Responsibility and Safety

Business Segment: Manufacture and Sales of Personal Care Products

- All our products manufactured by our manufacturing site in Fujian Province, PRC, Frog Prince (China) go through rigorous quality controls, both internally and externally, with ISO9001, ISO14001, ISO22716 and OHSAS 18001, accredited Third Party laboratories and other Quality experts.

- We make use of a mix of controls before shipment and upon reception in our warehouses. Controls include labeling review, product conformity and other safety checks.

- We make use of a mix of internal audits with our qualified engineers and external audits with independent Third Party auditors.

Post-Market Surveillance for Own Brand products: Ongoing Post Market Surveillance is conducted with regular re-assessment of our Own Brand in store. Our product sampling program ensures on-going Quality and Safety by rechecking selected products against original specifications.

Corporate Sustainability – Environmental and Social (continued)

Business Segment: Money Lending

The Group conduct money lending business in Hong Kong starting in 2016 through the provision of unsecured and secured loans to customers, which has been in compliance to the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Business Segment: MyBB website sales & services

The operation of an online platform focusing on CBP markets to provide marketing, marketing consulting and promotional service, e-commerce business and retail of CBP's products in Hong Kong. A registration process has been established by all members and they need to comply the guidelines and code of conduct of the website.

B7 Anti-corruption

The Group has a set of anti-corruption policy to ensure compliance by all employees, officers and directors of the Group, and its subsidiaries and affiliates, with the FCPA and related anti-corruption laws of Hong Kong and PRC in which the business segment does or intends to do business.

Bribes, Kickbacks or Other Corrupt Payments

All employees are prohibited from directly or indirectly offering, giving, soliciting or receiving any form of bribe, kickback or other corrupt payment, or anything of value, to or from any person or organization, including government agencies, individual government officials, private companies and employees of those private companies under any circumstances.

Facilitation Payments

Generally speaking, the Group prohibits the payment of facilitation payments except under very exceptional special occasions and only with prior approval by the Board of Directors (or, if prior approval is not reasonably possible given the circumstances, as soon as possible following such payment)

Relationships with Third Parties

The Group prohibits corrupt offers, promises and payments made through partners, intermediary agents, joint ventures, or third parties. In addition, contracts with agents or third-party representatives and joint venture partners should, to the extent possible, include provisions to mitigate against the risk of potential illicit payments.

ICAC Hong Kong

In our Hong Kong Group office, the Independent Commission Against Corruption (ICAC) has been invited to run briefing sessions on integrity to raise our staff's awareness on the risks of corruption and related malpractices in the workplace.

Corporate Sustainability – Environmental and Social (continued)

Looking forward, we plan to invite representatives from the Office of the Privacy Commissioner for Personal Data and the Equal Opportunities Commission to hold seminars on statutory requirements on a regular basis. Moreover, another plan is to invite a professional lawyer to brief our staff on the newly enacted Competition Ordinance.

B8 Community

Through our Social & Community initiatives, the Group is committed to supporting and encourage our Head Office in Zhangzhou City, Fujian Province, PRC, Frog Prince (China) to:

- Initiate dialogue with local communities for mutual benefits
- Develop programs with local community organizations that are relevant to our business and beneficial to local community needs
- Get employees involved in local community organizations and activities
- Establish a long-term partnership with relevant charitable organization(s) and to make local donations and sponsorships that are in line with the company's policy
- Support and care for the elderly, persons with disabilities, children and women
- Environmental awareness
- Support for child athletes
- Beauty empowerment and self-confidence campaigns
- Cooperated with South China University of Technology to enhance the capability in R&D
- Cooperated with leading raw material suppliers in the industry to develop more natural and moisturizing products
- Cooperated with domestically well-known R&D agencies to develop products designed for alleviating children's skin problems

Our core sustainability values:

- We believe a thriving community facilitates our continuing business success

- We consider ongoing communication with our stakeholders as vitally important to upholding the well-being of the community

- We will continue to engage with our stakeholders' views and work together with them to achieve a win-win scenario

Corporate Sustainability – Environmental and Social (continued)

SOCIAL RESPONSIBILITY

- During 2016, the Group together with China Women's Development Foundation (中國婦女發展基金會) organized the nationwide charity project titled "Safeguard the Childhood" (守護童年), and donated children's personal care products with a total value of RMB1.0 million to left-behind children and families in poor areas.

- Worked with China National Committee for The Wellbeing of The Youth Charity Culture Centre (中國關心下一代工作委員會公益文化中心), China Foundation for the Development of Social Culture (中華社會文化發展基金會), China Education Television Association (中國教育電視協會) and Union of Chinese Talent Education Development (中國特長生教育發展聯盟) to launch the event of the Social, Art and Educational Innovation and Development of Youth Forum and the 2016 China – We Are Family Charity Project (青少年社會藝術教育創新發展論壇暨2016中華大家園公益項目). The event set a "Prince Frog Award" to reward youth's and children's outstanding performances and to support children from poor families to participate in educational activities for students with special talents.

- Donated RMB1.0 million to China Women's Development Foundation (中國婦女發展基金 會) to re-launch the charity project titled "Safeguard the Childhood" (守護童年), which was hosted by the All China Women's Federation (全國婦聯) and co-sponsored by China Women's Development Foundation (中國婦女發展基金會) together with over 100 nonprofit organizations, and a charity summer camp named Prince Frog "First Class of Safety" (安全第一課) will be carried out during the summer holiday. In addition, the Group together with China Women's Development Foundation (中國婦女發展基金會) donated relief supplies with a total value of RMB300,000 to areas affected by heavy rainfall in Yancheng City, Jiangsu Province, care and love from Prince Frog for the children in affected areas were sent out in the first instance.

- Conducted 8 interactive experiential activities at the tourism factory that is located in Zhangzhou City, Fujian Province, enabling more children to take a closer look at Prince Frog.

AWARDS & RECOGNITIONS IN 2016

The Group was honoured with the following awards and recognitions in 2016:

1. The Group was awarded the title of "Enterprise Caring for Art Education of the Next Generation" (關心下一代藝術教育愛心企業) by China National Committee for The Wellbeing of The Youth Charity Culture Centre (中國關心下一代工作委員會公益文化中心).

2. The Group was awarded "2015 Medal Award for Public Welfare of China's Children and Teenagers" (2015年中國兒童少年公益事業勳章獎) by Organizing Committee for the Development of Chinese Enterprises' Public Welfare Undertakings (中國企業公益事業發展組織委員會).

3. The Group was awarded the titles of "Leading Brand in National Children Care Industry" (全國兒童護理行業質量領先品牌), "National Reliable Quality Product" (全國質量信得過產品) and "Excellent Enterprise for Trustworthy Quality Product and Service in China" (全國產品和服務質量誠信示範企業) by China Quality Inspection Association (中國質量檢驗協會).

4. "Frog Prince Anti-wrinkle and Nourishing Cream for Children" of the Group was awarded the title of "2015 Popular Skin Care Products with Good Reputation among Mothers on www.ci123.com" (2015年度育兒網媽媽口碑之選年度護膚產品人氣產品) by www.ci123.com (育兒網), Mother Zone (媽媽社區) and Pregnancy Reminder (孕期提醒).

5. The Group's "Prince Frog children's bath products", "Prince Frog children's toothpaste -and toothbrushes" and "Prince Frog children's skin care products" respectively ranked the "first place in 2015 overall market share among similar products" appraised by China General Chamber of Commerce (中國商業聯合會) and China National Commercial Information Center (中華全國商業信息中心).

6. The Group was listed among the "Good Brands of China" (中國好品牌) of 21st China Beauty Expo granted by the Organization Committee of the 21st China Beauty Expo (Shanghai CBE).

7. The Group was awarded the "Assessment Certificate of Management System for the Integration of Informatization and Industrialization" (兩化融合管理體系評定證書) by Beijing Grand Honour Certification Co., Ltd. (北京國金衡信認證有限公司).

8. The Group was elected as a member unit of the eighth session of board of China Association of Fragrance Flavour and Cosmetics Industries (中國香料香精化妝品工業協會), and was engaged as the vice chief committee member of Cosmetics Regulatory Engagement Committee of China Association of Fragrance Flavour and Cosmetics Industries.

9. The brand of "Prince Frog" was awarded as "2016 Most Favorable Brand for Mother & Infant Supplies by Chinese Mothers" (2016年度最受中國媽媽喜愛的母嬰用品品牌) by beibei.com (貝貝網).

10. The cartoon character of "Prince Frog" (青蛙王子) was awarded "Excellent Cartoon Character Marketing Example" (優秀卡通形象行銷案例獎) by 2016 China Cartoon Character Marketing Summit.

11. The Group was awarded "2016 Mei Sheng Babies' and Children's Category Award" (2016年度美盛嬰童品類大獎) by the Organization Committee of China Beauty Expo (Shanghai CBE) (中國美容博覽會(上海CBE)組委會).

12. The brand of "Prince Frog" was awarded "2016 Children's Category No. 1 on China Cosmetic Brand Ranking List" (2016中國化妝品品牌榜兒童品類第一名) by Cosmetic Newspaper (化妝品報).

Corporate Sustainability – Environmental and Social (continued)

AREA 1 ENVIRONMENTAL

Aspect 1	**A1- Emissions**		
	Policies and compliance relating to emissions, discharges, and wastes		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 2	**A2- Use of Resources**		
	Policies on the efficient use of resource		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 3	**A3- Impact on Environment and Natural Resources**		
	Policies on minimising environmental impacts		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied

AREA 2 SOCIAL

Aspect 1	**B1- Employment**		
	Policies and compliance relating to employment		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 2	**B2- Health and safe working Environment**		
	Policies and compliance relating to occupational health & safety		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 3	**B3- Development and training**		
	Policies on development & training		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 4	**B4- Labour standards**		
	Policies and compliance relating to child & forced labour		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied

Corporate Sustainability – Environmental and Social (continued)

Aspect 5	**B5- Supply chain management**		
	Policies environmental and social risks of the supply chain		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 6	**B6- Product responsibility and safety**		
	Policies and compliance to product responsibility matters		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 7	**B7- Anti-corruption**		
	Policies and compliance to anti-corruption		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied
Aspect 8	**B8- Community**		
	Policies on community engagement and consideration of community issues		
	Policies available & in place:	Yes/No	Yes
	Compliance:	Complied/In progress/Not yet started	Complied

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business. The Board is committed to strengthening the Group's corporate governance practices and ensuring transparency and accountability of the Company's operations.

The Company has applied the principles as contained in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Board considers that during the year ended 31 December 2016, the Company has complied with the code provisions set out in the CG Code, except for the code provision A.2.1. Key corporate governance principles and practices of the Company as well as the details of the foregoing deviation are summarized below.

A. THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and oversees the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Company and enhancing value to investors. All the directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and its shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

The senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the above-mentioned officers. The Board has the full support of the senior management to discharge its responsibilities.

Corporate Governance Report (continued)

A2. Board Composition

The composition of the Board as at 31 December 2016 is as follows:

Executive directors:

Mr. Tsai Wallen	*(Chairman of the Board)*
Mr. Ge Xiaohua	
Mr. Huang Xinwen	
Mr. Li Zhouxin	

Non-executive directors:

Mr. Ren Yunan	*(Vice Chairman of the Board)*
Mr. Li Zhenhui	*(Member of the Remuneration Committee)*

Independent non-executive directors:

Ms. Chan Sze Man	*(Chairman of the Audit Committee, Chairman of the Remuneration Committee and Chairman of the Nomination Committee)*
Mr. Tang Shuo	*(Member of the Audit Committee, Member of the Remuneration Committee and Member of the Nomination Committee)*
Mr. Tsao Benedict	*(Member of the Audit Committee and Member of the Nomination Committee)*

During the year under review, the Company was once unable to meet the following requirements due to the resignation of Mr. Lee Man Chiu as an independent non-executive director of the Company on 20 May 2016: (i) Listing Rule 3.10(1), which prescribes that the board of directors of a listed issuer must include at least three independent non-executive directors; and (ii) Listing Rule 3.10A, which prescribes that a listed issuer must appoint independent non-executive directors representing at least one-third of the board.

The Company had subsequently fully complied with the aforesaid Listing Rules requirements upon its appointment of Mr. Tsao Benedict as an independent non-executive director of the Company on 19 July 2016. Details of the above-mentioned changes are set out in the Company's announcements dated 20 May 2016 and 19 July 2016 respectively.

Subsequent to the year ended 31 December 2016: (i) Mr. Li Zhenhui has resigned as a non-executive director and a member of the Remuneration Committee of the Company, Mr. Ren Yunan has resigned as the Vice Chairman of the Board, and Mr. Ma Chi Ming has been appointed as an executive director and a member of the Remuneration Committee of the Company with effect from 27 January 2017; and (ii) Mr. Tang Shuo has resigned and Mr. Ma Kwun Yung Stephen has been appointed as an independent non-executive director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 15 March 2017.

Corporate Governance Report (continued)

The members of the Board have experience and skills appropriate for the business requirements and objectives of the Group. Each executive director is responsible for different business and functional divisions of the Group in accordance with his areas of expertise. The independent non-executive directors bring different business and financial expertise, experience and independent judgment to the Board, and they are invited to serve on the Board committees of the Company. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests, the independent non-executive directors had made contributions to the effective direction of the Company and provided adequate supervision and balances to safeguard the interests of both the Group and the shareholders.

The biographical details of the directors of the Company are set out under the section headed "Directors, Secretary and Senior Management Biographies" in this annual report. None of the members of the Board is related to one another.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent in light of the independence guidelines set out in the Listing Rules.

A3. Chairman and Chief Executive

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

Mr. Li Zhenhui had been holding the positions of Chairman and Chief Executive Officer of the Company. He has over 23 years of experiences in personal care products industry.

The Board believed that vesting the roles of both Chairman and Chief Executive Officer in Mr. Li Zhenhui provided the Company with strong and consistent leadership and allowed for effective and efficient planning and implementation of business decisions and strategies.

The Board also considers that the above-mentioned structure of vesting the roles of Chairman and Chief Executive in the same person did not impair the balance of power and authority between the Board and the management of the Company.

On 23 September 2016, Mr. Li Zhenhui resigned as the Chairman and Chief Executive Officer of the Company. Subsequently on 28 November 2016, Mr. Tsai Wallen, an executive director of the Company, was appointed as the Chairman of the Company.

Corporate Governance Report (continued)

A4. Appointment and Re-election of Directors

The Company's Articles of Association contain provisions on the procedures and process of appointment and removal of directors.

Each director, including the non-executive director and independent non-executive directors, is engaged for a term of three years, subject to renewal upon expiry of the term. They are also subject to re-election in accordance with the Company's Articles of Association provisions.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

A5. Training and Continuing Development for Directors

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group, and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development for directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to directors from time to time for their studying and reference.

During the year ended 31 December 2016, all directors complied with the code provision A.6.5 of the CG Code on participation in continuous professional training as follows:

– The Company organized training sessions relating to directors' duties and responsibilities, corporate governance and the Group's business. Mr. Ge Xiaohua, Mr. Huang Xinwen, Mr. Li Zhouxin and Mr. Li Zhenhui attended such training sessions.

– All directors (being Mr. Tsai Wallen, Mr. Ge Xiaohua, Mr. Huang Xinwen, Mr. Li Zhouxin, Mr. Ren Yunan, Ms. Chan Sze Man, Mr. Tang Shuo, Mr. Tsao Benedict, Mr. Li Zhenhui, Mr. Xie Jinling, Ms. Hong Fang, Mr. Chen Shaojun, Mr. Wong Wai Ming and Mr. Lee Man Chiu) received regular briefings and updates from the Company on the Group's business, operations and corporate governance matters.

Corporate Governance Report (continued)

- Mr. Ge Xiaohua, Mr. Li Zhouxin and Mr. Li Zhenhui attended relevant seminars organized by other professional firms/institutions/the Stock Exchange.
- Mr. Ge Xiaohua, Mr. Huang Xinwen, Mr. Li Zhouxin, Mr. Tang Shuo and Mr. Li Zhenhui read technical bulletins, periodicals and other publications on subjects relevant to the Group and on their responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

A6. Directors' Attendance Records

The attendance records of each director at the Board and Board committees meetings and the annual general meeting of the Company held during the year ended 31 December 2016 are set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive directors:					
Mr. Tsai Wallen *(Note 1)*	3/3	N/A	N/A	N/A	–
Mr. Ge Xiaohua	7/7	N/A	N/A	N/A	1/1
Mr. Huang Xinwen	7/7	N/A	N/A	N/A	1/1
Mr. Li Zhouxin *(Note 2)*	6/6	N/A	N/A	N/A	1/1
Mr. Xie Jinling *(Note 3)*	4/4	N/A	N/A	N/A	1/1
Ms. Hong Fang *(Note 4)*	1/1	N/A	N/A	N/A	–
Non-executive directors:					
Mr. Ren Yunan *(Note 5)*	7/7	1/1	N/A	1/1	1/1
Mr. Li Zhenhui *(Note 6)*	7/7	N/A	1/1	N/A	1/1
Independent non-executive directors:					
Ms. Chan Sze Man *(Note 7)*	2/2	–	–	–	–
Mr. Tang Shuo *(Note 8)*	4/4	1/1	–	–	1/1
Mr. Tsao Benedict *(Note 9)*	3/3	1/1	N/A	–	–
Mr. Chen Shaojun *(Note 10)*	3/3	2/2	1/1	1/1	–
Mr. Wong Wai Ming *(Note 11)*	6/6	2/2	1/1	1/1	1/1
Mr. Lee Man Chiu *(Note 12)*	3/3	N/A	N/A	N/A	–

Corporate Governance Report (continued)

Notes:

1. Mr. Tsai Wallen was appointed as an executive director with effect from 19 July 2016. After his appointment, 3 Board meetings and no general meeting were held during the year ended 31 December 2016.

2. Mr. Li Zhouxin was appointed as an executive director with effect from 27 January 2016. After his appointment, 6 Board meetings, 1 annual general meeting and no extraordinary general meeting were held during the year ended 31 December 2016.

3. Mr. Xie Jinling resigned as an executive director with effect from 19 July 2016. Before his resignation, 4 Board meetings, 1 annual general meeting and no extraordinary general meeting were held during the year ended 31 December 2016.

4. Ms. Hong Fang resigned as an executive director with effect from 27 January 2016. Before her resignation, 1 Board meeting and no general meeting were held during the year ended 31 December 2016.

5. Mr. Ren Yunan resigned as a member of both the Audit Committee and Nomination Committee with effect from 19 July 2016. Before his resignation as a member of the Board Committees, 1 Audit Committee meeting and 1 Nomination Committee meeting were held during the year ended 31 December 2016.

6. Mr. Li Zhenhui was re-designated from an executive director to a non-executive director with effect from 23 September 2016.

7. Ms. Chan Sze Man was appointed as an independent non-executive director with effect from 20 September 2016. After her appointment, 2 Board meetings and no general meeting were held during the year ended 31 December 2016. Ms. Chan was also appointed as the Chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 11 November 2016. After her appointment of Chairman of the Board Committees, no Audit Committee meeting, Remuneration Committee meeting and Nomination Committee meeting were held during the year ended 31 December 2016.

8. Mr. Tang Shuo was appointed as an independent non-executive director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 4 May 2016. After his appointment, 4 Board meetings, 1 Audit Committee meeting, 1 annual general meeting, no Remuneration Committee meeting, no Nomination Committee meeting and no extraordinary general meeting were held during the year ended 31 December 2016.

9. Mr. Tsao Benedict was appointed as an independent non-executive director and a member of both the Audit Committee and Nomination Committee with effect from 19 July 2016. After his appointment, 3 Board meetings, 1 Audit Committee meeting, no Nomination Committee meeting and no general meeting were held during the year ended 31 December 2016.

10. Mr. Chen Shaojun resigned as an independent non-executive director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 4 May 2016. Before his resignation, 3 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and no general meeting were held during the year ended 31 December 2016.

11. Mr. Wong Wai Ming resigned as an independent non-executive director and the Chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee with effect from 11 November 2016. Before his resignation, 6 Board meetings, 2 Audit Committee meetings, 1 Remuneration Committee meeting, 1 Nomination Committee meeting and 1 annual general meeting and no extraordinary general meeting were held during the year ended 31 December 2016.

12. Mr. Lee Man Chiu resigned as an independent non-executive director with effect from 20 May 2016. Before his resignation, 3 Board meetings and no general meeting were held during the year ended 31 December 2016.

Corporate Governance Report (continued)

In addition, the Chairman of the Board held a meeting with the non-executive directors (including the independent non-executive directors) without the presence of executive directors during the year under review.

A7. Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Each director has been given a copy of the Model Code. Specific enquiry has been made of all the Company's directors and they have confirmed their compliance with the Model Code throughout the year ended 31 December 2016.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines"), governing securities transactions by employees who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and relevant employees in advance.

A8. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the CG Code.

During the year under review, the Board has performed such corporate governance functions as follows: (i) reviewed and developed the Company's corporate governance policies and practices, (ii) reviewed and monitored the training and continuous professional development of directors and senior management, (iii) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements, (iv) reviewed and monitored the compliance of the Model Code and the Employee Written Guidelines, and (v) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

B. BOARD COMMITTEE

The Board established three Board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the Stock Exchange's website (www.hkexnews.hk) and on the Company's website. All the Board committees should report to the Board on their decisions or recommendations made.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Corporate Governance Report (continued)

B1. Remuneration Committee

The members of the Remuneration Committee during the year and as at the date of this report were as follows:

Executive director

Mr. Ma Chi Ming	*(Appointed as a member on 27 January 2017)*

Non-executive director

Mr. Li Zhenhui	*(Re-designated from an executive director to a non-executive director on 23 September 2016, and resigned as a member on 27 January 2017)*

Independent non-executive directors

Ms. Chan Sze Man	*(Appointed as the Chairman on 11 November 2016)*
Mr. Ma Kwun Yung Stephen	*(Appointed as a member on 15 March 2017)*
Mr. Wong Wai Ming	*(Resigned as the Chairman on 11 November 2016)*
Mr. Chen Shaojun	*(Resigned as a member on 4 May 2016)*
Mr. Tang Shuo	*(Appointed as a member on 4 May 2016 and resigned as a member on 15 March 2017)*

The majority of the Remuneration Committee members are independent non-executive directors.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure, the remuneration packages of executive directors and members of senior management (i.e. the model described in the code provision B.1.2(c)(ii) of the CG Code is adopted) and the remuneration of non-executive directors. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by the Board with reference to the performance of the individual and the Group as well as market practice and conditions.

During the year ended 31 December 2016, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above). The Remuneration Committee performed the following major works during the year:

– Generally review and discussion of the remuneration packages, policy and structure of the directors and the senior staff of the Group, and recommendation to the Board;

– Consideration of and recommendation to the Board on the remuneration packages for the directors newly appointed/re-designated during the year.

Corporate Governance Report (continued)

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration band (RMB)	Number of individuals
0 – 250,000	2
250,001 – 500,000	2

Details of the remuneration of each director of the Company for the year ended 31 December 2016 are set out in note 11 to the financial statements contained in this annual report.

B2. Nomination Committee

The members of the Nomination Committee during the year and as at the date of this report were as follows:

Non-executive director

Mr. Ren Yunan	*(Resigned as a member on 19 July 2016)*

Independent non-executive directors

Ms. Chan Sze Man	*(Appointed as the Chairman on 11 November 2016)*
Mr. Tsao Benedict	*(Appointed as a member on 19 July 2016)*
Mr. Ma Kwun Yung Stephen	*(Appointed as a member on 15 March 2017)*
Mr. Wong Wai Ming	*(Resigned as the Chairman on 11 November 2016)*
Mr. Chen Shaojun	*(Resigned as a member on 4 May 2016)*
Mr. Tang Shuo	*(Appointed as a member on 4 May 2016 and resigned as a member on 15 March 2017)*

The majority of the Nomination Committee members are independent non-executive directors.

The principal responsibilities of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of the independent non-executive directors.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the diversity on the Board, the integrity, experience, skills, professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

Corporate Governance Report (continued)

The Company also recognizes and embraces the benefit of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board diversity. To comply with the code provision A.5.6 of the CG Code, a Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the Board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives, if any, will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the year ended 31 December 2016, the Nomination Committee has held 1 meeting (the attendance records of each Committee member are set out in section A6 above). The Nomination Committee performed the following major works during the year:

– Review of the Board composition and structure;

– Consideration of and recommendation to the Board on the re-election of the retiring directors at the 2016 annual general meeting;

– Assessment of the independence of the then three independent non-executive directors of the Company;

– Consideration of and recommendation to the Board on the changes in compositions of the Board and Board Committees during the year.

B3. Audit Committee

The members of the Audit Committee during the year and as at the date of this report were as follows:

Non-executive director

Mr. Ren Yunan	*(Resigned as a member on 19 July 2016)*

Independent non-executive directors

Ms. Chan Sze Man	*(Appointed as the Chairman on 11 November 2016)*
Mr. Tsao Benedict	*(Appointed as a member on 19 July 2016)*
Mr. Ma Kwun Yung Stephen	*(Appointed as a member on 15 March 2017)*
Mr. Wong Wai Ming	*(Resigned as the Chairman on 11 November 2016)*
Mr. Chen Shaojun	*(Resigned as a member on 4 May 2016)*
Mr. Tang Shuo	*(Appointed as a member on 4 May 2016 and resigned as a member on 15 March 2017)*

Corporate Governance Report (continued)

The majority of the Audit Committee members are independent non-executive directors. The Chairman of the Audit Committee possesses the appropriate professional qualifications, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditors and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control system and risk management system.

The Audit Committee performed the following major works during the year:

– Review and discussion of the annual financial statements, results announcement and report for the year ended 31 December 2015, the related accounting principles and practices adopted by the Group and internal controls related matters, and recommendation of the re-appointment of the external auditors;

– Review and discussion of the interim financial statements, results announcement and report for the six months ended 30 June 2016, and the related accounting principles and practices adopted by the Group;

– Review of the internal control and risk management matters and internal audit function of the Group, and recommendation to the Board;

– Review of the status of compliance with the undertakings under the Deed of Non-Competition (as defined in the Company's prospectus) by the relevant parties;

– Review of the continuing connected transaction of the Group;

– Discussion of the Company's preparation for publication of the Environmental, Social and Governance Report under the requirements of the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Listing Rules;

– Consideration of appointment of CCTH CPA Limited ("CCTH") as auditor to fill the vacancy left by the resignation of Ernst & Young during the year, and recommendation to the Board.

During the year ended 31 December 2016, the Audit Committee has held 2 meetings (the attendance records of each Committee member are set out in section A6 above).

The external auditors were invited to attend the said meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the appointment/re-appointment of external auditors.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

D. RISK MANAGEMENT AND INTERNAL CONTROLS

The Group's risk management and internal control systems have been designed to protect assets from misappropriation and unauthorized transactions and to manage operational risks.

The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing their effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness.

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

Corporate Governance Report (continued)

The management, in coordination with department heads, assessed the likelihood of risk occurrence, ranked these risks according to the likelihood and the severity of the impact on the Group, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management would report to the Audit Committee and the Board on all findings and the effectiveness of the risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems, and make recommendations.

The Audit Committee also ensures that an overall review of the effectiveness of such systems is conducted at least annually and put forward to the Board for consideration.

During the year under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects of the Group. The systems were considered effective and adequate.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of Chief Audit Executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Regarding the handling and dissemination of inside information, the Group has practice policy in place.

E. COMPANY SECRETARY

The Company's joint company secretaries were Ms. So Yee Kwan of Tricor Services Limited, an external service provider, and Ms. Huang Yishan. On 15 January 2016, Ms. Huang Yishan resigned as the Company's joint company secretary. Immediately after Ms. Huang's resignation, Ms. So Yee Kwan continues to act as the sole company secretary of the Company. The primary contact of Ms. So Yee Kwan at the Company is Mr. Li Zhouxin, an executive director and the Chief Financial Officer of the Company.

During the year ended 31 December 2016, Ms. So Yee Kwan has taken not less than 15 hours of relevant professional training.

F. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

With effect from 18 November 2016, Ernst & Young resigned as the auditors of the Company. With effect from 24 November 2016, CCTH was appointed as the new auditor of the Company to fill the vacancy left by the resignation of Ernst & Young. Details of the above-mentioned changes are set out in the Company's announcement dated 24 November 2016.

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2016 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young, the former auditors of the Company, and CCTH, the Company's existing auditor, in respect of audit services and non-audit services for the year ended 31 December 2016 are analyzed below:

	Fee paid/payable to	
Type of services provided by the external auditors	**Ernst & Young** *RMB*	**CCTH CPA Limited** *RMB*
Audit services:		
– Audit fee for the year ended 31 December 2016	–	1,800,000
Non-audit services:		
– Agreed upon procedures on interim results for the six months ended 30 June 2016	606,000	–
– Other services	–	20,000
TOTAL:	606,000	1,820,000

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables shareholders and investors to make the best investment decision.

The Company maintains a website at www.princefrog.com.cn, as a communication platform with shareholders and investors, where extensive information and updates on the Company's business developments and operations, financial information and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company as follows:

Address:	No. 8, North Wuqiao Road, Lantian Economic Development Zone, Zhangzhou City, Fujian Province, The People's Republic of China
Fax no.:	(86) 596 217 2553
Email:	ir@princefrog.com.cn

Inquiries are dealt with in an informative and timely manner.

Besides, shareholders' meetings provide an opportunity for communication between the Board and the shareholders. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

H. SHAREHOLDER RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. The Company's shareholders may convene an extraordinary general meeting or put forward proposals at shareholders' meetings as follows:

(1) Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 58 of the Company's Articles of Association by sending a written requisition to the Board or the Company Secretary at the Company's head office/principal place of business in Hong Kong. The objects of the meeting must be stated in the written requisition.

(2) If a shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, pursuant to Article 85 of the Company's Articles of Association, the shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the shareholder, of his/her/its intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's head office/principal place of business in Hong Kong, or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end 7 days prior to the date of such general meeting.

Corporate Governance Report (continued)

For the avoidance of doubt, shareholder(s) must provide their full name, contact details and identification, in the originally signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of shareholder(s) may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association of the Company is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of shareholders.

All resolutions put forward at shareholders' meetings shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.princefrog.com.cn) after each shareholders' meeting.

Report of the Directors

The directors of Company present their report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the manufacture and the sale of personal care products, trading of commodities, money lending, operation of an online platform and investment holding.

BUSINESS REVIEW

The business review required under Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's performance during the year using financial key performance indicators and an indication of likely future development in the Group's business, is set out in the "Management Discussion and Analysis" on pages 5 to 16 of this annual report. This discussion forms part of this "Report of the Directors".

FINANCIAL STATEMENTS

The Group's loss for the year ended 31 December 2016 and the Group's financial position at that date are set out in the financial statements on pages 83 to 170 of this annual report.

SHARE CAPITAL

There were no movements in the Company's share capital during the year. Details of the Company's share capital are set out in note 31 to the financial statements.

FINAL DIVIDEND

The directors of the Company do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2016.

SUMMARY FINANCIAL INFORMATION

A summary of the financial information of the Group for the last five financial years is set out on page 171 of this annual report. This summary does not form part of the audited financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017 (both days inclusive) for the purpose of determining the right to attend and vote at the 2017 annual general meeting ("2017 AGM") to be held on Thursday, 15 June 2017. In order to be entitled to attend and vote at the 2017 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied with the corresponding share certificates are lodged with the Company's branch share registrar and transfer office (i.e. Computershare Hong Kong Investor Services Limited) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 June 2017.

Report of the Directors (continued)

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company is incorporated in the Cayman Islands while most of the Group's operations are performed in domestic China and the Company is listed on the Stock Exchange. During the year ended 31 December 2016, as far as the Board is aware, there was no material breach of or non-compliance with the applicable laws and regulations that have a significant impact on the Group's business and operation by the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties that the Group faces during its operation. Such risks and uncertainties include factors such as economy conditions of both inside and outside China, PRC's foreign exchange policies, changes relating to laws and regulations and enforcement policies, and the price and supply of raw materials. While these risks continue to exist, the Group will closely monitor any signs of these occurrence and all departments of the Group will be involved in identifying and evaluating risks relating to their operational scope. Subsequently, appropriate plans will be devised to minimize the impacts derived from risks and uncertainties confronting the operation of the Group.

ENVIRONMENTAL PROTECTION POLICY

The Group has established a dedicated environmental protection department. The environmental protection department is responsible for overseeing the environmental protection of the Group as a whole, such as formulating environmental-related guidelines and policies for the Group in order to ensure compliance with the applicable environmental laws, regulations and standards, monitoring the latest development in the environmental-related laws, regulations and standards in the PRC in order to ensure the internal environmental protection guidelines and policies of the Group is appropriate, monitoring the compliance with the applicable environmental laws, regulations and standards by regularly inspecting the production facilities and the pollutant discharge facilities of the Group, handling the application for environmental protection approvals, and the inspection and any other necessary filings for the construction projects of the Group, liaising with the governmental environment protection authorities in the PRC as and when required, and formulating contingency plan for any environmental-related emergency and handling such emergency.

Please refer to "Corporate Sustainability – Environmental and Social" as set out on pages 21 to 35 of this annual report for the details of environmental policies and performance of the Company.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB336,593,000. In addition, the Company's share premium account, in the amount of RMB448,802,000, may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 42.0% of the total sales for the year, and the sales to the Group's largest customer accounted for 10.6% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 63.3% of the total purchases for the year, and the purchases from the largest supplier accounted for 45.1% of the total purchases for the year.

None of the directors of the Company or any of their close associates or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's number of issued shares) had any beneficial interest in the Group's five largest customers or suppliers.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Employees

The Group regards the personal development of its employees as highly important and strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. For details, please refer to the section headed "Employees and Remuneration" in the "Management Discussion and Analysis".

Customers

The Group has strengthened relationships with the existing customers while cultivating relationships with potential customers and has established long-term co-operation relationships with many customers. We visit customers' offices to approach and keep contact with them. The Group has organized a marketing team with nationwide coverage as well as a business team which is capable of maintaining close co-operation with overseas customers.

Suppliers

The Group has developed long-standing co-operation relationships with the Group's vendors and taken great care to ensure that they can share our commitment to product quality and morality. The Group carefully selected suppliers and required them to satisfy certain assessment criteria, including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness. The Group also required suppliers to comply with our anti-bribery policy.

DONATIONS

Donations made by the Group during the year ended 31 December 2016 amounted to approximately RMB2,928,000.

DIRECTORS

The directors of the Company during the year and as at the date of this report were as follows:

Executive Directors

Mr. Tsai Wallen (Appointed on 19 July 2016)
Mr. Xie Jinling (Resigned on 19 July 2016)
Mr. Ge Xiaohua
Mr. Huang Xinwen
Mr. Li Zhouxin (Appointed on 27 January 2016)
Mr. Ma Chi Ming (Appointed on 27 January 2017)
Ms. Hong Fang (Resigned on 27 January 2016)

Non-executive Directors

Mr. Ren Yunan
Mr. Li Zhenhui (Re-designated from executive director on 23 September 2016 and resigned on 27 January 2017)

Independent Non-executive Directors

Mr. Tsao Benedict (Appointed on 19 July 2016)
Ms. Chan Sze Man (Appointed on 20 September 2016)
Mr. Ma Kwun Yung Stephen (Appointed on 15 March 2017)
Mr. Tang Shuo (Appointed on 4 May 2016 and resigned on 15 March 2017)
Mr. Chen Shaojun (Resigned on 4 May 2016)
Mr. Wong Wai Ming (Resigned on 11 November 2016)
Mr. Lee Man Chiu (Resigned on 20 May 2016)

Pursuant to Article 83(3) of the Company's Articles of Association, Mr. Tsai Wallen, Mr. Ma Chi Ming, Mr. Tsao Benedict, Ms. Chan Sze Man and Mr. Ma Kwun Yung Stephen, the newly appointed directors, shall retire at the 2017 AGM. In addition, pursuant to Article 84 of the Company's Articles of Association, Mr. Ren Yunan and Mr. Ge Xiaohua will retire from office as directors of the Company by rotation at the 2017 AGM. All of the above seven retiring directors are eligible for re-election at the 2017 AGM.

It is noted that Mr. Tsai Wallen, Mr. Ma Chi Ming, Mr. Tsao Benedict, Ms. Chan Sze Man, Mr. Ma Kwun Yung Stephen and Mr. Ren Yunan will offer themselves for re-election at the 2017 AGM; whereas Mr. Ge Xiaohua will not offer himself for re-election and he will therefore retire at the 2017 AGM.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 20 of this annual report.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive directors and the non-executive director has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than one month's notice in writing served by either party on the other.

There was no service contract entered into by the Company and any directors to be re-elected in the forthcoming annual general meeting which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Other than those transactions disclosed in note 39 to the financial statements and in the section headed "Continuing Connected Transaction" below, none of directors of the Company or their connected entities had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party or subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, none of the directors is considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme of the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year and subsisted at the end of the year.

Report of the Directors (continued)

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Details of the Scheme are disclosed in note 32 to the financial statements.

As at the date of this annual report, the total number of shares of the Company available for issue under the Scheme was 95,775,000 shares, representing approximately 9.48% of the number of issued shares of the Company.

The following table discloses movements of the Company's share options, granted under the Scheme, during the year ended 31 December 2016:

			Number of options							
Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year *(Note 3)*	Outstanding as at 31 December 2016	Exercise period *(Note 2)*
Executive Directors										
Mr. Ge Xiaohua	14 October 2011	1.92	300,000	–	–	–	–	–	300,000	B
			300,000	–	–	–	–	–	300,000	C
			600,000	–	–	–	–	–	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	
	26 September 2014	1.83	400,000	–	–	–	–	–	400,000	G
			300,000	–	–	–	–	–	300,000	H
			300,000	–	–	–	–	–	300,000	I
			1,000,000	–	–	–	–	–	1,000,000	
	18 January 2016	0.81	–	400,000	–	–	–	–	400,000	J
			–	300,000	–	–	–	–	300,000	K
			–	300,000	–	–	–	–	300,000	L
			–	1,000,000	–	–	–	–	1,000,000	
Sub-total			*2,400,000*	*1,000,000*	–	–	–	–	*3,400,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year *(Note 3)*	Outstanding as at 31 December 2016	Exercise period *(Note 2)*
Executive Directors (continued)										
Mr. Huang Xinwen	14 October 2011	1.92	300,000	–	–	–	–	–	300,000	B
			300,000	–	–	–	–	–	300,000	C
			600,000	–	–	–	–	–	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	
	26 September 2014	1.83	400,000	–	–	–	–	–	400,000	G
			300,000	–	–	–	–	–	300,000	H
			300,000	–	–	–	–	–	300,000	I
			1,000,000	–	–	–	–	–	1,000,000	
	18 January 2016	0.81	–	400,000	–	–	–	–	400,000	J
			–	300,000	–	–	–	–	300,000	K
			–	300,000	–	–	–	–	300,000	L
			–	1,000,000	–	–	–	–	1,000,000	
Sub-total			*2,400,000*	*1,000,000*	–	–	–	–	*3,400,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year *(Note 3)*	Outstanding as at 31 December 2016	Exercise period *(Note 2)*
Executive Directors (continued)										
Mr. Li Zhouxin	21 June 2012	2.94	–	–	–	–	–	90,000	90,000	E
(appointed on 27 January 2016)			–	–	–	–	–	90,000	90,000	F
			–	–	–	–	–	180,000	180,000	
	26 September 2014	1.83	–	–	–	–	–	120,000	120,000	G
			–	–	–	–	–	90,000	90,000	H
			–	–	–	–	–	90,000	90,000	I
			–	–	–	–	–	300,000	300,000	
	18 January 2016	0.81	–	–	–	–	–	400,000	400,000	J
			–	–	–	–	–	300,000	300,000	K
			–	–	–	–	–	300,000	300,000	L
			–	–	–	–	–	1,000,000	1,000,000	
Sub-total			–	–	–	–	–	*1,480,000*	*1,480,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Non-executive Directors										
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	
	26 September 2014	1.83	80,000	–	–	–	–	–	80,000	G
			60,000	–	–	–	–	–	60,000	H
			60,000	–	–	–	–	–	60,000	I
			200,000	–	–	–	–	–	200,000	
	18 January 2016	0.81	–	1,400,000	–	–	–	–	1,400,000	J
			–	1,050,000	–	–	–	–	1,050,000	K
			–	1,050,000	–	–	–	–	1,050,000	L
			–	3,500,000	–	–	–	–	3,500,000	
Sub-total			*400,000*	*3,500,000*	–	–	–	–	*3,900,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Non-executive Directors (continued)										
Mr. Li Zhenhui (re-designated from executive director on 23 September 2016 and resigned on 27 January 2017) (ceased to be substantial shareholder on 23 September 2016)	14 October 2011	1.92	800,000	–	–	–	–	–	800,000	A
			600,000	–	–	–	–	–	600,000	B
			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	
	26 September 2014	1.83	400,000	–	–	–	–	–	400,000	G
			300,000	–	–	–	–	–	300,000	H
			300,000	–	–	–	–	–	300,000	I
			1,000,000	–	–	–	–	–	1,000,000	
	18 January 2016	0.81	–	400,000	–	–	–	–	400,000	J
			–	300,000	–	–	–	–	300,000	K
			–	300,000	–	–	–	–	300,000	L
			–	1,000,000	–	–	–	–	1,000,000	
Sub-total			*3,360,000*	*1,000,000*	–	–	–	–	*4,360,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant *(Note 1)*	Exercise price per share *(HK$)*	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year *(Note 3)*	Outstanding as at 31 December 2016	Exercise period *(Note 2)*
Former Directors										
Mr. Xie Jinling (resigned on 19 July 2016) (also a substantial shareholder)	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	
	26 September 2014	1.83	400,000	–	–	–	–	–	400,000	G
			300,000	–	–	–	–	–	300,000	H
			300,000	–	–	–	–	–	300,000	I
			1,000,000	–	–	–	–	–	1,000,000	
	18 January 2016	0.81	–	400,000	–	–	–	–	400,000	J
			–	300,000	–	–	–	–	300,000	K
			–	300,000	–	–	–	–	300,000	L
			–	1,000,000	–	–	–	–	1,000,000	
Sub-total			*2,800,000*	*1,000,000*	–	–	–	–	*3,800,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Former Directors (continued)										
Ms. Hong Fang (resigned on 27 January 2016)	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	
	26 September 2014	1.83	1,200,000	–	–	–	–	–	1,200,000	G
			900,000	–	–	–	–	–	900,000	H
			900,000	–	–	–	–	–	900,000	I
			3,000,000	–	–	–	–	–	3,000,000	
	18 January 2016	0.81	–	1,200,000	–	–	–	–	1,200,000	J
			–	900,000	–	–	–	–	900,000	K
			–	900,000	–	–	–	–	900,000	L
			–	3,000,000	–	–	–	–	3,000,000	
Sub-total			*4,800,000*	*3,000,000*	–	–	–	–	*7,800,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Former Directors (continued)										
Mr. Chen Shaojun	14 October 2011	1.92	40,000	–	–	–	–	–	40,000	A
(resigned on 4 May 2016)			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	
	26 September 2014	1.83	80,000	–	–	–	–	–	80,000	G
			60,000	–	–	–	–	–	60,000	H
			60,000	–	–	–	–	–	60,000	I
			200,000	–	–	–	–	–	200,000	
	18 January 2016	0.81	–	80,000	–	–	–	–	80,000	J
			–	60,000	–	–	–	–	60,000	K
			–	60,000	–	–	–	–	60,000	L
			–	200,000	–	–	–	–	200,000	
Sub-total			*400,000*	*200,000*	–	–	–	–	*600,000*	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Former Directors (continued)										
Mr. Wong Wai Ming	14 October 2011	1.92	40,000	–	–	–	–	–	40,000	A
(resigned on 11 November 2016)			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	
	26 September 2014	1.83	80,000	–	–	–	–	–	80,000	G
			60,000	–	–	–	–	–	60,000	H
			60,000	–	–	–	–	–	60,000	I
			200,000	–	–	–	–	–	200,000	
	18 January 2016	0.81	–	80,000	–	–	–	–	80,000	J
			–	60,000	–	–	–	–	60,000	K
			–	60,000	–	–	–	–	60,000	L
			–	200,000	–	–	–	–	200,000	
Sub-total			*400,000*	*200,000*	–	–	–	–	*600,000*	
Mr. Lee Man Chiu	18 January 2016	0.81	–	80,000	–	–	–	–	80,000	J
(resigned on 20 May 2016)			–	60,000	–	–	–	–	60,000	K
			–	60,000	–	–	–	–	60,000	L
Sub-total			–	*200,000*	–	–	–	–	*200,000*	
Total for directors			**16,960,000**	**11,100,000**	**–**	**–**	**–**	**1,480,000**	**29,540,000**	

Report of the Directors (continued)

Name or category of participants	Date of grant (Note 1)	Exercise price per share (HK$)	Number of options: Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited/ lapsed during the year	Reclassified during the year (Note 3)	Outstanding as at 31 December 2016	Exercise period (Note 2)
Employees of the Group in aggregate	14 October 2011	1.92	352,400	–	–	–	–	–	352,400	A
			1,606,800	–	–	–	(81,000)	–	1,525,800	B
			1,642,800	–	–	–	(81,000)	–	1,561,800	C
			3,602,000	–	–	–	(162,000)	–	3,440,000	
	21 June 2012	2.94	797,600	–	–	–	(24,000)	–	773,600	D
			1,348,200	–	–	–	(27,000)	(90,000)	1,231,200	E
			1,348,200	–	–	–	(27,000)	(90,000)	1,231,200	F
			3,494,000	–	–	–	(78,000)	(180,000)	3,236,000	
	26 September 2014	1.83	6,676,000	–	–	–	(120,000)	(120,000)	6,436,000	G
			5,007,000	–	–	–	(90,000)	(90,000)	4,827,000	H
			5,007,000	–	–	–	(90,000)	(90,000)	4,827,000	I
			16,690,000	–	–	–	(300,000)	(300,000)	16,090,000	
	18 January 2016	0.81	–	8,134,600	–	–	(100,000)	(400,000)	7,634,600	J
			–	6,100,950	–	–	(75,000)	(300,000)	5,725,950	K
			–	6,100,950	–	–	(75,000)	(300,000)	5,725,950	L
			–	20,336,500	–	–	(250,000)	(1,000,000)	19,086,500	
Total for employees			**23,786,000**	**20,336,500**	**–**	**–**	**(790,000)**	**(1,480,000)**	**41,852,500**	
Distributors of the Group in aggregate	20 January 2016	0.81	–	3,880,000	–	–	–	–	3,880,000	M
			–	2,910,000	–	–	–	–	2,910,000	N
			–	2,910,000	–	–	–	–	2,910,000	O
Total for distributors			**–**	**9,700,000**	**–**	**–**	**–**	**–**	**9,700,000**	
Total			**40,746,000**	**41,136,500**	**–**	**–**	**(790,000)**	**–**	**81,092,500**	

Report of the Directors (continued)

As at 31 December 2016, the Company had 81,092,500 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK$115,760,000 (equivalent to approximately RMB103,548,000) (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy (note 2.4 to the financial statements) amounted to approximately HK$43,731,000 (equivalent to approximately RMB35,576,000).

Notes:

1. The closing prices of the Company's shares immediately before the dates of grant on 14 October 2011, 21 June 2012 and 26 September 2014, 18 January 2016 and 20 January 2016 were HK$1.98, HK$2.94, HK$1.86, HK$0.64 and HK$0.67, respectively.

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
   G: From 26 September 2015 to 25 September 2024
   H: From 26 September 2016 to 25 September 2024
   I: From 26 September 2017 to 25 September 2024
   J: From 18 January 2017 to 27 December 2025
   K: From 18 January 2018 to 27 December 2025
   L: From 18 January 2019 to 27 December 2025
   M: From 20 January 2017 to 27 December 2025
   N: From 20 January 2018 to 27 December 2025
   O: From 20 January 2019 to 27 December 2025

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

3. The reclassification of share options arose from the appointment of Mr. Li Zhouxin, an employee of the Group, as an executive director of the Company with effect from 27 January 2016.

4. 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.

Report of the Directors (continued)

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

As at 31 December 2016, the interests of the Company's directors in the shares and underlying shares of the Company, which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to 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. Ge Xiaohua	Beneficial owner	400,000	0.04%
Mr. Huang Xinwen	Beneficial owner	400,000	0.04%
Mr. Ren Yunan	Beneficial owner	100,000	0.01%
Mr. Li Zhenhui	Interest of controlled corporation *(Note)*	100,000	0.01%

Note: These shares were held by Zhenfei Investment Company Limited, 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. Subsequent to the year end date, Mr. Li Zhenhui has resigned as a director of the Company with effect from 27 January 2017.

\+ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2016.

B. Long positions in the underlying shares of the Company (physically settled unlisted equity derivatives) – share options

Name of director	Nature of interests	Number of underlying shares interested	Percentage+ of underlying shares over the Company's issued share capital
Mr. Ge Xiaohua	Beneficial owner	3,400,000	0.34%
Mr. Huang Xinwen	Beneficial owner	3,400,000	0.34%
Mr. Li Zhouxin	Beneficial owner	1,480,000	0.15%
Mr. Ren Yunan	Beneficial owner	3,900,000	0.39%
Mr. Li Zhenhui *(Note)*	Beneficial owner	4,360,000	0.43%

Note: Subsequent to the year end date, Mr. Li Zhenhui has resigned as a director of the Company with effect from 27 January 2017.

\+ The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2016.

Report of the Directors (continued)

Save as disclosed above and in the above section headed "Share Option Scheme", as at 31 December 2016, 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, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following parties had interests of 5% or more of the issued share capital of the Company according to the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

A. 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
Golden Sparkle Limited	Beneficial owner *(Note 1)*	263,308,500	26.06%
Mr. Lai Wai Lam Ricky	Interest of controlled corporation *(Note 1)*	263,308,500	26.06%
Jinlin Investment Company Limited	Beneficial owner *(Note 2)*	140,383,500	13.89%
Mr. Xie Jinling	Interest of controlled corporation *(Note 2)*	140,383,500	13.89%
Elite Beauty International Trading (Hong Kong) Co., Limited	Beneficial owner *(Note 3)*	80,000,000	7.92%
Mr. Li Liang	Interest of controlled corporation *(Note 3)*	80,000,000	7.92%

Notes:

1. These shares were held by Golden Sparkle Limited, a controlled corporation of Mr. Lai Wai Lam Ricky. Accordingly, Mr. Lai Wai Lam Ricky 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.

3. These shares were held by Elite Beauty International Trading (Hong Kong) Co., Limited, a controlled corporation of Mr. Li Liang. Accordingly, Mr. Li Liang 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 31 December 2016.

Report of the Directors (continued)

B. Long positions in the underlying shares of the Company (physically settled unlisted equity derivatives) – share options

Name of substantial shareholder	Nature of interests	Number of underlying shares interested	Percentage+ of underlying shares over the Company's issued share capital
Mr. Xie Jinling	Beneficial owner	3,800,000	0.376%
Mr. Li Liang	Beneficial owner	30,000	0.003%

+ The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2016.

Save as disclosed above and in the above section headed "Share Option Scheme", as at 31 December 2016, no person 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.

CONTINUING CONNECTED TRANSACTION

The independent non-executive directors of the Company have reviewed the continuing connected transaction set out below, which is disclosed in compliance with the requirements of Chapter 14A of the Listing Rules, and have confirmed that the continuing connected transaction was entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CCTH, the Company's independent auditor, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. CCTH have issued a letter containing their findings and conclusions in respect of the continuing connected transaction disclosed below by the Group in accordance with relevant clauses of Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Report of the Directors (continued)

Details of the Non-exempt Continuing Connected Transaction – Sale of Goods Agreement

Pursuant to the agreement dated 13 June 2011 entered into between Shuangfei Daily Chemicals (USA) Inc. ("Shuangfei (USA)", a company owned as to 51% and 48% by Mr. Li Zhenhui and Mr. Xie Jinling (the former directors of the Company), respectively) and Frog Prince (China), an indirectly wholly-owned subsidiary of the Company, (the "Sale of Goods Agreement"), Frog Prince (China) agreed to sell and Shuangfei (USA) agreed to buy bath and skin care products produced by the Group for a term of 3 years from 13 June 2011 to 12 June 2014. The prices of such bath and skin care products will be determined in accordance with the purchase orders on the basis of arm's length negotiations and with reference to fair market price. On 6 June 2014, Frog Prince (China) and Shuangfei (USA) entered into a new Sale of Goods Agreement (the "New Sale of Goods Agreement") to renew the above continuing connected transaction for a term from 13 June 2014 to 31 December 2016. On 30 December 2016, Frog Prince (China) and Shuangfei (USA) further renewed the New Sale of Goods Agreement by entering into a renewed sale of goods agreement (the "Renewed Sale of Goods Agreement") for a further term of three years commencing from 1 January 2017 and expiring on 31 December 2019. Other than the time periods covered by the New Sale of Goods Agreement and the Renewed Sale of Goods Agreement, the terms and conditions of the New Sale of Goods Agreement and the Renewed Sale of Goods Agreement were the same as those of the Sale of Goods Agreement.

During the year under review, the total amount of goods sold to Shuangfei (USA) under the New Sale of Goods Agreement was approximately RMB5,718,000 and the annual cap for the year ended 31 December 2016 is RMB17,280,000.

CONNECTED TRANSACTIONS

The remaining related party transactions for the year ended 31 December 2016 set out in note 39 to financial statements contained in this annual report also constituted connected transactions of the Group. As confirmed by the directors of the Company, as relevant applicable ratios were below 0.1%, such connected transactions were exempt from the reporting, announcement, annual review and independent shareholders' approval requirements as contained in Chapter 14A of the Listing Rules.

DIRECTORS' REMUNERATION

The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by the Company to its directors. The remuneration of all directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of directors' remuneration are set out in note 11 to financial statements.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Apart from the Company's share option scheme, neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries was a party and the object or one of the objects of such arrangement are/is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate body.

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders or any of its subsidiaries during the year.

Report of the Directors (continued)

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company and its related companies is currently in force and were in force throughout the year.

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 year ended 31 December 2016.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

DEED OF NON-COMPETITION

Mr. Li Zhenhui, Zhenfei Investment Company Limited, Prince Frog International Company Limited, Mr. Xie Jinling, Jinlin Investment Company Limited and Fujian Shuangfei Daily Chemicals Co., Ltd. have made an annual declaration on compliance with their undertakings under the Deed of Non-Competition (as defined in the Company's prospectus dated 30 June 2011) for the period from 1 January 2016 to 23 September 2016. The independent non-executive directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the above-mentioned parties for the aforesaid period. Since 23 September 2016, Mr. Li Zhenhui, Zhenfei Investment Company Limited and Prince Frog International Company Limited and/or their respective close associates are no longer jointly or severally entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company, the above-mentioned parties are no longer required to comply with their undertakings under the Deed of Non-Competition.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the Company's three independent non-executive directors, has reviewed the consolidated financial statements of the Group for the year ended 31 December 2016, including accounting principles and practices adopted by the Group, and discussed financial reporting matters.

AUDITORS

Ernst & Young resigned as auditors of the Company on 18 November 2016 and had not commenced any audit work on the consolidated financial statements of the Company for the year ended 31 December 2016.

CCTH CPA Limited was appointed as auditor of the Company on 24 November 2016 and the consolidated financial statements for the year ended 31 December 2016 were audited by CCTH. CCTH will retire at the 2017 AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of CCTH as auditor of the Company will be proposed at the 2017 AGM.

ON BEHALF OF THE BOARD
Tsai Wallen
Chairman

28 March 2017

Independent Auditor's Report

CCTH CPA LIMITED
中正天恒會計師有限公司

To the shareholders of China Child Care Corporation Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Child Care Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 83 to 170, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Impairment assessment for property, plant and equipment and prepaid land lease payments

Refer to note 14 and note 16 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group had property, plant and equipment and prepaid land lease payments amounted to approximately RMB452,109,000 and RMB14,308,000 respectively. Following a review of the Group's competitive businesses, the outlook for the industry and the Group's financial performance, management conducted impairment assessment of the Group's property, plant and equipment and prepaid land lease payments and concluded that no impairment loss is required to be made based on their fair value less costs of disposal, by reference to their estimated sale prices or replacement costs valued by external valuer. We focused on the impairment assessment of the Group's property, plant and equipment and prepaid land lease payments as the estimation of the fair value less costs of disposal of such assets involved judgments and assumptions used in the determination of sale prices or replacement costs of these assets.	Our procedures in relation to management's impairment assessment on property, plant and equipment and prepaid land lease payments included: – We assessed the valuation methodologies used by the external valuer to estimate the sale prices or replacement costs; – We evaluated the external valuer's independence, competence, capabilities and objectivity; – We checked, on a sample basis, the accuracy and relevance of the data and information provided by management to the external valuer; – We considered the potential impact of reasonably possible downside changes in these key assumptions.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Business combination

Refer to note 35a to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
During the year, the Group acquired 51% equity interest in Marvel Paramount Holdings Limited ("Marvel") for the cash consideration of HK$117,000,000 (equivalent to RMB104,010,000). In determining the fair value of the assets and liabilities of Marvel and its subsidiary, MyBB Media Company Limited ("MyBB Media"), acquired, management reviewed in details the nature of such assets and liabilities and the basis of estimating their fair value. We focused on this area because accounting for acquisition requires the identification and valuation of assets and the allocation of purchase price to the assets and liabilities acquired, which involves a number of judgments and assumptions.	Our procedures in relation to the recognition of the business combination included: – We considered and challenged management's assessment of the appropriate accounting treatment and the identification and valuation of tangible and intangible assets and the allocation of purchase price to the assets and liabilities acquired. – We have also considered the adequacy of the Group's disclosure in respect of the acquisition in Note 35a to the consolidated financial statements.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Impairment assessment of goodwill

Refer to note 17 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As a result of the acquisition of the internet online platform business undertaken by MyBB Media during the current year, the Group recognised goodwill amounted to RMB103,257,000. We focused on the impairment assessment of the goodwill from acquisition of Marvel as the magnitude of this goodwill is significant and management assessment of the value in use of the cash-generating units (CGUs) of this business involves judgments and estimates about the future results of the business, key assumptions including revenue growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	Our procedures in relation to management's impairment assessment on the goodwill included: – We evaluated and challenged the composition of the Group's future cash flow forecast in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including revenue growth rate and gross profit margin by comparing the current year's actual results with future plans. We considered the appropriateness of the discount rates adopted by management. – We have also considered the adequacy of the disclosure of impairment assessments of the goodwill set out in note 17 to the consolidated financial statements.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Recoverability of loan and interest receivables and trade and bills receivables

Refer to note 20 and note 21 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group had loan and interest receivables amounting to approximately RMB125,341,000. As at that date, the Group had gross trade and bills receivables amounting to approximately RMB138,834,000 of which impairment provision amounting to approximately RMB4,776,000 has been made. Recoverability of loan and interest receivables and trade and bill receivables involved management judgement in assessing the allowance for doubtful debts for individual loan and interest receivables and trade receivables. The ability of the debtors to repay the Group depends on customer-specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of loan and interest receivables and trade and bill receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgments involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to management's impairment assessment on loans and interest receivables and trade and bill receivables included: – We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. – We reviewed the agreements and other relevant documents relating to the loans made by the Group. – We assessed the classification and accuracy of individual balances in trade and bill receivables ageing report by testing the underlying invoices on a sample basis. – We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the outstanding receivables and evaluate the allowance for doubtful debts made by management for these individual balances. – We assessed the historical accuracy of the estimates made by the management for the allowance for doubtful debts.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to note 4 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
Revenue principally comprises of sales of personal care products and commodities. Revenue from sales of personal care products and commodities is recognised when the relevant goods are delivered and title has passed. The accounting policy for revenue recognition in this respect is disclosed in note 3 to the consolidated financial statements. For the year ended 31 December 2016, the Group recognised revenue from sales of personal care products and commodities amounted to approximately RMB715,064,000 and RMB275,593,000 respectively. We identified recognition of revenue as a key audit matter because revenue is quantitatively significant and is one of the key performance indicators of the Group.	Our audit procedures to assess the recognition of revenue included: – We assessed the design, implementation and operating effectiveness of management's key internal controls over revenue recognition. – We reviewed sales agreements, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and acceptance, applicable rebates arrangements and any sales returns arrangements to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards. – We assessed, on a sample basis, whether revenue transactions recorded during the financial year had been recognised in the appropriate financial period by comparing the transactions selected with relevant underlying documentation, including goods delivery notes and the terms set out in the sale agreements. – We assessed, on a sample basis, whether sales rebates during the financial year had been recognised in the appropriate financial period by recalculating the sales rebates recognised during the financial year on basis of the terms as set out in the sale agreements and comparing sales rebates payments during the financial year to the relevant underlying documentation. – We scrutinised the sales ledger after the financial year end to identify significant credit notes issued and sales returns and inspected relevant underlying documentation to assess if the related revenue had been accounted for in the appropriate financial period in accordance with the requirements of the prevailing accounting standards.

Independent Auditor's Report (continued)

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on 29 March 2016.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2017

Kwong Tin Lap
Practising certificate number: P01953

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza,
1 Science Museum Road, Tsim Sha Tsui,
Kowloon, Hong Kong

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
Revenue	5	**999,544**	913,716
Cost of sales		**(644,101)**	(554,557)
Gross profit		**355,443**	359,159
Other income and gains	7	**8,501**	27,156
Selling and distribution expenses		**(329,495)**	(320,375)
Administrative expenses		**(99,736)**	(95,022)
Impairment loss of goodwill	17	**(22,000)**	(17,500)
Loss on change in fair value of investment properties	15	**(7,300)**	–
Other expenses		**(10,820)**	(2,672)
Finance costs	8	**(596)**	(6)
Loss before tax	9	**(106,003)**	(49,260)
Income tax expense	10	**(3,473)**	(556)
Loss for the year		**(109,476)**	(49,816)
(Loss)/profit for the year attributable to:			
Equity holders of the Company		**(111,189)**	(50,309)
Non-controlling interests		**1,713**	493
Loss for the year		**(109,476)**	(49,816)
Other comprehensive income/(expense):			
Items that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of operations outside Mainland China		**1,482**	22

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the year ended 31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
Items that may not be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation *(note 14)*		**–**	9,543
Income tax effect		**–**	(2,386)
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods		**–**	7,157
Other comprehensive income for the year, net of tax		**1,482**	7,179
Total comprehensive expense for the year		**(107,994)**	(42,637)
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		**(109,800)**	(43,130)
Non-controlling interests		**1,806**	493
		(107,994)	(42,637)
Loss per share attributable to equity holders of the Company	13		
Basic		**RMB(11.0)cents**	RMB(5.0)cents
Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**452,109**	477,281
Investment properties	15	**23,000**	30,300
Prepaid land lease payments	16	**13,969**	14,292
Goodwill	17	**99,614**	18,357
Intangible assets	18	**593**	183
Loan and interest receivables	20	**7,329**	–
Prepayments and deposits	22	**2,864**	3,179
		599,478	543,592
CURRENT ASSETS			
Inventories	19	**30,852**	27,011
Loan and interest receivables	20	**118,012**	–
Trade and bills receivables	21	**134,058**	41,205
Prepayment, deposits and other receivables	22	**42,590**	13,603
Available-for-sale investments	23	**15,300**	2,008
Amount due from a related company	38	**7,418**	5,903
Tax recoverable		**–**	155
Pledged bank deposits	24	**124,866**	4,498
Cash and cash equivalents	24	**614,462**	968,757
		1,087,558	1,063,140
CURRENT LIABILITIES			
Trade and bills payables	25	**93,695**	84,882
Other payables and accruals	26	**102,386**	32,488
Interest-bearing bank borrowings	27	**110,919**	50,000
Amount due to a director	28	**399**	–
Derivative financial liabilities	29	**1,826**	–
Tax payable		**9,710**	6,603
		318,935	173,973
NET CURRENT ASSETS		**768,623**	889,167

Consolidated Statement of Financial Position (continued)

As at 31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,368,101**	1,432,759
NON-CURRENT LIABILITIES			
Deferred tax liabilities	30	**17,923**	17,923
Net assets		**1,350,178**	1,414,836
EQUITY			
Share capital	31	**8,386**	8,386
Reserves	33	**1,316,602**	1,402,228
Equity attributable to equity holders of the Company		**1,324,988**	1,410,614
Non-controlling interests		**25,190**	4,222
Total equity		**1,350,178**	1,414,836

The consolidated financial statements on pages 83 to 170 were approved and authorized by issue by the board of directors on 28 March 2017 and are signed on its behalf by:

Tsai Wallen	**Li Zhouxin**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Attributable to owners of the Company											
		Share capital RMB'000 (Note 31)	Share premium RMB'000	Share option reserve RMB'000	Capital reserves RMB'000	Asset revaluation reserves RMB'000	Statutory reserve fund RMB'000 (Note 33)	Capital redemption reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016		8,386	448,802	22,317	11	7,157	110,615	16	5,879	807,431	1,410,614	4,222	1,414,836
Profit/(loss) for the year		–	–	–	–	–	–	–	–	(111,189)	(111,189)	1,713	(109,476)
Other comprehensive income													
Exchange differences on translation of operations outside Mainland China		–	–	–	–	–	–	–	1,389	–	1,389	93	1,482
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	–	1,389	(111,189)	(109,800)	1,806	(107,994)
Acquisition of a subsidiary	35	–	–	–	–	–	–	–	–	–	–	723	723
Disposal of partial interest in subsidiaries	44(c)	–	–	–	–	–	–	–	–	14,561	14,561	18,439	33,000
Recognition of equity-settled share-based payments	32	–	–	9,613	–	–	–	–	–	–	9,613	–	9,613
Transferred to retained profits upon forfeiture of share options		–	–	(380)	–	–	–	–	–	380	–	–	–
At 31 December 2016		8,386	448,802	31,550	11	7,157	110,615	16	7,268	711,183	1,324,988	25,190	1,350,178

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2016

		Attributable to owners of the Company											
	Notes	Share capital RMB'000 (Note 31)	Share premium RMB'000	Share option reserve RMB'000	Capital reserves RMB'000	Asset revaluation reserves RMB'000	Statutory reserve fund RMB'000 (Note 33)	Capital redemption reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015		8,386	488,689	14,130	11	–	110,615	16	5,857	857,740	1,485,444	–	1,485,444
Profit/(loss) for the year		–	–	–	–	–	–	–	–	(50,309)	(50,309)	493	(49,816)
Other comprehensive income													
Exchange differences on translation of operations outside Mainland China		–	–	–	–	–	–	–	22	–	22	–	22
Gains on property revaluation, net of tax	14	–	–	–	–	7,157	–	–	–	–	7,157	–	7,157
Total comprehensive income/(expense) for the year		–	–	–	–	7,157	–	–	22	(50,309)	(43,130)	493	(42,637)
Acquisition of a subsidiary	35	–	–	–	–	–	–	–	–	–	–	3,729	3,729
Recognition of equity-settled share-based payments	32	–	–	8,187	–	–	–	–	–	–	8,187	–	8,187
Dividend paid	12	–	(39,887)	–	–	–	–	–	–	–	(39,887)	–	(39,887)
At 31 December 2015		8,386	448,802	22,317	11	7,157	110,615	16	5,879	807,431	1,410,614	4,222	1,414,836

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(106,003)**	(49,260)
Adjustments for:			
Finance costs		**596**	6
Bank interest income		**(2,862)**	(14,702)
Income from available-for-sale investments		**(926)**	(2,049)
Loss on disposal of property, plant and equipment		**372**	526
Loss on disposal of intangible assets		**13**	–
Depreciation of property, plant and equipment		**31,883**	30,470
Amortisation of prepaid land lease payments		**339**	355
Amortisation of intangible assets		**132**	1,440
Equity-settled share-based payments		**9,613**	8,187
Loss/(gain) on changes in fair value of investment properties		**7,300**	(3,750)
Impairment loss of goodwill		**22,000**	17,500
Impairment loss of trade receivables		**4,776**	–
Trade receivables written off		**3,174**	–
Inventories written off		**595**	–
Operating cash flows before movements in working capital		**(28,998)**	(11,277)
(Increase)/decrease in inventories		**(4,363)**	16,554
Increase in loan and interest receivables		**(119,801)**	–
(Increase)/decrease in trade and bill receivables		**(100,246)**	114,717
Increase in prepayments, deposits and other receivables		**(13,387)**	(1,860)
(Increase)/decrease in amounts due from related companies		**(1,515)**	735
Increase/(decrease) in trade and bills payables		**8,800**	(47,793)
Increase/(decrease) in other payables and accruals		**69,757**	(18,653)
Increase in derivative financial liabilities		**1,826**	–
Increase in amount due to a director		**382**	–
Exchange realignment		**(728)**	(835)
Cash (used in)/generated from operations		**(188,273)**	51,588
Interest received		**2,862**	14,702
Interest paid		**(596)**	(6)
PRC income tax paid		**(337)**	(10,251)
Net cash flows (used in)/from operating activities		**(186,344)**	56,033

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2016

	Notes	2016 *RMB'000*	2015 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(5,988)**	(23,330)
Proceeds from disposal of property, plant and equipment		**348**	719
Proceeds from disposal of intangible assets		**38**	–
Deposits for purchase of items of property, plant and equipment		**(1,128)**	(1,214)
(Increase)/decrease in available-for-sale investments		**(13,292)**	992
Income derived from available-for-sale investments		**926**	2,049
(Increase)/decrease in pledged bank deposits		**(120,368)**	257
Acquisition of subsidiaries	35	**(103,979)**	(44,286)
Proceeds from partial disposal of subsidiaries		**18,000**	–
Net cash flows used in investing activities		**(225,443)**	(64,813)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**106,016**	50,000
Repayment of bank loans		**(50,000)**	–
Dividend paid		**–**	(39,887)
Net cash flows from financing activities		**56,016**	10,113
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(355,771)**	1,333
Cash and cash equivalents at beginning of the year		**968,757**	966,567
Effect of foreign exchange rate changes, net		**1,476**	857
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**614,462**	968,757
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	24	**614,462**	968,757

Notes to Financial Statements

For the year ended 31 December 2016

1. GENERAL INFORMATION

China Child Care Corporation Limited was incorporated as an exempted company with limited liability in the Cayman Islands. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 in the People's Republic of China (the "Mainland China" or the "PRC") is located at No. 8 North Wuqiao Road, Lantian Economic Development Zone, Zhangzhou City, Fujian Province, 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, trading of commodities, money lending, operation of an online platform and investment holding.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and revised IFRSs applied in the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board ("IASB")

IFRS 14	Regulatory Deferred Accounts
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations
Annual improvements to IFRSs	Annual improvements to IFRSs, 2012-2014 Cycles
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Classification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Combination Exception

The application of the above new and revised amendments to IFRSs in the current year has had no material impact on the Group's financial performance and financial position for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

New and revised IFRSs not yet effective

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
IFRS 9	Financial Instruments[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 15	Revenue from Contracts with Customers[2]
Amendment to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[2]
Amendments to IAS 40	Transfers of Investment Property[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[2]
IFRS 16	Leases[3]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 12[1]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1[2]
Annual Improvements 2014-2016 Cycle	Amendments to IAS 28[2]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRSs" (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange ("Listing Rules").

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in the exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "Share-based Payment", leasing transactions that are within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The principal accounting policies are set out below.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date when the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income/expenses are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income/expenses of subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the Company.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill arising on an acquisition of business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent period.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is recognised on a time proportion basis over the lease terms.

Revenue from operation of an online platform comprise mainly income from display based and performance based advertisements and provision of marketing services.

– Revenue from displaying advertisements to the users of online platforms operated by the Group is recognised ratably over the contracted period, in which the advertisements are displayed.

– Revenue from performance based advertisements is recognised based on actual performance measurement. The Group recognise the revenue from the delivery of pay-for click or pay-for instant display advertisements for advertisers to users of the Group based on a per-click basis when the users click on the content, or on a per-display basis, when the advertising contents are displayed to users.

– Revenue from marketing services is recognised when the services are provided.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Research and development costs

All research costs are charged to the profit or loss in respect of the period as incurred.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases where substantially all the rewards and risks of ownership of assets are transferred to the lessees. All other leases are classified as operating leases. Where the Group is the lessor, assets leased out by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit or loss in respect of the period on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the profit or loss in respect of the period on the straight-line basis over the lease terms.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, and a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss in respect of the period as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss in respect of the period as they become payable in accordance with the rules of the central pension scheme.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Share-based payment transactions of the Company

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sales.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are reclassified to the appropriate category of property, plant and equipment when completed and ready for intended use and are depreciated on the same basis of other property assets upon reclassification.

Depreciation is recognised to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses

Trademarks

The costs of acquiring the trademarks are amortised on the straight-line basis over their estimated useful lives of ten years.

Copyrights

The costs of acquiring the copyrights are amortised on the straight-line basis over their estimated useful lives of five years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on the weighted-average basis and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near term; or

– it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

– it is a derivative that is not designated and effective as hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– if forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other gains or losses in the consolidated statement of profit or loss and other comprehensive income.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan and interest receivables, trade and bills receivables, other receivables, amount due from a related company, pledged bank deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets ("AFS financial assets")

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment loss on financial assets (continued)

For certain categories of financial assets, such as trade and bills receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade and bills payables, other payables and accruals, interest bearing bank borrowings and amount due to a director, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgment on the timing of the payment of the dividend, where the Group considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment and prepaid land lease payments

Management of the Group determines on a regular basis whether there are any indications that the property, plant and equipment and prepaid land lease payments are impaired. Impairment loss for property, plant and equipment and prepaid land lease payments are impaired when the carrying amounts of each of the assets exceed their respective recoverable amounts, which are determined based on the higher of fair value less costs to sell and value in use. The value in use calculations require the use of estimates such as the future revenue and discount rates. If the recoverable amount of an item of property, plant and equipment and prepared land lease payments is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised immediately in profit or loss in respect of the period. As at 31 December 2016, the carrying amounts of property, plant and equipment and prepaid land lease payments are approximately RMB452,109,000 (2015: RMB477,281,000) and RMB14,308,000 (2015: RMB14,647,000) respectively. No impairment loss of these assets was recognised in respect of both of the years presented.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their estimated residual values. The determination of the useful lives involves management's estimation. The Group assesses annually the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation charges for the future years.

Impairment of inventories

Inventories are written down to net realisable value based on an assessment of their realisability. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will have impact on the carrying value of inventories and write-down of inventories in the period in which such estimate is changed. As at 31 December 2016, the carrying amount of inventories is approximately RMB30,852,000 (2015: RMB27,011,000). No impairment loss of inventories was recognised in respect of both of the years presented and inventories written off for the current year amounted to RMB595,000 (2015: Nil).

Notes to Financial Statements (continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Impairment of loan and interest receivables and trade and bills receivables

The Group performs ongoing credit evaluations of its customers and other debtors and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and other debtors and make allowance for doubtful debts on outstanding receivables by reference to historical experience and debtors' financial position. As at 31 December 2016, the carrying amount of loan and interest receivables and trade and bills receivables are approximately RMB125,341,000 (2015: Nil) and RMB134,058,000 (2015: RMB41,205,000) respectively. No impairment loss on loan and interest recivables was recognised in respect of both of the years presented. Allowance for trade and bills receivables and trade and bills receivables written off recognised for the current year amounted to approximately RMB4,776,000 (2015: Nil) and RMB3,174,000 (2015: Nil) respectively.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill at 31 December 2016 was RMB99,614,000 (2015: RMB18,357,000) after an impairment loss of RMB22,000,000 (2015: RMB17,500,000) was recognised. Details of the impairment loss calculation are set out in note 17.

Estimation of fair value of investment properties

The best evidence of fair value of the Group's investment properties is current prices in an active market for similar properties in the same location and condition and subject to similar leases and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair value estimates. In making its judgement, management considers information from: (i) independent valuations; and (ii) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect the uncertainty of the amount and timing of cash flows. Details regarding the fair value of the Group's investment properties as at 31 December 2016 are set out in note 15 to the financial statements.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value measurements and valuation processes

Certain of the Group's financial assets and financial liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, appropriate professional qualified valuers are engaged to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various financial assets and financial liabilities are disclosed in note 42.

5. REVENUE

The following is an analysis of the Group's revenue for the year:

	2016	2015
	RMB'000	*RMB'000*
Revenue from sales of goods	**990,657**	913,716
Interest income from money lending business	**4,091**	–
Income from operation of an online platform	**4,796**	–
	999,544	913,716

Notes to Financial Statements (continued)

For the year ended 31 December 2016

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into the following operating segments based on their products and services:

(a) Children's personal care products – manufacture and sale of Frog Prince branded skin care, body and hair care, oral care and diaper and tissue products

(b) Adults' personal care products – manufacture and sales of Frog Prince branded oral care products

(c) Other products segment – manufacture of skin care products, body and hair care products for branding and resale by others.

(d) Trading of commodities

(e) Provision of money lending services

(f) Operation of an online platform

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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income derived from banks, other unallocated income and gains, finance costs as well as corporate and unallocated expenses are excluded from such measurement.

Segment assets exclude investment properties unallocated prepayments, deposits and other receivables, available-for-sale investments, tax recoverable, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude unallocated other payables and accruals, interest-bearing bank borrowings, tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

6. OPERATING SEGMENT INFORMATION (continued)

	Children's personal care products *RMB'000*	Adults' personal care products *RMB'000*	Other products *RMB'000*	Trading of commodities *RMB'000*	Money lending *RMB'000*	Operation of an online platform *RMB'000*	Total *RMB'000*
Year ended 31 December 2016							
Segment revenue	536,441	21,315	157,308	275,593	4,091	4,796	999,544
Segment (loss)/profit	(82,616)	(3,614)	(219)	10,550	2,226	4,584	(69,089)
Interest income derived from banks							2,862
Other unallocated income and gains							2,992
Corporate and other unallocated expenses							(12,872)
Finance costs							(596)
Impairment loss of goodwill	(2,000)					(20,000)	(22,000)
Loss on change in fair value of investment properties							(7,300)
Loss before tax							(106,003)
Segment assets	530,362	18,117	128,940	–	125,788	89,663	892,870
Corporate and other unallocated assets							794,166
Total assets							1,687,036
Segment liabilities	164,139	5,685	5,936	1,741	817	84	178,402
Corporate and other unallocated liabilities							158,456
Total liabilities							336,858
Other segment information:							
Depreciation and amortisation*	24,594	873	6,887	–	–	–	32,354
Capital expenditure**	5,675	191	1,565	–	–	–	7,431

Notes to Financial Statements (continued)

For the year ended 31 December 2016

6. OPERATING SEGMENT INFORMATION (continued)

	Children's personal care products RMB'000 (restated)	Adults' personal care products RMB'000 (restated)	Other products RMB'000 (restated)	Trading of nature commodities RMB'000	Money lending RMB'000	Operation of an online platform RMB'000	Total RMB'000 (restated)
Year ended 31 December 2015							
Segment revenue	770,538	32,262	110,916	–	–	–	913,716
Segment (loss)/profit	(59,501)	(3,180)	22,142	–	–	–	(40,539)
Interest income derived from banks							14,702
Other unallocated income and gains							3,635
Corporate and other unallocated expenses							(13,302)
Finance costs							(6)
Impairment loss of goodwill	(17,500)						(17,500)
Gain on change in fair value of investment properties							3,750
Loss before tax							(49,260)
Segment assets	516,580	20,437	63,746	–	–	–	600,763
Corporate and other unallocated assets							1,005,969
Total assets							1,606,732
Segment liabilities	104,703	4,361	2,607	–	–	–	111,671
Corporate and other unallocated liabilities							80,225
Total liabilities							191,896
Other segment information:							
Depreciation and amortisation*	27,296	1,203	3,766	–	–	–	32,265
Capital expenditure**	20,015	882	2,762	–	–	–	23,659

Certain assets, liabilities and expenses, which were previously not allocated to reportable segments, have been allocated to appropriate reportable segments, in the presentation of segment results, assets and liabilities in respect of the current year. Certain comparative figures of the segment information has been restated to conform with the current year's presentation.

Segment revenue reported above represents revenue generated from external customers. There was no inter-segment sale in the current year (2015: Nil).

* Depreciation and amortisation consist of depreciation of property, plant and equipment and amortisation of intangible assets and prepaid land lease payments.

** Capital expenditure consists of additions to property, plant and equipment.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

6. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers are detailed below:

	2016	2015
	RMB'000	*RMB'000*
PRC (excluding Hong Kong)	**580,922**	819,557
Hong Kong	**8,887**	–
Indonesia	**275,593**	–
Overseas (excluding Indonesia)	**134,142**	94,159
	999,544	913,716

Information about major customers

Revenue from individual customers contributing over 10% of the revenue of the Group are as follows:

		2016	2015
	Revenue generated from	***RMB'000***	*RMB'000*
Customer A	Trading of commodities	**275,593**	N/A

No customer individually contributed revenue over 10% of the total revenue for the year ended 31 December 2015.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

7. OTHER INCOME AND GAINS

	2016	2015
	RMB'000	*RMB'000*
Interest from bank deposits	**2,862**	14,702
Income derived from available-for-sale investments	**926**	2,049
Gain on change in fair value of investment properties *(note 15)*	**–**	3,750
Government subsidies*	**2,011**	4,263
Rental income from lease of investment properties	**2,066**	1,586
Sundry income	**636**	806
	8,501	27,156

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

8. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank borrowings	**596**	6

Notes to Financial Statements (continued)

For the year ended 31 December 2016

9. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2016 *RMB'000*	2015 *RMB'000*
Cost of inventories sold *(note a below)*	**644,101**	554,557
Depreciation *(note a below)*	**11,697**	13,556
Amortisation of prepaid land lease payments	**339**	355
Amortisation of intangible assets *(note 18)*	**132**	1,440
Minimum lease payments under operating leases on land and buildings *(note b below)*	**773**	2,249
Loss on disposal of property, plant and equipment included in administrative expenses	**372**	526
Loss on disposal of intangible assets included in administrative expenses	**13**	–
Employee benefit expenses (including directors' remuneration *(note 11)*) *(notes a & b below)*:		
Wages and salaries	**54,693**	41,483
Equity-settled share-based payments	**9,613**	8,187
Retirement benefit scheme contributions	**7,855**	4,656
Total staff costs	**72,161**	54,326
Auditors' remuneration	**1,800**	2,801
Research and development costs included in administrative expenses *(note b below)*	**7,985**	11,225
Direct operating expenses arising from rental-earning investment properties	**–**	94
Impairment loss of trade receivables included in other expenses	**4,776**	–
Trade receivables written off included in other expenses	**3,174**	–
Inventories written off included in other expenses	**595**	–
Loss on change in fair value of derivative financial liabilities included in other expenses	**5,203**	–
Net foreign exchange gain, excluding loss on change in fair value of derivative financial liabilities	**(6,376)**	(2,503)

Notes

(a) In addition to the amounts disclosed above, the depreciation and employee benefits expenses of RMB20,186,000 (2015: RMB16,914,000) and RMB35,997,000 (2015 RMB31,345,000) respectively are included in the cost of inventories sold amounted to RMB644,101,000 (2015: RMB554,557,000) shown above.

(b) The research and development costs for the year include an amount of RMB3,295,000 (2015: RMB4,100,000) relating to rental expenses of a research and development centre and staff costs for research and development activities, which is also included in the total amounts disclosed above for each of these types of expenses.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

10. INCOME TAX EXPENSE

	2016 **RMB'000**	2015 RMB'000
Hong Kong Profits Tax	**2,923**	–
PRC Enterprise Income Tax	**550**	1,195
	3,473	1,195
Overprovision in prior years	**–**	(1,576)
	3,473	(381)
Deferred tax *(note 30)*	**–**	937
Total income tax recognised in profit or loss	**3,473**	556

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries, except for 青蛙王子(中國)日化有限公司 ("Frog Prince (China)") are subject to PRC Enterprise Income Tax at 25% of the profit assessable to tax for both years.

Pursuant to the High-New Technology Enterprise certificate granted by the local authority in the PRC, which was obtained by the Group in April 2014, a subsidiary, Frog Prince (China), was taxed at a preferential tax rate of 15% for a period of three years commencing from the year ended 31 December 2013. During the year, Frog Prince (China) was granted tax preferential rate of 15% in respect of PRC Enterprise Income Tax for an additional three years commencing from the year ended 31 December 2016.

Reconciliation of the loss before tax to the income tax expense is as follows:

	2016 **RMB'000**	2015 RMB'000
Loss before tax	**(106,003)**	(49,260)
Tax at the applicable tax rates	**(26,898)**	(9,696)
Effect of tax concession for a PRC subsidiary of the Group	**5,514**	2,171
Adjustments in respect of current tax of previous years	**–**	(1,576)
Income not subject to tax	**(5)**	(1)
Expenses not deductible for tax	**10,935**	7,903
Tax losses not recognised	**13,927**	1,755
Income tax expenses	**3,473**	556

Notes to Financial Statements (continued)

For the year ended 31 December 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors and chief executive

	2016 *RMB'000*	2015 *RMB'000*
Fees:		
Executive directors	**2,191**	1,844
Non-executive directors	**735**	100
Independent non-executive directors	**607**	570
	3,533	2,514
Other emoluments:		
Salaries and discretionary bonuses	**1,002**	56
Equity-settled share-based payments	**2,047**	2,557
Retirement benefit scheme contributions	**20**	35
	6,602	5,162

Notes to Financial Statements (continued)

For the year ended 31 December 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors and chief executive (continued)

An analysis of the directors' emoluments by individual directors are as follows:

	Fees	Salaries and discretionary bonuses	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016					
Executive directors:					
Mr. Li Zhenhui [1] *	593	188	218	3	1,002
Mr. Xie Jinling [2]	121	118	165	2	406
Mr. Ge Xiaohua	204	207	299	5	715
Mr. Huang Xinwen	204	213	299	5	721
Ms. Hong Fang [3]	149	21	64	–	234
Mr. Li Zhouxin [4]	792	186	190	4	1,172
Mr. Tsai Wallen [5] *	128	–	–	–	128
	2,191	933	1,235	19	4,378
Non-executive directors:					
Mr. Li Zhenhui [1] *	135	69	81	1	286
Mr. Ren Yunan [6]	600	–	645	–	1,245
	735	69	726	1	1,531
Independent non-executive directors:					
Mr. Chen Shaojun [7]	73	–	20	–	93
Mr. Lee Man Chiu [8]	87	–	14	–	101
Mr. Wong Wai Ming [9]	186	–	52	–	238
Mr. Tang Shuo [10]	127	–	–	–	127
Mr. Tsao Benedict [11]	85	–	–	–	85
Ms. Chan Sze Man [12]	49	–	–	–	49
	607	–	86	–	693
	3,533	1,002	2,047	20	6,602

Notes to Financial Statements (continued)

For the year ended 31 December 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors and chief executive (continued)

	Fees	Salaries and discretionary bonuses	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2015					
Executive directors:					
Mr. Li Zhenhui [1]	716	–	329	7	1,052
Mr. Xie Jinling [2]	193	–	349	7	549
Mr. Ge Xiaohua	193	–	349	7	549
Mr. Huang Xinwen	193	–	349	7	549
Ms. Hong Fang [3]	549	56	975	7	1,587
	1,844	56	2,351	35	4,286
Non-executive director:					
Mr. Ren Yunan [6]	100	–	14	–	114
	100	–	14	–	114
Independent non-executive directors:					
Mr. Chen Shaojun	190	–	67	–	257
Mr. Lee Man Chiu [8]	32	–	1	–	33
Mr. Ren Yunan [6]	158	–	57	–	215
Mr. Wong Wai Ming	190	–	67	–	257
	570	–	192	–	762
	2,514	56	2,557	35	5,162

Notes to Financial Statements (continued)

For the year ended 31 December 2016

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors and chief executive (continued)

1 Mr. Li Zhenhui was re-designated from an executive director to a non-executive director with 23 September 2016, and was resigned as a non-executive director with effect from 27 January 2017.

2 Mr. Xie Jinling was resigned as an executive director with effect from 19 July 2016.

3 Ms. Hong Fang was resigned as an executive director with effect from 27 January 2016.

4 Mr. Li Zhouxin was appointed as an executive director with effect from 27 January 2016.

5 Mr. Tsai Wallen was appointed as an executive director with effect from 19 July 2016.

6 Mr. Ren Yunan was re-designated from an independent non-executive director to a non-executive director with 16 October 2015.

7 Mr. Chan Shaojun was resigned as an independent non-executive director with effect from 4 May 2016.

8 Mr. Lee Man Chiu was appointed as an independent non-executive director with effect from 16 October 2015 and resigned as an independent non-executive director with effect from 20 May 2016.

9 Mr. Wong Wai Ming was resigned as an independent non-executive director with effect from 11 November 2016.

10 Mr. Tang Shuo was appointed as an independent non-executive director with effect from 4 May 2016 and resigned as an independent non-executive director with effect from 15 March 2017.

11 Mr. Tsao Benedict was appointed as an independent non-executive director with effect from 19 July 2016.

12 Ms. Chan Sze Man was resigned as an independent non-executive director with effect from 20 September 2016.

* Mr. Li Zhenhui was also the chief executive officer of the Company, and was resigned on 23 September 2016. Mr. Tsai Wallen is also the chief executive officer of the Company and was appointed on 28 November 2016.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

During the year ended 31 December 2016 and 2015, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Employees

The five highest emoluments employees in the Group during the year included five (2015: five) directors, details of whose remuneration are set out in note 11 (a) above.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

12. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
2015: 2014 final dividend of HK5.0 cents per share paid	**–**	39,887

The directors of the Company do not recommend any payment of a dividend for the year ended 31 December 2016 (2015: Nil).

13. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share attributable to the owners of the Company's based on the following data:

	2016	2015
	RMB'000	*RMB'000*
Loss		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(111,189)**	(50,309)
Loss for the purpose of diluted loss per share	**N/A**	N/A

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,010,491**	1,010,491
Weighted average number of ordinary shares for the purpose of diluted loss per share	**N/A**	N/A

As the Group sustained a loss for both of the years presented, diluted loss per share for these years are not presented as the effects of potential shares issuable arising from exercise of share options are regarded anti-dilutive.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2015	177,983	45,318	16,738	4,391	293,813	538,243
Additions	2,904	6,292	2,285	793	11,385	23,659
Transfers	304,761	–	–	–	(304,761)	–
Acquisition of a subsidiary *(note 35b)*	–	2,221	128	167	–	2,516
Transferred to investment properties	(14,981)	–	–	–	–	(14,981)
Disposals	–	(2,194)	(139)	(826)	–	(3,159)
At 31 December 2015 and 1 January 2016	470,667	51,637	19,012	4,525	437	546,278
Additions	2,846	3,843	545	138	59	7,431
Disposals	–	(822)	(524)	–	–	(1,346)
At 31 December 2016	473,513	54,658	19,033	4,663	496	552,363
Accumulated depreciation:						
At 1 January 2015	24,307	12,203	3,138	2,929	–	42,577
Provided for the year	21,933	4,792	3,270	475	–	30,470
Eliminated on transfer to investment properties	(2,136)	–	–	–	–	(2,136)
Eliminated on disposals	–	(1,037)	(92)	(785)	–	(1,914)
At 31 December 2015 and 1 January 2016	44,104	15,958	6,316	2,619	–	68,997
Provided for the year	22,495	5,272	3,552	564	–	31,883
Eliminated on disposals	–	(258)	(368)	–	–	(626)
At 31 December 2016	66,599	20,972	9,500	3,183	–	100,254
Net book value:						
At 31 December 2016	406,914	33,686	9,533	1,480	496	452,109
At 31 December 2015	426,563	35,679	12,696	1,906	437	477,281

Notes to Financial Statements (continued)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT (continued)

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over their estimated useful lives and after taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

Buildings	5%
Plant and machinery	10%-20%
Furniture, fixtures and office equipment	20% to 33 1/3%
Motor vehicles	20% to 25%

During the year ended 31 December 2015, certain of the Group's land and buildings were transferred to investment properties. Those land and buildings were revalued at the dates of the transfers by Peak Vision Appraisals Limited ("Peak Vision"), independent professionally qualified valuers, at an aggregate fair value of RMB26,550,000 (note 15) based on their existing use. A total revaluation surplus of RMB9,543,000, after taking into account of the carrying amount of the respective prepaid land lease payments at the dates of the transfers of RMB4,162,000 (note 16), resulting from the above valuations has been credited to other comprehensive income, together with the related deferred tax liability of RMB2,386,000.

As at 31 December 2016, included in "Buildings" were certain self-used properties with a net carrying amount of approximately RMB276,332,000 (2015: RMB290,807,000) of which the Group has not yet obtained the building ownership certificates. Up to the date of approval of these consolidated financial statements, the Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties. Taking into account of the opinion from the Group's legal advisors, the directors do not expect any legal impediment to the obtaining of the relevant title certificates.

15. INVESTMENT PROPERTIES

	2016 ***RMB'000***	2015 *RMB'000*
Fair value, at 1 January	**30,300**	–
Transfer from prepaid land lease payment and property, plant and equipment *(note 14)*	**–**	26,550
(Loss)/gain on change in fair value	**(7,300)**	3,750
Fair value, at 31 December	**23,000**	30,300

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES (continued)

The investment properties are leased to third parties under operating leases, details of which are included in note 36(a) to the financial statements.

The Group's investment properties comprise completed properties on land with medium-term land use rights in the PRC. The Group's investment properties are carried at fair value at 31 December 2016 and 31 December 2015 respectively, which are valued by B.I. Appraisal Limited and Peak Vision Appraisal Limited respectively, both being independent qualified professional valuers not connected with the Group.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change from the valuation technique used in the prior year.

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2016 using			
	quoted prices in active markets (Level 1)	**significant observable inputs (Level 2)**	**significant unobservable inputs (Level 3)**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement for:				
Investment properties	**–**	**–**	**23,000**	**23,000**

	Fair value measurement as at 31 December 2015 using			
	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement for:				
Investment properties	–	–	30,300	30,300

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

At 31 December 2016

Type of properties	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**
Industrial properties	Income capitalisation method	Average monthly market rent per square foot	RMB4 to RMB8	The higher the market rent, the higher the fair value
		Reversionary yield	4.5%	The higher the reversionary yield, the lower the fair value

At 31 December 2015

Type of properties	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Industrial properties	Income capitalisation method	Average monthly market rent per square foot	RMB5 to RMB10	The higher the market rent, the higher the fair value
		Reversionary yield	6.5%	The higher the reversionary yield, the lower the fair value

Under the income capitalisation method, the market rentals of all lettable units of the properties are estimated by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood and the capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers knowledge of the factors specific to the respective properties.

A significant increase/decrease in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/decrease in the fair value of the investment properties. A significant increase/decrease in the long term vacancy rate and the discount rate in isolation would result in a significant decrease/increase in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long term vacancy rate and discount rate.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

16. PREPAID LAND LEASE PAYMENTS

	2016 *RMB'000*	2015 *RMB'000*
At 1 January	**14,647**	19,164
Amortised for the year	**(339)**	(355)
Transferred to investment properties *(note 14)*	**–**	(4,162)
At 31 December	**14,308**	14,647
Analysed for reporting purposes as:		
Non-current asset	**13,969**	14,292
Current asset *(note 22 (ii))*	**339**	355
	14,308	14,647

The prepaid land lease payments, representing medium-term land use rights in the PRC, are amortised over 50 years.

17. GOODWILL

	2016 *RMB'000*	2015 *RMB'000*
Cost		
At 1 January	**35,857**	–
Arising from acquisition of subsidiaries *(note 35)*	**103,257**	35,857
At 31 December	**139,114**	35,857
Accumulated impairment losses		
At 1 January	**17,500**	–
Impairment loss recognised for the year	**22,000**	17,500
At 31 December	**39,500**	17,500
Carrying amount		
At 31 December	**99,614**	18,357

Notes to Financial Statements (continued)

For the year ended 31 December 2016

17. GOODWILL (continued)

Impairment testing of goodwill

Cost of the goodwill has been allocated for impairment testing purposes to the following groups of cash-generating units ("CGUs")

	2016 *RMB'000*	2015 *RMB'000*
Children's personal care products	**35,857**	35,857
Operation of an online platform	**103,257**	–
At 31 December	**139,114**	35,857

Children's personal care products

The recoverable amount of this group of CGUs has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

Key assumptions adopted in the preparation of cash flow projections used for value in use calculation were as follows:

	31 December 2016	31 December 2015
Compound annual growth rate of revenue in five-year period	**6.5%**	2%
Annual growth rate beyond the five-year period	**3%**	Nil
Discount rate	**15%**	15%

The budgeted gross margin used for the preparation of the cash flow projections is based on the average gross margin achieved in the year immediately before the budget year, with adjustment on the inflation of materials price.

The average annual revenue growth rate is estimated by management based on past performance, industry forecast and its expectation of market development. The discount rate used is before tax and reflects specific risks relating to this group of CGUs.

The values assigned to the key assumptions on inflation of materials price and discount rate are consistent with external information sources.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

17. GOODWILL (continued)

Children's personal care products (continued)

In respect of the goodwill allocated to the CGUs of children's personal care products, the directors consider it appropriate, due to the deteriorating operating performance of this group of CGUs, to recognise impairment loss of goodwill amounted to RMB2,000,000 for the current year (2015: RMB17,500,000) based on the recoverable amount of the CGUs. The recoverable amount has been determined by value in use calculation of the present value of expected future cash flows.

Operation of an online platform

The recoverable amount of this group of CGUs has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

Key assumptions adopted in the preparation of cash flow projections for value in use calculation were as follows:

	31 December 2016
Compound annual growth rate of revenue in five-year period	**40%**
Annual growth rate beyond the five-year period	**3%**
Discount rate	**20%**

The budgeted gross margin used for the preparation of the cash flow projections is based on the average gross margin achieved in the year immediately before the budget year, with adjustment on the inflation of direct service costs.

The average annual revenue growth rate of revenue is estimated by management based on past performance, industry forecast and its expectation of market development. The discount rate used is before tax and reflects specific risks relating to this group of CGUs.

In respect of the goodwill allocated to the CGUs of operation of an online platform, the directors consider it appropriate to recognise impairment loss of goodwill amounted to RMB20,000,000 for the current year (2015: Nil) based on the recoverable amount of the CGUs. The recoverable amount has been determined by value in use calculation of the present value of expected future cash flows.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

18. INTANGIBLE ASSETS

	Trademarks *RMB'000*	Copyrights *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2015 and 31 December 2015	160	7,120	7,280
Additions during the year	593	–	593
Disposals during the year	(160)	–	(160)
At 31 December 2016	593	7,120	7,713
Accumulated amortisation:			
At 1 January 2015	80	5,577	5,657
Provided for the year	16	1,424	1,440
At 31 December 2015 and 1 January 2016	96	7,001	7,097
Provided for the year	13	119	132
Eliminated on disposals	(109)	–	(109)
At 31 December 2016	–	7,120	7,120
Net carrying amount:			
At 31 December 2016	593	–	593
At 31 December 2015	64	119	183

The trademarks and copyrights are amortised over their estimated useful lives of 10 years and 5 years.

The carrying amounts of trademarks will be amortised over their remaining useful lives of 10 years (2015: 4 years).

Notes to Financial Statements (continued)

For the year ended 31 December 2016

19. INVENTORIES

	2016 *RMB'000*	2015 *RMB'000*
Raw materials	**6,804**	6,544
Work in progress	**1,336**	778
Finished goods	**22,712**	19,689
	30,852	27,011

20. LOAN AND INTEREST RECEIVABLES

	2016 *RMB'000*	2015 *RMB'000*
Loan and interest thereon receivable		
– within one year	**118,012**	–
– in the second to fifth years	**7,329**	–
	125,341	–
		–
Analysed for reporting as:		
Non-current asset	**7,329**	–
Current asset	**118,012**	–
	125,341	–

Movement during the year are as follows:

	2016 *RMB'000*	2015 *RMB'000*
At 1 January	**–**	–
Loans made by the Group	**116,074**	–
Interest on loans receivable	**4,091**	–
Loans and interest repaid by borrower	**(365)**	–
Exchange realignment	**5,541**	–
At 31 December	**125,341**	–

Notes to Financial Statements (continued)

For the year ended 31 December 2016

20. LOAN AND INTEREST RECEIVABLES (continued)

During the year, a subsidiary of the Company entered into agreements with certain third parties, pursuant to which loans totalled HK$135,764,000 were made by the subsidiary to such parties, analysed as follows:

Loan principal amount *HK$'000*	Interest rate per annum	Maturity date	Security pledged
16,000	60%	January 2017	Note (b)
54,500	38%	May 2017	Note (c)
32,864	9%-16.5%	October 2017	Note (c)
23,900	12%-24%	November 2017	Note (c)
8,500	18%-36%	November 2026	Note (c)
135,764			

Notes:

(a) Loans and interests thereon will be settled by the borrowers at the respective maturity dates.

(b) The loan is secured by certain assets owned by the borrower.

(c) These loans are secured by certain properties or listed securities owned by the borrowers.

21. TRADE AND BILLS RECEIVABLES

	2016 *RMB'000*	2015 *RMB'000*
Trade and bills receivables	**138,834**	41,205
Less: allowance for doubtful debts	**(4,776)**	–
	134,058	41,205

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.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

21. TRADE AND BILLS RECEIVABLES (continued)

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

	2016	2015
	RMB'000	*RMB'000*
Within 30 days	**78,059**	21,519
31 to 60 days	**29,899**	4,745
61 to 90 days	**15,122**	7,155
Over 90 days	**10,978**	7,786
	134,058	41,205

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

			Past due but not impaired	
	Total	**Neither past due nor impaired**	**1 to 30 days**	**Over 30 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2016	**134,058**	**95,625**	**17,323**	**21,110**
2015	41,205	25,922	7,412	7,871

The Group's trade receivables that were neither past due nor impaired mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movements of allowance of trade and bill receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**–**	–
Impairment loss recognised *(note 9)*	**4,776**	–
At 31 December	**4,776**	–

Notes to Financial Statements (continued)

For the year ended 31 December 2016

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Prepayments *(note (ii))*	**22,320**	12,868
Deposits for purchase of property, plant and equipment	**2,764**	2,714
Deposits for construction contracts	**–**	366
Sale consideration receivable *(note 44(c)) (note (iii))*	**15,000**	–
Deposits and other receivables	**5,370**	834
	45,454	16,782
Analysis for reporting purposes as:		
Non-current assets	**2,864**	3,179
Current assets	**42,590**	13,603
	45,454	16,782

Note:

(i) None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

(ii) Included in prepayments as at 31 December 2016 are prepaid land lease payments amounted to RMB339,000 (2015: RMB355,000).

(iii) The sale consideration receivable represents the outstanding proceeds receivable from partial disposal of a subsidiary amounted to RMB15,000,000 (note 44(c)). Such consideration receivable, which was unsecured and interest free, was fully settled subsequent to the end of reporting period.

23. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	RMB'000	*RMB'000*
Unlisted investment funds, at cost	**15,300**	2,008

The unlisted investment funds are carried at cost less impairment loss, if any, because the unlisted investment funds do not have quoted market price in an active market and whose fair value cannot be measured reliably.

The unlisted investment funds are redeemable on demand.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2016	2015
	RMB'000	*RMB'000*
Cash and bank balances	**614,462**	968,757
Pledged bank deposits	**124,866**	4,498
	739,328	973,255
Analysed for reporting purpose:		
Pledged bank deposits for:		
– short-term bank borrowings *(note 27)*	**120,000**	–
– bills payables *(note 25)*	**4,866**	2,498
– guarantees given to a bank in connection with facilities granted to customers *(note 38)*	**–**	2,000
Pledged bank deposits	**124,866**	4,498
Cash and cash equivalents	**614,462**	968,757
	739,328	973,255

At 31 December 2016, the Group's cash and bank balances and bank deposits denominated in RMB amounted to RMB206,865,000 (2015: RMB942,876,000) and RMB124,866,000 (2015: RMB4,498,000), respectively. The exchange of these RMB bank balances and deposits into other currencies is subject to the approval of the PRC government under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Bank deposits are made for periods ranged eight days to one year (2015: periods ranged eight days to one year), and earn interest at the respective short term time deposit rates.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

25. TRADE AND BILLS PAYABLES

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

	2016 *RMB'000*	2015 *RMB'000*
Within 1 month	**23,458**	30,258
1 to 3 months	**44,630**	38,872
Over 3 months	**25,607**	15,752
	93,695	84,882

The trade payables are interest free and are normally settled on terms of one to six months (2015: one to six months).

At the end of the reporting period, bills payables amounted to RMB4,866,000 (2015: RMB2,498,000) were secured by the pledge of bank deposits of RMB4,866,000 (2015: RMB2,498,000) (note 24).

26. OTHER PAYABLES AND ACCRUALS

	2016 *RMB'000*	2015 *RMB'000*
Other payables and accruals	**47,625**	25,073
Trade deposits received	**42,385**	–
Other tax payables	**12,376**	7,415
	102,386	32,488

Other payables are non-interest-bearing and are normally settled on an average term of one month.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

27. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate per annum	**maturity**	***RMB'000***	Effective interest rate per annum	maturity	*RMB'000*
Bank loan repayable within one year	**2.43%**	**November 2017**	**110,919**	4.37%	December 2016	50,000

As at 31 December 2016, interest-bearing bank borrowings of RMB110,919,000 were secured by the pledged bank deposit of RMB120,000,000 (note 24). No security was given in favour of the bank borrowings outstanding at 31 December 2015.

28. AMOUNT DUE TO A DIRECTOR

The amount due to a director is interest free, unsecured and repayable on demand.

29. DERIVATIVE FINANCIAL LIABILITIES

	2016 RMB'000	2015 RMB'000
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Foreign currency forward contracts outstanding at end of the year	**1,826**	–

Note:

At the end of the reporting period, the Group had the following outstanding foreign currency forward contracts:

Notional amount	**Maturity date**	**Exchange rates**
US$1,000,000	3 January 2017	US$1 : RMB6.4 to RMB5.2
US$1,200,000	1 February 2017	US$1 : RMB6.4 to RMB5.2
US$1,200,000	1 March 2017	US$1 : RMB6.4 to RMB5.2

During the current year, loss on change in fair value of the foreign currency forward contracts amounted to RMB5,203,000 (2015: Nil) has been recognised in the profit or loss.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

30. DEFERRED TAX LIABILITIES

	Withholding taxes *RMB'000*	Changes in fair value of investment properties *RMB'000*	Total *RMB'000*
At 1 January 2015	14,600	–	14,600
Charged to the profit or loss *(note 10)*	–	937	937
Charged to other comprehensive income	–	2,386	2,386
At 31 December 2015 and 31 December 2016	14,600	3,323	17,923

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. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB753,223,000 at 31 December 2016 (2015: RMB843,011,000).

At 31 December 2016, there were no significant unrecognised deferred tax liabilities (2015: 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.

The Group has tax losses arising in Hong Kong of RMB30,806,000 (2015: RMB30,806,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, of which the respective tax losses are subject to agreement by the Inland Revenue Department in Hong Kong. The Group also has tax losses arising in Mainland China of RMB113,508,000 (2015: RMB21,877,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of such tax losses due to the unpredictability of future profit steams.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

31. SHARE CAPITAL

	2016	2015
	RMB'000	*RMB'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.01 each	**41,524**	41,524
Issued and fully paid:		
1,010,491,000 (2015: 1,010,491,000) ordinary shares of HK$0.01 each	**8,386**	8,386

There were no changes in the Company's share capital during the year ended 31 December 2016 and 31 December 2015.

32. 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 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.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

32. SHARE OPTION SCHEME (continued)

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.

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

	2016		2015	
	Weighted average exercise price *per share* *HK$*	**Number of options *'000***	Weighted average exercise price *per share* *HK$*	Number of options *'000*
As at 1 January	**2.05**	**40,746**	2.05	41,410
Granted during the year	**0.81**	**41,137**	–	–
Forfeited during the year	**1.65**	**(790)**	1.99	(664)
At 31 December	**1.43**	**81,093**	2.05	40,746

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

2016 Number of options *'000*	**Exercise price per share *HK$***	**Exercise period**
8,940	**1.92**	**14-10-2012 to 13-10-2021**
7,276	**2.94**	**21-06-2013 to 20-06-2022**
23,990	**1.83**	**26-09-2015 to 25-09-2024**
31,187	**0.81**	**18-01-2016 to 27-12-2025**
9,700	**0.81**	**20-01-2016 to 27-12-2025**
81,093		

Notes to Financial Statements (continued)

For the year ended 31 December 2016

32. SHARE OPTION SCHEME (continued)

2015 Number of options *'000*	Exercise price per share *HK$*	Exercise period
9,102	1.92	14-10-2012 to 13-10-2021
7,354	2.94	21-06-2013 to 20-06-2022
24,290	1.83	26-09-2015 to 25-09-2024
40,746		

On 18 January 2016 and 20 January 2016, options to subscribe 31,437,000 shares and 9,700,000 shares respectively at the same exercise price HK$0.81 per share were granted by the Company.

The fair values of equity-settled share options granted during the year ended 31 December 2016 were estimated as at the dates 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 18 January 2016	**Share options granted on 20 January 2016**
Dividend yield *(%)*	Nil	Nil
Expected volatility *(%)*	66.12	66.14
Risk-free interest rate *(%)*	1.486	1.707
Expected life of options *(year)*	8-10	8-10
Share price of the Company's shares *(HK$ per share)*	0.81	0.81

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 approximately 81,093,000 (2015: 40,746,000) 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 approximately 81,093,000 (2015: 40,746,000) additional ordinary shares of the Company which would give rise to the total proceeds of HK$115,760,000 (2015: HK$114,792,000).

Up to the date of approval of these consolidated financial statements, the Company had 80,775,000 share options outstanding under the Scheme, which represented approximately 8.0% of the Company's shares in issue as at that date.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity set out on page 87 and 88.

Statutory reserve fund

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the entities' registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year ended 31 December 2016, deposits of RMB1,442,000 (2015: RMB329,000) were utilised for settlement of purchase consideration of items of property, plant and equipment.

(b) During the year ended 31 December 2016, proceeds from disposal of items of property, plant and equipment of RMB Nil (2015: RMB5,375,000) were settled through other receivables.

(c) During the year ended 31 December 2016, intangible asset of RMB593,000 (2015: RMB Nil) was settled through trade and bill receivables.

35. BUSINESS COMBINATION

(a) Acquisition of subsidiaries during the year ended 31 December 2016

Acquisition of Marvel Paramount Holdings Limited ("Marvel")

On 9 December 2016, the Group acquired 51% equity interest in Marvel, a limited company established in the British Virgin Islands, from an independent third party for the cash consideration of HK$117,000,000 (equivalent to RMB104,010,000). Marvel is an investment holding company and through its subsidiary, MyBB Media Company Limited, is principally engaged in the operation of an internet online platform.

The Group has elected to measure the non-controlling interest in Marvel at the non-controlling interest's proportionate share of identifiable net assets of Marvel and its subsidiary.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

35. BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries during the year ended 31 December 2016 (continued)

Acquisition of Marvel Paramount Holdings Limited ("Marvel") (continued)

Pursuant to the related acquisition agreement, guarantees have been given by the vendor to the Company that the net profit after tax of Marvel and its subsidiary for each of the two financial years ending 31 March 2017 and 31 March 2018 shall not be less than HK$8,000,000 and HK$16,000,000 respectively.

On the other hand, in the event that the Marvel and its subsidiary fails to meet the guaranteed profit for the two financial years ending 31 March 2017 and 2018, the vendor shall pay the Company a compensation which is calculated as specified in the acquisition agreement. Management is of the view that receipt of the compensation from the vendor, if any, is beyond reasonable doubt, accordingly such compensation has not been recognised in the consolidated financial statements. Details regarding the acquisition of Marvel by the Group are set out in the announcement dated 8 December 2016 made by the Company.

Assets and liabilities recognised at the acquisition date:

	RMB'000
Assets	
Inventories	72
Trade receivables	927
Prepayments, deposits and other receivables	590
Tax recoverable	12
Cash and cash equivalents	31
	1,632
Liabilities	
Trade and bills payables	13
Other payables and accruals	143
	156
Total identifiable net assets acquired	1,476

The trade receivables acquired had gross contractual amount of RMB927,000.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

35. BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries during the year ended 31 December 2016 (continued)

Acquisition of Marvel Paramount Holdings Limited ("Marvel") (continued)

	RMB'000
Goodwill arising on acquisition	
Consideration transferred	**104,010**
Non-controlling interests	**723**
Less: Fair value of identifiable net assets acquired	**(1,476)**
Goodwill arising on acquisition	**103,257**

The goodwill is mainly attributable to the future cash flows to be derived from the operation of the internet online platform.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

35. BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries during the year ended 31 December 2016 (continued)

Acquisition of Marvel Paramount Holdings Limited ("Marvel") (continued)

The Group incurred insignificant transaction costs for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	RMB'000
Consideration paid in cash	**(104,010)**
Cash and cash equivalents acquired	**31**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(103,979)**

Since the acquisition, Marvel and its subsidiary contributed revenue of RMB4,796,000 and loss of RMB15,416,000 (after taking into account of impairment of goodwill of RMB20,000,000) to the Group's revenue and consolidated loss for the year ended 31 December 2016.

Had the combination taken place at the beginning of the current year, the revenue of the Group and the consolidated loss of the Group for the year would have been RMB1,002,881,000 and RMB109,026,000 respectively.

(b) Acquisition of a subsidiary during the year ended 31 December 2015

Acquisition of 福建愛潔麗日化有限公司 ("Fujian Azalli")

On 30 April 2015, the Group acquired 80% equity interest in Fujian Azalli, an entity established in the PRC, from an independent third party for the cash consideration of RMB50,773,000. The principal activity of the Fujian Azalli is the manufacture of toothpaste products. The acquisition was for expanding the Group's oral care product line under children's personal care products.

The Group has elected to measure the non-controlling interest in Fujian Azalli at the non-controlling interest's proportionate share of the identifiable net assets of Fujian Azalli.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

35. BUSINESS COMBINATION (continued)

(b) Acquisition of a subsidiary during the year ended 31 December 2015 (continued)

Acquisition of 福建愛潔麗日化有限公司 ("Fujian Azalli") (continued)

Assets and liabilities recognised at the acquisition date:

	RMB'000
Assets	
Property, plant and equipment *(note 14)*	2,516
Inventories	993
Trade receivables	10,468
Prepayments, deposits and other receivables	2,910
Available-for-sale investment	1,000
Pledged bank deposits	2,755
Cash and cash equivalents	6,487
	27,129
Liabilities	
Trade and bills payables	(7,592)
Other payables and accruals	(652)
Tax payable	(240)
	(8,484)
Total identifiable net assets acquired	18,645

The trade receivables acquired had gross contractual amount of RMB10,468,000.

Goodwill arising on acquisition	*RMB'000*
Consideration transferred	50,773
Non-controlling interests	3,729
Less: Fair value of identifiable assets acquired	(18,645)
Goodwill arising on acquisition	35,857

The goodwill is mainly attributable to the future cash flows to be derived from the manufacture of toothpaste products.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

35. BUSINESS COMBINATION (continued)

(b) Acquisition of a subsidiary during the year ended 31 December 2015 (continued)

Acquisition of 福建愛潔麗日化有限公司 ("Fujian Azalli") (continued)

The Group incurred insignificant transaction costs for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	RMB'000
Consideration paid in cash	(50,773)
Cash and cash equivalents acquired	6,487
Net outflow of cash and cash equivalents included in cash flows from investing activities	(44,286)

Since the acquisition, Fujian Azalli contributed revenue of RMB9,858,000 and loss of RMB15,034,000 (after taking into account of impairment of goodwill of RMB17,500,000) to the Group's revenue and consolidated loss for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year ended 31 December 2015, the revenue of the Group and the consolidated loss of the Group for that year would have been RMB918,996,000 and RMB48,434,000 respectively.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	2016 ***RMB'000***	2015 *RMB'000*
Within one year	**1,229**	1,713
In the second to fifth years, inclusive	**–**	1,322
	1,229	3,035

Notes to Financial Statements (continued)

For the year ended 31 December 2016

36. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its warehouses and office premises under operating lease arrangements. Leases for properties are negotiated for terms of two to three years (2015: three months to three 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:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**804**	1,047
In the second to fifth years, inclusive	**536**	452
	1,340	1,499

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Construction of buildings	**–**	538
Purchase of items of property, plant and equipment	**1,116**	1,970
	1,116	2,508

Notes to Financial Statements (continued)

For the year ended 31 December 2016

38. CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2016.

During the year ended 31 December 2015, the Group entered into a banking facility arrangement with a bank in the Mainland China for providing guarantees to the bank in connection with the amounts advanced by the bank to certain of the Group's customers for the settlement of the trade balances due from these customers to the Group. At 31 December 2015, the Group had pledged deposits of RMB2,000,000 with the bank for this banking facility arrangement, and executed guarantees of a total of approximately RMB36,110,000 to the bank in connection with the amounts advanced to these customers by the bank, of which RMB6,701,000 had been utilised as at 31 December 2015. The pledge of bank deposits and guarantees given by the Group under the aforementioned banking facilities arrangement were discharged and released during the current year.

39. RELATED PARTY TRANSACTIONS

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

	Notes	**2016** *RMB'000*	2015 *RMB'000*
Related companies:			
Sales of products	(a)	**5,718**	5,633
Purchase of products	(b)	**–**	6
Sale of trademark	(c)	**40**	–

Notes:

(a) Sales to a related company, Shuangfei Daily Chemicals (USA) Inc. ("Shuangfei USA"), which is controlled by Mr. Li Zhenhui and Mr. Xie Jinling, directors of the Company, of RMB5,718,000 (2015: RMB5,633,000) were made on mutually agreed terms.

(b) Purchases from a related company, Fujian Shuangfei Daily Chemicals Co., Ltd. ("Fujian Shuangfei") which is controlled by Mr. Li Zhenhui, were made on mutually agreed terms.

(c) Sale of trademark to a related company, Fujian Shuangfei, was made on mutually agreed terms.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

39. RELATED PARTY TRANSACTIONS (continued)

(ii) An analysis of the balances with a related party is as follows:

Particulars of the amount due from a related company, which was derived from sales by the Group to the related company, are as follows:

Year ended 31 December 2016

Name	**1 January 2016** *RMB'000*	**31 December 2016** *RMB'000*	**Maximum amount outstanding during the year** *RMB'000*
Related company			
Shuangfei USA	**5,903**	**7,418**	**7,418**

Year ended 31 December 2015

Name	1 January 2015 *RMB'000*	31 December 2015 *RMB'000*	Maximum amount outstanding during the year *RMB'000*
Related company			
Shuangfei USA	6,828	5,903	6,828

The outstanding balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

(iii) Compensation of key management personnel of the Group

Further details of directors' and the chief executive's remuneration are included in note 11 to these financial statements.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2016 *RMB'000*	2015 *RMB'000*
Available-for-sale investments	15,300	2,008
Loans and receivables		
Loans and interest receivables	125,341	–
Trade and bills receivables	134,058	41,205
Financial assets included in prepayments, deposits and other receivables	20,270	582
Amount due from a related company	7,418	5,903
Pledged bank deposits	124,860	4,498
Cash and cash equivalents	614,462	968,757
	1,026,409	1,020,945
	1,041,709	1,022,953

Financial liabilities

	2016 *RMB'000*	2015 *RMB'000*
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities	1,826	–
Financial liabilities at amortised cost		
Trade and bills payables	93,695	84,882
Financial liabilities included in other payables and accruals	40,710	15,390
Amount due to a director	399	–
Interest-bearing bank borrowings	110,919	50,000
	245,723	150,272
	247,549	150,272

Notes to Financial Statements (continued)

For the year ended 31 December 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise pledged bank deposits, cash and cash equivalents and available-for-sale investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as loan and interest receivables, trade and bills receivables, balances with related companies, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, and amount due to a director, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign currency forward contracts. The purpose is to manage the currency risks arising from the Group's operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces prudent strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing bank borrowings, cash and short term deposits are stated at amortised cost. Floating rate interest income and expenses are credited/charged to the profit or loss as earned/incurred. The directors have reviewed the Group's interest-bearing financial instruments and determined that the Group has no significant interest rate risk.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- loss for the year ended 31 December 2016 would decrease/increase by RMB2,692,000 (2015: decrease/increase by RMB3,462,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank deposits and bank borrowings.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sale and purchase transactions and cash and bank balances denominated in United States dollars ("US$") and Hong Kong dollars ("HK$").

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax.

	Increase/ (decrease) in US$/HK$ rate %	**Decrease/ (increase) in loss before tax 2016** ***RMB'000***	Increase/ (decrease) in profit before tax 2015 *RMB'000*
If RMB weakens against US$	5	**4,175**	1,761
If RMB strengthens against US$	(5)	**(4,175)**	(1,761)
If RMB weakens against HK$	5	**8,852**	46
If RMB strengthens against HK$	(5)	**(8,852)**	(46)

Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, financial assets included in deposits and other receivables and an amount due from a related company arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and cash equivalents and available banking facilities. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The maturity profile of the Group's non-derivative financial assets and financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

The Group

At 31 December 2016	Weighted average interest rate	Within 1 year	More than 1 Year but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial assets						
Loan and interest receivables	9%-60%	129,660	7,668	9,381	146,709	125,341
Trade and bills receivables	–	134,058	–	–	134,058	134,058
Other receivables	–	20,270	–	–	20,270	20,270
Amount due from a related company	–	7,418	–	–	7,418	7,418
Pledged bank deposits	0%-2.73%	124,866	–	–	124,866	124,866
Bank balances and cash	0.001%-0.35%	614,462	–	–	614,462	614,462
		1,030,734	7,668	9,381	1,047,783	1,026,415
Non-derivative financial liabilities						
Trade and bill payables	–	93,695	–	–	93,695	93,695
Other payables	–	40,710	–	–	40,710	40,710
Bank borrowings	2.43%	113,611	–	–	113,611	110,919
Amount due to a director	–	399	–	–	399	399
		248,415	–	–	248,415	245,723

Notes to Financial Statements (continued)

For the year ended 31 December 2016

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The Group (continued)

At 31 December 2015	Weighted average interest rate	Within 1 year	More than 1 Year but less than 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial assets						
Trade and bills receivables	–	41,205	–	–	41,205	41,205
Other receivables	–	582	–	–	582	582
Amount due from a related company	–	5,903	–	–	5,903	5,903
Pledged bank deposits	–	4,498	–	–	4,498	4,498
Bank balances and cash	0.001%-0.35%	968,757	–	–	968,757	968,757
		1,020,945	–	–	1,020,945	1,020,945
Non-derivative financial liabilities						
Trade and bill payables	–	84,882	–	–	84,882	84,882
Other payables	–	15,390	–	–	15,390	15,390
Bank borrowings	4.37%	52,185	–	–	52,185	50,000
		152,457	–	–	152,457	152,457

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value of the Group's financial liabilities that are measured at fair value on a recurring basis.

The Group's derivative financial liabilities (representing foreign currency forward contracts) are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2016	31 December 2015		
Foreign currency forward contracts (see note 29)	**Liabilities – RMB1,826,000**	–	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 and 2 in the period.

(b) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis but fair value disclosures are required.

The directors consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the consolidated financial statements approximate their fair values. The fair values, which are included in Level 3 categories, have been determined in accordance with generally accepted pricing models based on a discounted cash flows analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(c) Reconciliation of Lever 3 fair value measurements

The derivative financial liabilities are measured at fair value on Level 2 fair value measurement. Reconciliation of Lever 3 fair value measurement is not presented.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 *RMB'000*	2015 *RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**199,304**	87,738
	199,304	87,738
CURRENT ASSETS		
Prepayments, deposits and other receivables	**1,479**	248
Amounts due from subsidiaries	**458,636**	302,606
Cash and cash equivalents	**345,846**	3,261
	805,961	306,115
CURRENT LIABILITIES		
Other payables and accruals	**21,223**	5,700
Amounts due to subsidiaries	**496,578**	10,591
Short-term bank borrowings	**110,919**	–
	628,720	16,291
NET CURRENT ASSETS	**177,241**	289,824
TOTAL ASSETS LESS CURRENT LIABILITIES	**376,545**	377,562
Net assets	**376,545**	377,562
EQUITY		
Share capital	**8,386**	8,386
Reserves *(note)*	**368,159**	369,176
Total equity	**376,545**	377,562

The Company's statement of financial position was approved and authorized for issue by the board of directors on 28 March 2017 and is signed on its behalf by:

Tsai Wallen
Director

Li Zhouxin
Director

Notes to Financial Statements (continued)

For the year ended 31 December 2016

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Capital reserves *RMB'000*	Capital redemption reserve *RMB'000*	Share option reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2015	488,689	(4,613)	16	14,130	(96,649)	401,573
Loss for the year and total comprehensive expense for the year	–	–	–	–	(697)	(697)
Recognition of equity-settled share-based payments	–	–	–	8,187	–	8,187
Dividend paid	(39,887)	–	–	–	–	(39,887)
At 31 December 2015 and 1 January 2016	**448,802**	**(4,613)**	**16**	**22,317**	**(97,346)**	**369,176**
Loss for the year and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(10,630)**	**(10,630)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**9,613**	**–**	**9,613**
Transferred to accumulated losses upon forfeiture of share options	**–**	**–**	**–**	**(380)**	**380**	**–**
At 31 December 2016	**448,802**	**(4,613)**	**16**	**31,550**	**(107,596)**	**368,159**

The capital reserve represents the excess of the nominal value of the Company's shares issued in exchange therefor over the then net asset value of the subsidiaries acquired.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay off its debts as and when they fall due in the ordinary course of business.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the Group's subsidiaries are as follows:

Name	Principal activities	Place of incorporation/ establishment and operations	Issued ordinary share capital/ paid-up registered capital	Proportion of ownership interest and voting power held by the Group Directly		Indirectly	
				% 2016	% 2015	% 2016	% 2015
Prince Frog Investment Limited	Investment holding	British Virgin Islands	US$30 (2015: US$30)	**100**	100	**–**	–
Prince Frog (HK) Daily Chemicals Company Limited	Investment holding	Hong Kong	HK$10,100 (2015: HK$10,100)	**–**	–	**100**	100
青蛙王子(中國)日化有限公司 ("Frog Prince (China)")[1]	Manufacture and sale of personal care products	PRC	US$60,000,000 (2015: US$60,000,000)	**–**	–	**100**	100
青蛙王子(福建)電子商務有限公司 (formerly known as 漳州青蛙王子物流有限公司)[2]	Inactive	PRC	RMB500,000 (2015: RMB500,000)	**–**	–	**100**	100
福建愛潔麗日化有限公司[2] ("Fujian Azalli")	Manufacture and sale of toothpaste products	PRC	RMB10,000,000 (2015: RMB10,000,000)	**–**	–	**80**	80
福建和潤供應鏈管理有限公司[2]	Sale of personal care products	PRC	RMB56,000,000	**–**	–	**75**	–
福建省青蛙王子品牌管理有限公司[2]	Holding of The Group's Intellectual properties	PRC	RMB30,000,000	**–**	–	**75**	–
Plan Ace Holdings Limited	Investment holding	British Virgin Islands	US$10	**100**	–	**–**	–
Joint Success International Investments Limited	Investment holding	Hong Kong	HK$1	**–**	–	**100**	–
紐倫港投資咨詢(深圳)有限公司[1]	Inactive	PRC	RMB100,000	**–**	–	**100**	–

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

Particulars of the Group's subsidiaries are as follows: (continued)

Name	Principal activities	Place of incorporation/ establishment and operations	Issued ordinary share capital/ paid-up registered capital	Proportion of ownership interest and voting power held by the Group Directly % 2016	Directly % 2015	Indirectly % 2016	Indirectly % 2015
Future Elite Ventures Limited	Investment holding	British Virgin Islands	US$10	100	–	–	–
Axis Consulting Services Company Limited	Money lending	Hong Kong	HK$2	–	–	100	–
Focus Great Limited	Trading of commodities	*Note 3*	US$10	100	–	–	–
Marvel Paramount Holdings Limited	Investment holding	*Note 4*	US$50,000	51	–	–	–
MyBB Media Company Limited	Online advertising	Hong Kong	HK$10	–	–	51	–
Brisk Day Limited	Investment holding	British Virgin Islands	US$10	100	–	–	–
Big Chain Limited	Inactive	Hong Kong	HK$1	–	–	100	–
Amazing Gear Limited	Investment holding	British Virgin Islands	US$10	100	–	–	–
Easy Honour Limited	Inactive	Hong Kong	HK$1	–	–	100	–
Link Culture Limited	Investment holding	British Virgin Islands	US$10	100	–	–	–
Joy Link Limited	Inactive	Hong Kong	HK$1	–	–	100	–
Overseas Travel Science and Technology Limited	Inactive	Hong Kong	HK$1	100	–	–	–

Notes:

1. Wholly-foreign-owned enterprises established under the law of the PRC
2. A limited liability company established under the law of the PRC
3. Focus Great Limited was incorporated in the British Virgin Islands and is operating in Hong Kong.
4. Marvel Paramount Holdings Limited was incorporated in the British Virgin Islands and is operating in Hong Kong.
5. None of the subsidiaries had issued any debt securities at the end of the year.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(a) General information of subsidiaries (continued)

During the year, the Company made certain acquisitions and disposal of interests in subsidiaries:

(i) The Company acquired 51% equity interests in Marvel Paramount Holdings Limited together with its subsidiary, MyBB Media Company Limited, details of which are set out in note 35(a).

(ii) During the year, 福建和潤供應鏈管理有限公司 ("Fujian Herun") and its subsidiary 福建省青蛙王子管理有限公司, were established by the Group on 23 June 2016 and 28 September 2016 respectively. On 29 December 2016, the Group disposed of 25% equity interests in Fujian Herun to a third party. Further details of this disposal are included in note 44(c) below.

During the year ended 31 December 2015, the Company acquired 80% equity interests in 福建愛潔麗日化有限公司, details of which are set out in note 35(b).

(iii) Information about the composition of the Group at the end of the reporting period is as follows:

Principal activities	Place of incorporation and operation	Number of wholly-owned subsidiaries 2016	2015
Manufacturing of personal care products	PRC	**2**	2
Trading of commodities	*Note below*	**1**	–
Money lending	Hong Kong	**1**	–
		4	2

Note: This subsidiary was incorporated in the British Virgin Islands and is operating in Hong Kong.

Principal activities	Place of incorporation and operation	Number of non-wholly-owned subsidiaries 2016	2015
Manufacturing of personal care products	PRC	**3**	1
Operation of an online platform	*Note below*	**2**	–
		5	1

Note: One subsidiary was incorporated in the British Virgin Islands and is operating in Hong Kong. The other subsidiary was incorporated and is operating in Hong Kong.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests

Name of subsidiaries	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
				RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fujian Azalli	PRC	**20%**	20%	**(163)**	493	**4,059**	4,222
Fujian Herun and its subsidiary	PRC	**25%**	–	**–**	–	**18,439**	–
Marvel and its subsidiary	*Note below*	**49%**	–	**1,876**	–	**2,692**	–
				1,713	493	**25,190**	4,222

Note: Marvel was incorporated in the British Virgin Islands and is operating in Hong Kong. The subsidiary of Marvel was incorporated in and is operating in Hong Kong.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Fujian Azalli

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Current assets	**29,902**	22,644
Non-current assets	**6,833**	5,666
Current liabilities	**16,439**	7,199
Non-current liabilities	**–**	–
Equity attributable to equity holders of the Company	**16,237**	16,889
Non-controlling interests	**4,059**	4,222

	Year ended 31 December 2016 *RMB'000*	Period ended 31 December 2015 *RMB'000*
Revenue and other income	**56,299**	48,348
Expenses	**(57,115)**	(45,882)
(Loss) profit for the year	**(816)**	2,466
(Loss) profit for the year attributable to equity holders of the Company	**(653)**	1,973
(Loss) profit attributable to the non-controlling interests	**(163)**	493
Total comprehensive (expense) income for the year	**(816)**	2,466
Total comprehensive (expense) income attributable to equity holders of the Company	**(653)**	1,973
Total comprehensive (expense) income attributable to the non-controlling interests	**(163)**	493
Net cash (outflow)/inflow from operating activities	**(4,768)**	5,310
Net cash outflow from investing activities	**(1,716)**	(3,715)
Net cash inflow from financing activities	**–**	–
Net cash (outflow)/inflow	**(6,484)**	1,595

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Fujian Herun and its subsidiaries

	31 December 2016 *RMB'000*
Current assets	79,389
Non-current assets	35,903
Current liabilities	41,537
Non-current liabilities	–
Equity attributable to equity holder of the Company	55,316
Non-controlling interests	18,439

	Year ended 31 December 2016 *RMB'000*
Revenue and other income	89,393
Expenses	(90,638)
Loss for the year	(1,245)
Loss for the year attributable to equity holder of the Company	(1,245)
Loss attributable to the non-controlling interests	–*
Total comprehensive expense for the year	(1,245)
Total comprehensive expense attributable to equity holders of the Company	(1,245)
Total comprehensive expense attributable to the non-controlling interests	–
Net cash outflow from operating activities	(4,503)
Net cash outflow from investing activities	(35,942)
Net cash inflow from financing activities	60,000
Net cash inflow	19,555

* Fujian Herun was a wholly-owned subsidiary of the Company since its incorporation at 23 June 2016. During the current year, the Group disposed of 25% equity interest in Fujian Herun close to the end of the reporting period, the loss of Fujian Herun and its subsidiary for the current year attributable to the non-controlling interest is insignificant to be recognised in the consolidated financial statements.

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Marvel and its subsidiary

	31 December 2016 *RMB'000*
Current assets	6,370
Non-current assets	–
Current liabilities	872
Non-current liabilities	–
Equity attributable to equity holders of the Company	2,803
Non-controlling interests	2,695

	Period ended 31 December 2016 *RMB'000*
Revenue	4,796
Expenses	(968)
Profit for the year	3,828
Profit for the year attributable to equity holders of the Company	1,952
Profit attributable to the non-controlling interests	1,876
Total comprehensive income for the year	3,828
Total comprehensive income attributable to equity holders of the Company	1,952
Total comprehensive income attributable to the non-controlling interests	1,876
Net cash inflow from operating activities	31
Net cash inflow from investing activities	–
Net cash inflow from financing activities	–
Net cash inflow	31

Notes to Financial Statements (continued)

For the year ended 31 December 2016

44. SUBSIDIARIES (continued)

(c) Changes in the Group's ownership interest in a subsidiary

During the year, the Group disposed of its 25% equity interest in a subsidiary, Fujian Herun. The consideration for the disposal amounted to RMB33,000,000, of which RMB18,000,000 was received by the Group with the remaining outstanding balance amounted to RMB15,000,000 which is included in prepayments, deposits and other receivables (note 22). An amount of RMB18,439,000 (being the proportionate share of the carrying amount of the net assets of Fujian Herun) has been transferred to non-controlling interests. The difference of RMB14,561,000 between the increase in the non-controlling interests and the consideration has been credited to retained profits.

45. SUBSEQUENT EVENTS

The following events took place subsequent to the end of the reporting period:

(1) On 6 February 2017, the Company entered into an agreement, pursuant to which the Company has subscribed convertible notes with the principal amount of HK$58,500,000 issued by an entity listed on the Stock Exchange of Hong Kong for a total consideration of HK$58,500,000. The convertible notes entitle the holder thereof to convert the notes into 90,000,000 shares of the listed entity at an initial conversion price of HK$0.65 per share. Details regarding the subscription of the convertible notes are set out in the announcement dated 6 February 2017 made by the Company.

(2) On 20 March 2017, the Company entered into a subscription agreement, pursuant to which the Company has subscribed non-voting participating shares of Head and Shoulders Global Investment Fund SPC, an exempted company incorporated in the Cayman Islands, for a consideration of HK$110,000,000. Details regarding the subscription of the non-voting participating shares are set out in the announcement dated 20 March 2017 made by the Company.

Summary Financial Information

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years prepared on the basis set out in the notes below.

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**999,544**	913,716	1,482,469	1,712,206	1,572,054
PROFIT/(LOSS) BEFORE TAX	**(106,003)**	(49,260)	215,187	309,624	298,634
Income tax expense	**(3,473)**	(556)	(14,794)	(110,046)	(57,524)
PROFIT/(LOSS) FOR THE YEAR	**(109,476)**	(49,816)	200,393	199,578	241,110
Attributable to:					
Equity holders of the Company	**(111,189)**	(50,309)	200,393	199,578	241,110
Non-controlling interests	**1,713**	493	–	–	–
	(109,476)	(49,816)	200,393	199,578	241,110

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,687,036**	1,606,732	1,692,646	1,468,019	1,264,412
Total liabilities	**(336,858)**	(191,896)	(207,202)	(145,859)	(104,782)
Non-controlling interests	**(25,190)**	(4,222)	–	–	–
	1,324,988	1,410,614	1,485,444	1,322,160	1,159,630

Note:

(i) The consolidated results of the Group for the five years ended 31 December 2012, 2013, 2014, 2015 and 2016 and the consolidated assets and liabilities of the Group as at 31 December 2012, 2013, 2014, 2015 and 2016 were extracted from the published audited financial statements.

The summary above does not form part of the audited financial statements.

Particulars of Investment Properties

Location	Existing use	Type of lease
Industrial Complex No. 163, North Huancheng Road Lantian Economic Development Zone Zhangzhou City, Fujian Province The PRC	Industrial	Medium term