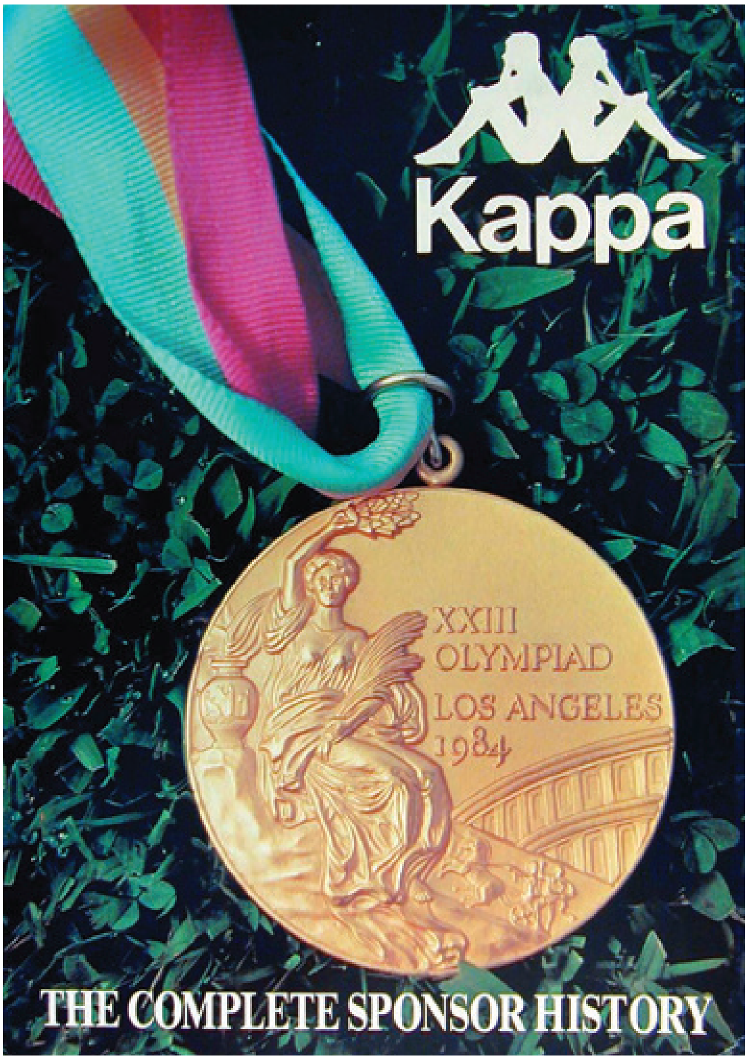
China Dongxiang (Group) Co., Ltd. 中國動向(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 3818

Annual Report 2016

Contents


Kappa
XXIII
OLYMPIAD
LOS ANGELES
1984
THE COMPLETE SPONSOR HISTORY

Vision

By uniting OUTSTANDING INDIVIDUALS and striving for MANAGERIAL EXCELLENCE, we'll lead the SPORTS FASHION industry, all with JOY and PASSION

Mission

To be the most PIONEERING and DESIRED SPORT-LIFE brands


Kappa
Kappa


Kappa

Corporate Information

Executive Directors	Mr. Chen Yihong (Chairman & Chief Executive Officer) Ms. Chen Chen
Independent Non-Executive Directors	Dr. Chen Guogang (appointed and effective from 1 June 2016) Mr. Gao Yu Dr. Xiang Bing Mr. Xu Yudi (resigned and effective from 1 June 2016)
Auditor	PricewaterhouseCoopers Certified Public Accountants
Legal Advisers	Norton Rose Fulbright Hong Kong Conyers Dill & Pearman (Cayman) Limited East & Concord Partners (Beijing)
Authorised Representatives	Mr. Gao Yu Ms. Wai Pui Man
Company Secretary	Ms. Wai Pui Man
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
Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of Business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Head Office in People's Republic of China	Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China
Principal Bankers	Morgan Stanley Asia International Limited Industrial and Commercial Bank of China
Website	www.dxsport.com

Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

		Year ended 31 December				
	Note	**2016**	2015	2014	2013	2012
Sales		**1,501**	1,469	1,262	1,414	1,772
Operating profit		**1,016**	1,005	989	225	89
Profit before income tax		**1,048**	1,021	975	275	271
Profit attributable to equity holders		**870**	803	915	210	177
Non-current assets		**5,415**	4,701	5,378	3,747	1,565
Current assets		**5,730**	5,880	5,931	5,221	5,764
Current liabilities		**1,352**	974	939	311	360
Net current assets		**4,378**	4,906	4,992	4,910	5,404
Total assets		**11,145**	10,581	11,309	8,968	7,329
Total assets less current liabilities		**9,793**	9,607	10,370	8,657	6,969
Equity holders' equity		**9,658**	9,531	10,340	8,609	6,923
Gross profit margin (%)		**56.7**	56.2	50.7	48.2	47.5
Net profit margin (%)		**58.0**	54.7	72.5	14.9	10.0
Earnings per share						
— basic (RMB cents)		**15.79**	14.56	16.61	3.82	3.19
— diluted (RMB cents)		**15.79**	14.56	16.61	3.82	3.19
Total assets per share (RMB cents)	1	**202.15**	191.94	205.21	162.80	132.33
Debt to equity holders' equity ratio	2	**0.15**	0.11	0.09	0.04	0.06

Notes:

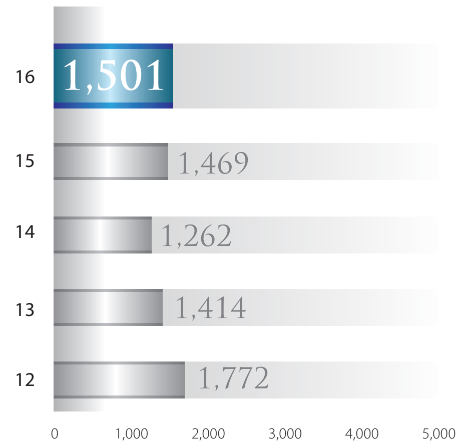
(1) The number of ordinary shares used in the calculation for the year ended 31 December 2016, 2015, 2014, 2013 and 2012, are 5,513,180,000 shares, 5,512,580,000 shares, 5,511,030,000 shares, 5,508,643,000 shares and 5,538,588,000 shares, which were the weighted average number of shares for the years.

(2) The debt to equity holders' equity ratio is calculated based on total liabilities of the Group divided by equity attributable to equity holders of the Company as at 31 December for the year.

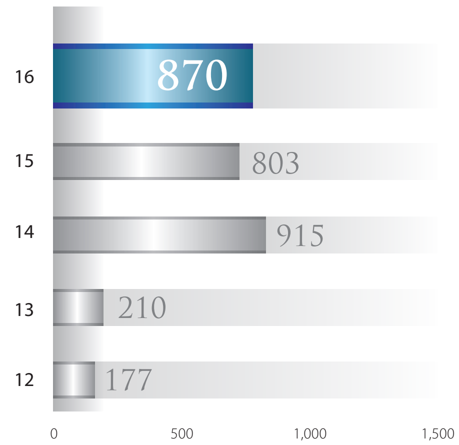
Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

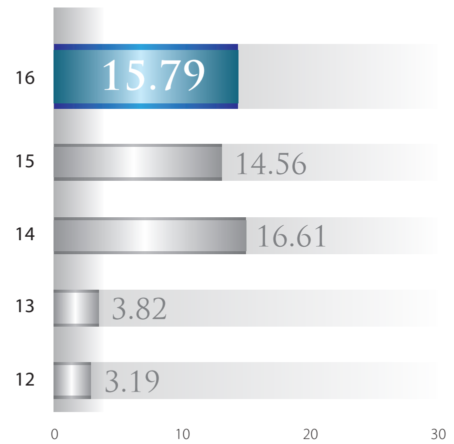
SALES



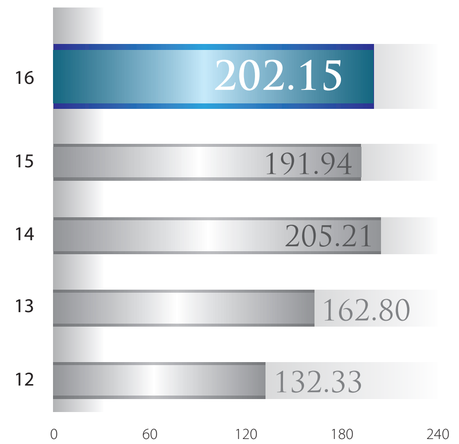
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



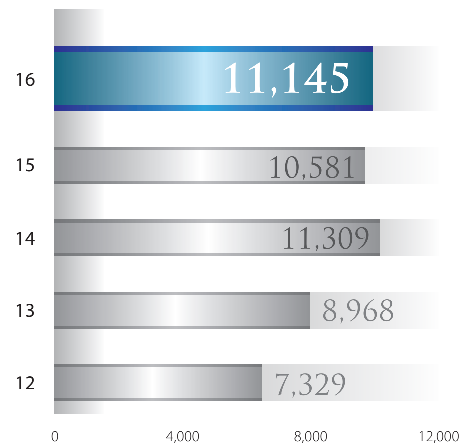
EARNINGS PER SHARE — BASIC (RMB CENTS)



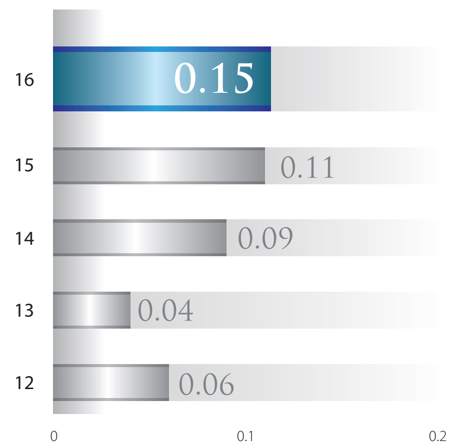
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)




Kappa
Kappa
BORN IN ITALY


Kappa

Chairman's Statement

Dear Shareholders,

The blooming springtime of 2017 is upon us and I am pleased to present on behalf of the Board our annual results for the year ended 31 December 2016.

The global economy was generally dominated by lacklustre sentiments in a process of recuperation during 2016, while the Chinese economy showed stability in slowdown and positive momentum in stability as it steered through a crucial period of transition, making a good start for the 13th FYP period. For the full year of 2016, China reported growth of 6.7%, 6.3% and 10.4% in GDP, per capita disposable income and total retail sales of consumer goods, as compared to 2015. Favourable factors such as the announcement of policies benefiting the sporting industry, such as the "Work-out For All Programme (2016–2020)", since the commencement of the 13th FYP, the upgrade of retail spending and growing health consciousness among the population have augured well for the sportswear industry. Against this backdrop, we reported stable growth in Group results as our people sought to enhance our management capabilities, clarify our brand positioning and explore market demands in a concerted effort, while actively involving ourselves in joint activities with notable significance. At the same time, we have been able to generate remarkable returns from our investment operations on top of positive development of our core business, thanks to prudent and flexible investment strategies seeking proactive use of our financial resources to invest in scarce resources.

The Group's revenue for the reporting period grew by 2.2%, year-on-year, to RMB1,501 million, while operating profit grew by 1.1% to RMB1,016 million as compared to the previous year. For the reporting period, profit attributable to equity holders increased by 8.3% to RMB870 million, basic earnings per share improved by 8.4%, year-on-year, to RMB15.79 cents. As a reward to shareholders for their support, the Board of Directors has proposed to distribute 30% and 30% of the net profit attributable to equity holders for the year ended 31 December 2016 as final dividend and special final dividend, respectively.

"BRAND + PRODUCT"

In connection with the "Brand + Product" initiative, our designs have been aimed at meeting consumers' preferences and needs, complemented by consistent efforts to enhance our brand focus and facilitate product upgrades. Through a combination of online and offline brand marketing activities, as well as cooperation with renowned artists and opinion leaders in various industries, active efforts to launch joint products and pronouncement of brand messages in effective enhancement of brand exposure. In terms of product innovation, we were constantly seeking new niches for growth. During the second half of 2016, patent Japanese technologies were introduced to apply functional designs and materials in products. In terms of brand promotion, the Group made vigorous efforts to develop marketing channels while continuing to pursue comprehensive, multi-dimensional exposure in all media forms to ensure further penetration of its brand image of being "passionate, rebellious and outgoing". During the second half of 2016, the Group launched a range of marketing activities in celebration of the Kappa centenary. A "Kappa 100 Years" exhibition across 11 cities in China was rolled out highlighting the core value of the brand: the consistent pursuit of fashion. In YOHOOD, a gala of new products in global fashion, our classical BANDA products were displayed for fashion lovers. Elsewhere, Kappa worked with our brand ambassador G-Dragon to initiate a new topic known as #PEOPLE ON THE MOVE#, resulting in notable enhancements to our brand exposure and reputation.

"BRAND + RETAIL"

The "Brand + Retail" concept of business was fully implemented in our operations during 2016. Against complicated market conditions, we made timely moves to reflect, improve and amend, seeking always to review the operation and management of the brand company in a mindset that resonates with the thoughts of end-customers. Detailed analyses and surveys were conducted in connection with the streamlining and broadening of retail channels through in-depth research on the current conditions and future prospects of the domestic retail market, and a solid foundation has been laid for the healthy development of our retail channels in the future. As at the end of December 2016, the Group had a total of 1,563 Kappa stores (including 262 Kappa Kids stores), representing a net increase of 296 stores (comprising net increase of 34 Kappa stores and 262 Kappa Kids) compared to that as at the end of last year. These included 461 retail stores run directly or indirectly by subsidiaries engaged in self-owned retail operations.

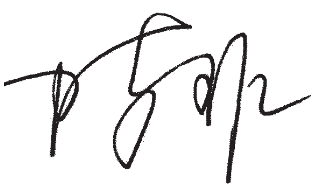
As China's online retail sales for 2016 grew by 26.2% as compared to the previous year, the Group's also delivered spectacular performance in its e-commerce business. In acknowledgement of changes in the industry, our e-commerce department adopted a new strategy that aimed to attract new customers through more extensive consolidation of resources. We were also actively involved in the marketing activities organised by famous e-commerce platforms, such as the November 11th global fashion festival hosted by Tmall, where Kappa was one of the only 4 international sporting brands participating. As at the end December 2016, our e-commerce revenue for the reporting period increased by more than 20.1% (excluding revenue from kids' wear sales via e-commerce), year-on-year, with a gross profit margin of 63%.

The take-over of the kids' wear business was completed in 2016. Transitional processes involving customers and channels went smoothly thanks to the coordinate effort of the operating teams. Stable growth in profitability were reported following proactive adjustments to the products. For the year ended 31 December 2016, revenue from the kids' wear business amounted to RMB86 million, accounting for 7.6% of revenue for the China segment. As at 31 December 2016, there were 262 kids' wear stores. In the meantime, the Group made vigorous efforts to introduce Phenix to the China market to capitalise on opportunities arising from China's hosting of Winter Olympics 2022. With a main focus on high-end ski centres, we sought to appeal to avid skiers by opening branded stores at the ski grounds. Elsewhere, the consolidation of Chinese and Japanese operations continued to make steady progress, as we achieved the sharing of premium resources between the two branches through centralised management and facilitated reasonable application of patent Japanese technologies to enhance the technology and value of our products for stronger brand competitiveness.

INVESTMENT BUSINESS

The general economic conditions in China suggest that 2016 has been a good starting for the 13th FYP period. With the further enhancement of supply-side reforms and new targets for the elimination of surplus capacity and for destocking, the demand of fellow Chinese citizens has also become more divergent and diversified, while retail spending has been further increased. To address new opportunities presented by new changes, the Group has been engaged in the prudent development of new businesses and implementation of new approaches, on top of assuring stable progress of its principal operations. A two-pronged growth driver formed by the principal sportswear business and the complementary investment business has been growing in maturity. For the reporting period, the Group reported net investment profit of RMB708 million, representing year-on-year growth of 14.0%. The Group will continue to identify and explore potential projects in cooperation with high-calibre investment partners on the back of its existing resources and strengths, with a view to assuring broader prospects for development. We believe that our efforts will result in more lucrative and more lasting rewards for shareholders in the future.

Step by step, we can venture afar. Mindful of our mission, we will continue to advance with committed efforts, being thankful always for having you stand by us along the way through thick and thin. In the future, we will continue to bank on our fighting spirit and engage challenges and opportunities with a versatile and open-minded approach. Dauntless in the face of adversity, we will progress steadily amidst uncertainties in the economic conditions to deliver strong return to shareholders.



Chen Yihong
Chairman

22 March 2017

Brand Portfolio

The Group is committed to becoming one of the best multi-brand sportswear enterprises in the PRC. The Kappa Brand is our first brand and with the strong presence and network developed through the Kappa Brand, it has established solid foundation for us to implement a multi-brand strategy. After the acquisition of Phenix in 2008, the Group owned the brands of Phenix, X-NIX, and inhabitant as well.

By utilising management's extensive experience in the sportswear industry and our strong financial resources, we will endeavor to identify and explore opportunities to operate more international brands in the PRC and/or regional markets.

Kappa

- A renowned Italian sportswear brand founded in 1978
- Since 2002, the Group has been operating the Kappa Brand in the PRC market
- Enriched with Italian fashion elements, Kappa emerges as a leader in the China sports fashion market

phenix

- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese designers, and their R&D philosophy of positively absorbing the design features of other products and industries
- An outdoor product line that featured the fusion of fashion and functionality was officially launched in 2011

X-nix

- An apparel brand for snowboarding
- With a mix of functional and fashionable senses, it covers a diverse range of equipment and ornaments
- It assures customers of the joy and fun in snowboarding in any weather conditions, as proven by series of tests under the support of top snowboard athletes

inhabitant

- The youth is the main target audience of this brand
- The product line covers almost all of the extreme sports including surfing, snowboarding, extreme wakeboarding, riding bicycles and skateboards, etc., as well as other entertainment areas of life such as DJ are covered
- Endeavor is made to constantly provide typical types of fashionable and popular sports equipment and everyday clothing

Management Discussion and Analysis

MACRO-ECONOMIC REVIEW

The global economy was generally tilted towards the downside in 2016. While the United States showed signs of economic resurgence, stable recovery of the European economy was marred by political risks and crises in the banking industry threatening to drag economic development. In Japan, domestic demand was soft and insufficient to drive economic recovery. Meanwhile, the emerging markets faced capital outflows in the wake of U.S. Fed rate hikes, but such outflows are expected to be restrained to a certain extent.

China continued to enhance its economic reforms amidst the frenzied and complicated international economic landscape. China's economic developments in 2016 was generally characterised by "stability in the slowdown" and "positive momentum in stability". Annual GDP amounted to RMB74,412.7 billion, representing year-on-year growth of 6.7%, Overall economic development trended within a reasonable range with ongoing improvements in terms of structure and efficiency, while positive results were attained in destocking and the elimination of surplus capacity. All in all, it was a good starting year for the 13th FYP period. Retail consumption in 2016 as a percentage of overall GDP decreased to 64.6%, which was 1.8 percentage points lower as compared to the previous year.

INDUSTRY REVIEW

China's economic growth lost some steam in 2016, although total retail sales of consumer goods grew 10.4%, year-on-year, to RMB33,231.6 billion. While lacklustre sentiments continued to prevail in the apparel industry following weakness in the previous year, the sportswear sector managed growth with initial signs of recovery, as inventory level returned to a reasonable range with normalised turnover after several years of destocking. The leading enterprises devoted more attention to brand building and the fostering of competitive strengths and strived to overcome bottlenecks by driving supply-chain reforms, refining channel management and optimising resource allocation.

It is worth noting that the ski industry enjoyed further development in China following the announcement of Beijing — Zhangjiakou as the host of Winter Olympics 2022. The development of the winter sports industry was top on the agenda of the government, which specifically identified the winter sports industry as a new niche for stimulating retail spending on sporting goods in the document "Certain Opinion on Expediting the Development of the Sporting Industry and Driving Retail Spending on Sports". The number of avid skiers visiting domestic ski resorts has been increasing in recent years, lending high hopes to the development of the ski industry.

Since the commencement of the 13th FYP, policies favouring the sporting industry, such as the "Work-out For All Programme (2016–2020)", had been announced. Meanwhile, the demand for quality experiences in spending, namely, the demand for products with premium quality, good value for money and tailored features, continued to increase amidst rising retail spending alongside an emerging middle class. As such, the sportswear industry was holding out strong potential for further growth with the benefit of favourable policies and upgraded retail spending.

BUSINESS REVIEW

In 2016, the Group reported sound financial gains on the back of a solid business network sustained through active efforts to adjust business development, improve sales channel and conduct effective brand marketing.

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1, 2. Kappa Centennial Exhibition

3, 4. Kappa X YOHOOD The Global New Trend Carnival

5. Kappa collections featuring Sam Lee Chan-sum

6, 7. Kappa collections featuring Sui He

Brand Building and Marketing

PRC — Kappa brand

To mark the centenary of the Kappa brand in 2016, the Group was engaged in the active launch of joint products and pronouncement of brand messages in association with renowned artists and opinion leaders in various sectors, in addition to online and offline brand marketing campaigns.

During the second half of 2016, the Group organised a "Kappa 100 Years" exhibition across 11 cities in China in further celebration of the centenary. The exhibition showcased mainly fashionable items, while the brand spirit of being passionate, rebellious and outgoing was strongly visible in visual designs, site decorations and product display. Moreover, a hi-tech zone was set up at the exhibitions to demonstrate the strong elasticity of spandex materials and unveil the secret of the comfort of Kappa products, in a fine display of the Group's ongoing renovation in materials science and manufacturing craftsmanship.

In September 2016, Kappa featured again in YOHOOD as a sports fashion brand and added a trait of sports in style to this gala of new products in global fashion with the display of the classical BANDA, its signature product line, commanding a strong appeal to domestic and foreign fashion lovers alike.

Elsewhere, our brand ambassador G-Dragon initiated a new topic known as #PEOPLE ON THE MOVE# and called upon fans to see each day as a new beginning and each attempt as a new achievement. The discussion thread subsequently attracted fashion artists and opinion leaders in various industries, including Sam Lee and Sui He, to voice their takes and share stories of their own lives, joining Kappa in a vivid show of the unique colours of fashion.

The Group officially took over the operation of the kids' wear business and marketing initiatives were rolled out steadily. In July 2016, the Kappa Cup City Orienteering Tournament was held in Shanghai. As a titled sponsor, Kappa not only provided the apparel for the adults and children taking part, but also organised parent-child fun games with good marketing effect for our kids' wear. During the October 1st Golden Week, Kappa Kids participated in the Kid's Balance Bike Contest hosted by Pigeon Bicycles and supplied prizes for the winners. Apart from sporting events, Kappa Kids also conducted brand marketing through cultural and family activities, giving out entry tickets for the "Marvelous Andersen" exhibition of classic children stories at Kappa Kids stores to patrons who had made a certain amount of purchase, as well as taking part in the first international parent-child fashion week. Kappa Kids joined the Kappa adults' wear in the Kappa Centenary Brand Exhibition, earning positive market response in the display of brand image.

Japan — Kappa brand

Kappa Japan also launched a range of brand promotion activities to mark the 100th anniversary of Kappa, resulting in stronger recognition and more profound understanding of the Kappa brand on the part of consumers.

To further enhance the idea of plurality in its brand philosophy, the Group added the golf element to its brand marketing in addition to its traditional emphasis on the footballing culture. While the footballing theme continued to dominate store decoration at out outlets, golf features were also included in our corporate brochures to refresh and enhance our brand quality. Meanwhile, promotional materials on the brand's 100 years of history and centenary editions of selected outfits were placed on WEB/SNS to highlight our brand culture and enhance consumer understanding of the Kappa brand. In connection with brand promotion, advertisements and articles on matching ideas were published in EVEN to help readers to improve their fashion style by showcasing the Italian charm of our classical designs. In the meantime, magazines were placed in department stores and our direct outlets to enhance the communication of brand knowledge for marketing purposes.

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1, 2. Kid's Balance Bike Contest

3. Parent-child Interactive Game

4, 5. Kappa Cup City Orienteering Tournament

6. Kappa Centennial Exhibition

In recent years, Kappa Japan has been sponsoring a number of sporting tournaments to increase its brand influence. At the "Kappa Friendship Day" tournament held during the first half of the year, Kappa-sponsored teams dominated proceedings with outstanding performances in a successful promotion of the brand centenary. In the second half of the year, the Kappa-sponsored Consadole Football Team won the J2 league and marketing activities organised in the aftermath in honour of the victory gave a major boost to brand promotion and brand value.

Japan — PHENIX brand

During 2016, Phenix continued to work with top-tier sporting groups such as the Norwegian Ski Federation Alpine Team and the Japanese Ski Team, as it made impeccable statements of what it meant to be an upscale brand with functional excellence, while maintaining its usual flair in fashion. In connection with advertising, the visual effect of the athlete's image was brought into full play by placing advertising materials at the outlets and inviting players' to participate in marketing activities, while press conferences were held to earn media eyeballs and increase brand exposure. In the meantime, the white tone was adopted for display designs at the flagship stores to highlight the upscale image of the brand. The official website of Phenix was also redesigned with reshuffled contents to enhance aesthetics and ease in browsing for a stronger brand impact.

PHENIX OUTDOOR organised a range of brand promotion activities during the year. A brochure featuring "Trekking Pants" was produced to showcase the fashion and functionality claim of the product. Moreover, information was dispatched via PR TIMES, a news release platform, to enhance consumer understanding of "Trekking Pants". Meanwhile, marketing activities were also conducted at stores to reinforce the image of the mainstay product, increase sales and enhance market penetration.

Japan — X-niX brand

Promotion of the X-niX brand in 2016 was conducted mainly through a combination of online and offline marketing initiatives. In the second half of the year, the main visual was pitched against a photo of the Tokyo Station as background, alluding to departure for a ski trip with a strong visual impact. The visual was extensively used on our official website, in store marketing and on SNS with a strong communicative effect that enhanced consumers' recognition. Elsewhere, the brand also conducted online promotion by inviting celebrities to provide write-ups on Instagram, the hottest social media application of late. Massive follows have been earned with a significant advertising effect.

Product Design and Research and Development

Apparel Series

MOBIUS Series

A perfect illustration of the idea of breaking away from the bounds of city life, this series allows youngsters who crave for trendy sports to throw themselves into one of those whenever and wherever they want to. The design draws its inspirations from the warm and charming coastal region in southern Italy and makes a strong case for its natural and carefree character. The MOBIUS Series is designed on the basis of armours worn by warriors in the ancient European battleground improved by modern ergonomics. Made with spandex fabric with an excellent four-side stretch, the outfit offers unique comfort and freedom from constraints to the athlete in action.

KOMBAT Juventus Series

Kappa introduced the "light outdoor" design concept for the Fall/Winter season of 2016 to foster a perfect mate for trendy sporting. The Alpes-inspired glacier-like pattern is a natural sequel to the black-and-white clash of Juventus and a perfect match with the idea of "light outdoor". It is also in tandem with the fashion of colour-clashing and colour-patching, as the wearer cannot fail to stand out visually with those patterns-dominated designs. While exploring avant-garde design ideas, the


phenix

series has also utilised functional designs and materials, such as "single-hand pulling", a patented Japanese technology. As much as giving a lively interpretation of the trendy sporting style characteristic of our brand, it also offers something that consumers can wear on a daily basis with great convenience, boasting meticulous attention to the finest detail.

KOMBAT Series

The KOMBAT Series is inspired by its inherent football genes. The classical match of black, white and red complemented by the impact of large-print numeric has made it one of the all-time favourites of consumers. In 2016, the KOMBAT Series was further upgraded with its attribute as a trendy sport apparel magnified in an impeccable display of Kappa's mastery of fashion and trends. The latest design of segregated or disjointed layers adds to the street chic style. The application of 3D hot-press technologies, letter press and 3M reflective materials has provided a seamless solution to the need for clothes to wear between seasons with enhanced fashion and visual impact.

222 BANDA Series

Thanks to the shoulder-to-shoulder Omini logo with household fame, the BANDA Series has long become a much sought-after visual element in sports and fashion. For the 2016 Fall/Winter season, the BANDA Series is a story of classic crossing over with new inspirations. The century-old masterpiece clashes with brand new colours, as popular elements are incorporated into classical designs. The clashing colour schemes are unprecedented for our brand: tricolor combinations are produced from campus pink, silvery grey, golden orange and turquoise, some of the favourite shades of youngsters, filling the traditional design of consecutive logos with fresh colour looks. While maintaining a retro taste, it also gives full justice to the innovative approach of #PEOPLE ON THE MOVE# with a flawless interpretation of passionate, rebellious and outgoing.

VINTAGE Retro Series

The Kappa sporting apparel has drawn its inspirations from Europe of the seventies. This season, the VINTAGE Retro Series offered rebellious and outgoing youngster who desired liberation a magnificent way to show their true colours by reincarnating the European sporting style of the seventies. The uneven colour patches highlight the vintage emphasis on colours so typical of the seventies, while the brand logo placed closer to the shoulders is another signature of the vintage era. In matters of detail, the product has also drawn on its predecessors of the seventies, adopting the pull-string design to afford consumers with yet another experience of the classical touch. From the overall design to details, the quintessence of classical designs is impeccably re-presented in an exquisite interpretation of the latest trends.

Pants Series

The seasonal Kappa pants series features mainly the KOMBAT pants, created originally for professional football training purposes in line with the traditional competitive spirit of the label. To tailor to the body build of Asians, Kappa has produced pants in several refined categories, which mainly includes the physical, sporting, regular fit and comfort types, based on extensive researches and analyses of the leg features and hip measurement of Asians. Designed to offer maximum fitting qualities, pants in the series are well suited to sporting purposes while providing a ready match for any casual wear to meet the needs of all groups.

Shoes Series

In celebration of its centenary, Kappa introduced in 2016 the retro edition of US MEDAL, an all-time classic personally designed by famous Italian maestro Giorgetto Giugiaro. While preserving most of the original features of the model, contemporary craftsmanship and ideas have also been incorporated to enhance the rebirth of this classic after decades through an ingenious fusion of elements from the past, the present and the future. Meanwhile, Kappa has also launched a brand new retro model featuring the combination of traditional nylon and suede in an integration of popular nostalgic trends and the classical elements of Giorgetto Giugiaro. In the creation of brand new designs, we have made persistent efforts to introduce yet more innovations to trendy models, in an attempt to seek breakthroughs in shape, craftsmanship and materials for the perfect blend of modern shoe-making technologies, such as integrated knit and seamless bonding. In future, Kappa shoes will continue to represent an incessant source for expressing the passionate, rebellious and buoyant spirit, underpinned by the impeccable combination of the Kappa brand DNA with modern styles and novel technologies.

Accessories Series

Kappa's interpretation of the spirit of passionate, rebellious and outgoing and its constant innovations and upgrades in craftsmanship and technologies have also been vigorously reflected in its accessories, which have been emphatically showcased by brand ambassador G-Dragon in 2016 to coincide with the Kappa centenary. Thanks to the ingenious work of our designers, products such as the creative stringed-top bags, bucket hats, baseball caps and stylish small bags designed exclusively for girls have grown immensely in popularity and become important components of the Kappa brand. Elsewhere, our pursuit of excellence has also been evident in our lines of hats and cotton socks. The upgrade of the classical hat featuring spandex fabric processed by laser punch technologies is a fine example of how Kappa turns elementary products into popular items of fashion. The 100% cotton socks with unique odor-free features made possible by advanced technologies afford additional comfort as daily wear. In 2016, efforts have been made to bring our accessories into greater visual accord with our apparel and footwear series, in order to provide buyers with more matching options in overall style creation.

Upgrading our retail network

During the period under review, the Group continued to optimize its retail network and store efficiency while assessing and making necessary adjustments to its store network under its brand-oriented business model. As at 31 December 2016, the Group had a total of 1,563 Kappa retail stores(including 262 Kappa Kids stores), representing a net increase of 296 stores (net increase of 34 Kappa stores and net increase of 262 Kappa Kids stores) as compared to the end of last year. A total of 461 retail stores were operated by our subsidiaries, in further consolidation of the position and influence of self-owned operations. In 2016, the sales network formed by Kappa retail stores covered all major provincial capitals and other major large cities and towns in China.

On the e-commerce front, the Group has adopted new strategies in response to changes in the industry by conducting more extensive resources consolidation and actively participating promotion events organised by well-known e-commerce platform to attract new customers, resulting in a better sales performance. E-commerce sales for the year ended 31 December 2016 surged by 20.1% (e-commerce sales of kids wear excluded) with gross profit margin of 63%.

Increasing the contributions of Group projects

In 2016, the Group sustained stable development of its principal operations against the backdrop of braked macro-economic growth. With the gradual formation of a brand new business profile dominated by sportswear and complemented by investment projects, the latter was also generating sound earnings for the Group on a continuous basis. Diversified investments, prudent risk control and effective investment planning and distribution were some of features of the work of our Investment and Fund Management Department, which was consistently focused on safeguarding the security of funds and ensuring reasonable returns. In future, the Group continue to generate long-term, sustainable returns for shareholders by enhancing cooperation with its investment partners on the back of its existing strengths and resources in a safe and risk-proof manner.

OUTLOOK

While the slowdown in global economic growth continued in 2016, China Dongxiang sustained sound momentum for development, stable business results and strong shareholders' return despite the pressure of an economic downside, thanks to its unique brand character, a brand philosophy that embraces diversity, and its mature and prudent investment businesses.

The brand value of Kappa has been further enhanced, as the Group further explored its brand culture and broadened marketing channels on the occasion of the centenary of the brand. In 2017, the Group will continue to build on the concerted effort among teams and procure effective improvements in brand building and business operation. Through more extensive consolidation of resources, we will identify and explore opportunities for new breakthroughs in business, which will add to the vigor of the brand and provide a solid foundation for sustainable development in the future.

Looking ahead, we can expect boundless opportunities as well as challenges, in addition to increasing competition amidst fast-changing economic conditions. We will continue our drive with a fighting spirit as always and engage each business opportunity with a versatile, open-minded approach, confronting difficulties and challenges in a proactive manner as we seek to constantly refine our brand culture and enhance our enterprise value. As we express our gratitude for shareholders and friends of China Dongxiang who have stood by us through thick and thin, let us at Ching Dongxiang pledge to bring greater reward to our Group and shareholders in fulfillment of our mission.

ADDITIONAL DISCLOSURES

Principal risks and uncertainties facing the Group

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. The Group will further improve its risk management, closely monitor the following risks and seek to adopt responsive measures. This annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

(i) Risks relating to macro-economic fluctuations

Pressure on macro-economics in China remained considerable amidst global economic fluctuation. The Group principally operates its business in Mainland China, and macro-economic fluctuation may have material impacts, in a mid-to-long run, on economic policies, spending environment and spending power in China, adversely affecting the revenue and profitability of the Group in the future.

(ii) Risks relating changes in industry

Sportswear industry in China is competitive, consumers are increasingly concerned with their requirements for sportswear products in terms of brand reputation, fashionableness, technological functions and market segment advantages, posing more perplexing challenges to sportswear brands. Competitive differentiation will be the key for the Group to sustain growth in sportswear industry.

(iii) Risks relating to business operation

Management of internal and external business operation of the Group may be subject to a series of risks, such as increase in product cost and raw material cost, rise in labour cost, increase in sales channel, insufficiency of internal management procedure, non-compliance of key staff members and default by suppliers and distributors. In spite of measures formulated by the Group for managing such risks, the unforeseen circumstances may adversely affect the operating results of the Group.

(iv) Risks relating to investments

The Group's another principal business is investment activities which involve risks and gains. During the investment period, the Group may be subject to a number of risks, such as price fluctuation in stock markets, unfavourable changes in policies on investee industries or sectors, operational failure of investee projects, default by partners or exchange fluctuation. The Group will emphasis on risk aversion by strictly following established procedures and policies on investment decision and pro-investment management, however there is no assurance that the risks will not materialise.

Environmental policies and performance

As a well-known sportswear brand, the Group is acutely aware of the importance of the environmental, social and governance (ESG) matters for the future development of the Group. We recognize that sustainable development of our business requires our continued progress in terms of the economy, environment, and social responsibility.

For a long time, the Group is committed to becoming the champion multi-brand sportswear company in the PRC. While we develop our operation and business, management standard and work performance on environmental and social issues will be tirelessly raised so as to achieve sustainable development for the Group. For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance report on pages 35 to 44 in this annual report.

Legal Compliance

Based on the best knowledge of Directors and management, we are not aware of any non-compliance of laws and regulations which will have a significant import on the business of the Group.

Account of the Group's key relationships with its employees, customers and suppliers

(i) Employees

Human resources represent important strategic resources for modern enterprises that play a vital part in the improvement of management efficiency and the enhancement of productivity. As China Dongxiang Group drives forward in the fast lane of business development, great importance has been attached to the development of the human resource management system and the cultivation of high-calibre personnel.

(ii) Customers

The Group always attaches importance to product quality and strictly controls every part of the production and distribution process to ensure meeting consumers' purchase intention and their satisfaction. The Group will provide after-sale services to the distributors and the consumers in accordance with the "Law of the People's Republic of China on Product Quality", the "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" and relevant rules of the Group. The Group has attached importance to protection of personal information of consumers by implementing strict requirement for confidentiality concerning personal information of consumers obtained in sales and complaints.

(iii) Suppliers

The Group insists on building an accountable supply chain and is seriously concerned with the environmental protection and management standards of its suppliers. The Group implements a strict supplier recruitment and evaluation system. A supplier which meets the recruitment conditions must have experience in manufacturing first-tier branded products both domestically and abroad and be subject to the Group's site visits and comprehensive scoring system before it can be qualified being included in our supplier list. During the year under review, the Group considered the relations with its suppliers was well and close.

FINANCIAL REVIEW

The sales of the Group in 2016 was RMB1,501 million, increased by 2.2% as compared to RMB1,469 million in 2015. Profit attributable to equity holders in 2016 was RMB870 million, increased by 8.3% as compared to RMB803 million in 2015.

Sales Analysis

Sales analysed by geographical segments, business segments and product categories

	Year ended 31 December						
	2016			2015			
	RMB million	**% of product/ brand mix**	**% of Group sales**	RMB million	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**739**	**72.8%**	**49.2%**	737	71.6%	50.2%	0.3%
Footwear	**252**	**24.8%**	**16.8%**	268	26.0%	18.2%	–6.0%
Accessories	**24**	**2.4%**	**1.6%**	25	2.4%	1.7%	–4.0%
Kappa Brand total	**1,015**	**100.0%**	**67.6%**	1,030	100.0%	70.1%	–1.5%
Kappa Kids business	**86**		**5.8%**	—	N/A	N/A	N/A
International business and others	**29**		**1.9%**	23		1.6%	26.1%
CHINA SEGMENT TOTAL	**1,130**		**75.3%**	1,053		71.7%	7.3%
JAPAN SEGMENT							
Phenix Brand	**247**	**66.6%**	**16.4%**	274	65.9%	18.6%	–9.9%
Kappa Brand	**124**	**33.4%**	**8.3%**	142	34.1%	9.7%	–12.7%
JAPAN SEGMENT TOTAL	**371**	**100.0%**	**24.7%**	416	100.0%	28.3%	–10.8%
THE GROUP TOTAL	**1,501**		**100.0%**	1,469		100.0%	2.2%

China Segment

Total sales of the Kappa brand business, the core business of the Group, in 2016 was RMB1,015 million, decreased by RMB15 million from RMB1,030 million in 2015. The newly established kids business unit in the current year realised sales of RMB86 million.

In the reporting period, the Group continued to make dedicated efforts in consolidating the business of "brand + product" and "brand + retail" in a bid to further enhance our brand value and consolidate our brand influence by continuous refining of our products with a brand-oriented principle, and, on the other hand, continue to optimize and improve the new operation model in control and management, expanding the e-commerce operations so that demands from end customers are better accommodated and satisfied. In addition, the Group has continued to conduct adjustments and restorations to its retail stores. We had a net increase of 34 Kappa retail stores, representing 1,301 Kappa retail stores in total as compared to 1,267 at the end of 2015. Also, there were 262 retail stores in total for Kappa kids stores in the end of 2016.

Sales of Kappa brand products in China segment analysed by sales channels

	Year ended 31 December				
	2016		2015		
	Sales RMB million	**% of sales of Kappa brand**	Sales RMB million	% of sales of Kappa brand	**Change**
Wholesale	**572**	**56.4%**	628	61.0%	–8.9%
Retail	**443**	**43.6%**	402	39.0%	10.2%
Total of Kappa brand	**1,015**	**100.0%**	1,030	100.0%	–1.5%

Note: Excluding Kappa Kids business

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB56 million to RMB572 million in 2016 from RMB628 million in 2015, representing 56.4% of the total sales of Kappa brand in China segment in 2016 as compared to 61.0% in 2015.

As at 31 December 2016, the number of self-owned retail stores under Kappa brand operated by our subsidiaries in China reached 461. Sales via retail channel increased by RMB41 million to RMB443 million in 2016 from RMB402 million in 2015, representing 43.6% of the total sales of Kappa brand in China segment in 2016 (2015: 39.0%).

Analysis of unit average selling prices and total units sold of Kappa Brand products in China Segment

	Year ended 31 December					
	2016		2015		**Change**	
	ASP	**Total units sold**	ASP	Total units sold	**ASP**	**Total units sold**
	RMB	**In '000**	RMB	In '000		
Apparel	**198**	**3,781**	207	3,553	–4.3%	6.4%
Footwear	**203**	**1,237**	214	1,244	–5.1%	–0.6%

Notes:

1. Average selling price per unit represent the sales for the period divided by the total units sold for the period.

2. Accessories cover a wide range of products that vary significantly in terms of average selling price per unit. We believe that the average selling price per unit analysis of this product category is not meaningful.

3. Excluding Kappa Kids business.

In 2016 and 2015, average selling prices per unit for apparel products were RMB198 and RMB207 respectively, and average selling prices per unit for footwear products were RMB203 and RMB214 respectively. Average selling prices of apparel products and footwear products recorded slight decrease. Total units sold for apparel products slightly rose for 6.4% as compared to that of last year, mainly due to the increase in the proportion of e-commerce operations, while total units sold for footwear products were substantially parallel to last year.

Japan Segment

Sales from Japan Segment in 2016 decreased by RMB45 million to RMB371 million from RMB416 million in 2015. The decrease in sales of Japan segment was mainly due to adjustment of product mix and prolonged recession in retail market in Japan.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has risen by RMB7 million to RMB650 million in 2016 (2015: RMB643 million).

In 2016, our gross profit before reversal of impairment losses of inventories has increased by RMB25 million to RMB851 million (2015: RMB826 million). Our overall gross profit margin before reversal of impairment losses of inventories in 2016 rose by 0.5 percentage point to 56.7% from 56.2% in 2015.

The gross profit margin analysed by geographical, business and product category are detailed as follows:

	Year ended 31 December		
	2016	2015	**Change**
	Gross profit margin	Gross profit margin	% pts
China Segment	**63.9%**	64.5%	–0.6
Kappa Brand:			
Apparel	**69.3%**	69.5%	–0.2
Footwear	**56.7%**	60.1%	–3.4
Accessories	**69.7%**	66.1%	3.6
Kappa Brand overall	**66.2%**	67.0%	–0.8
Kappa Kids	**58.2%**	N/A	N/A
Japan segment	**34.7%**	35.3%	–0.6
Group overall	**56.7%**	56.2%	0.5

* Before reversal of impairment losses of inventories

Gross profit margin of Kappa Brand in China segment in 2016 slightly dropped by 0.8 percentage point to 66.2% from 67.0% in 2015.

Gross profit margin of Japan segment in 2016 decreased by 0.6 percentage point to 34.7% from 35.3% in 2015.

Other Gains, Net

Other gains net in 2016 was RMB809 million (2015: RMB800 million).

Investment segment

Revenue from investment segment of the Group in 2016 was RMB787 million (2015: RMB791 million). The revenue consisted of gains allocated from other financial assets of approximately RMB115 million, gains on disposal of certain available-for-sale financial assets of RMB967 million and losses from changes in fair value of a portion of financial assets of RMB295 million.

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, brand promotion expenses, sales operating expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses in 2016 was RMB647 million (2015: RMB576 million), constituting 43.1% of the Group's total sales, increase of 3.9 percentage points as compared with that in 2015. The Group has further optimized resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

As a result of necessary adjustments made in internal organizational structure and human resources of the Group, efficiency of all staff members has increased but overall staff costs have maintained substantially at the same level in 2016 due to our proper control of staff costs. Our overall staff costs slightly decreased by RMB1 million to RMB151 million in 2016 from RMB152 million in 2015;

In 2016, advertising and selling expenses increased by RMB25 million to RMB277 million from RMB252 million in the same period last year. The increase was attributable to the increase in Kappa brand promotion expenses during the period to further consolidate the brand influence;

In 2016, logistics fee slightly decreased by RMB3 million to RMB70 million as compared to RMB73 million in 2015. The increase was attribution to the further enhancement of logistics distribution process;

In 2016, the Group continued to take a more cautious but effective approach in investment in product development. Our design and product development expenses was RMB40 million (2015: RMB42 million).

Operating Profit

In 2016, the operating profit of the Group was RMB1,016 million (2015: RMB1,005 million). In 2016, the operating profit margin was 67.7% (2015: 68.4%).

Finance Revenue, Net

In 2016, net financial income of the Group amounted to RMB28 million (2015: RMB19 million), which consisted of interest income from bank deposits of RMB13 million (2015: RMB16 million), bank handling fee of RMB5 million (2015: RMB7 million), interest expenses for bank loans in the current year of RMB19 million (2015: RMB5 million) and foreign exchange gains, net of RMB39 million (2015: RMB15 million).

Taxation

In 2016, income tax expense of the Group was RMB178 million (2015: RMB219 million). The effective tax rate was 17.0% (2015: 21.5%).

Profit Attributable to Equity Holders of the Company and Net Profit Margin

Profit attributable to equity holders of the Company in 2016 was RMB870 million (2015: RMB803 million), and net profit margin of the Group was 58.0% (2015: 54.7%).

Earnings Per Share

The basic and diluted earnings per share were both RMB15.79 cents in 2016, increased by 8.4% against the basic and diluted earnings per share of RMB14.56 cents in 2015.

The basic earnings per share are calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Final Dividend and Final Special Dividend

The Company has paid an interim dividend and interim special dividend for the six months ended 30 June 2016 of RMB2.59 cents and RMB2.59 cents per ordinary share, respectively, with a total amount of RMB287 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB2.13 cents and RMB2.13 cents per ordinary share, respectively (totalling RMB4.26 cents per ordinary share) for the year ended 31 December 2016.

The final dividend and final special dividend, subject to approval by the shareholders of the Company at the annual general meeting to be held on 10 May 2017, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.88941 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2017. The dividend will be paid on or about 26 May 2017 to shareholders whose names appear on the register of members of the Company on 19 May 2017.

Closure of Register of Members for the Entitlement of Final Dividend and Final Special Dividend

The Register of Members of the Company will be closed from 17 May 2017 to 19 May 2017 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2016 final dividend and final special dividend. In order to qualify for the 2016 final dividend and final special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 May 2017.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 10 May 2017. Notice of the AGM will be issued and disseminated to shareholders in due course.

To ascertain shareholders' eligibility to attend and vote at the annual general meeting, the register of members will be closed from 5 May 2017 to 10 May 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 4 May 2017.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days in 2016 and 2015 were 48 days and 61 days. Decrease in number of average trade receivable turnover days was mainly due to a decrease in average balance of trade receivable and an increase in sales.

Average trade payable turnover days in 2016 and 2015 were 89 days and 83 days, respectively.

Average inventory turnover days in 2016 and 2015 were 149 days and 132 days respectively, and the increase in average inventory turnover days over 2015 was primarily due to increase in inventory balance at the end of the period.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 120 days and 127 days, respectively in 2016 as compared to 115 days and 97 days, respectively in 2015. Average inventory turnover days were 114 days in 2016 as compared to 105 days in 2015.

Liquidity and financial resources

As at 31 December 2016, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB2,218 million, an increase of RMB1,009 million as compared to a balance of RMB1,209 million as at 31 December 2015. This increase was mainly due to:

1) investment expenses of banks and other financial assets of approximately RMB4,383 million with interest from bank and other financial assets and cash inflow from gains allocated of approximately RMB46 million and cash inflow from disposal of banks and certain other financial assets of approximately RMB5,462 million;

2) payment of 2015 final dividend and final special dividend and 2016 interim dividend and interim special dividend for an aggregate amount of equivalent to approximately RMB565 million;

3) cash inflow from operating activities of approximately RMB106 million;

4) investment in available-for-sale financial assets of approximately RMB1,923 million with cash inflow from gains allocated from available-for-sale financial assets of approximately RMB75 million and cash inflow from partial disposal of available-for-sale financial assets of approximately RMB1,843 million;

5) increase in bank borrowings of an amount of equivalent to RMB280 million;

6) others cash inflow of RMB68 million in total.

As at 31 December 2016, net assets attributable to our equity holders was RMB9,658 million (31 December 2015: RMB9,531 million). The Group's current assets exceeded current liabilities by RMB4,378 million (31 December 2015: RMB4,906 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2016 was 4.2 times (31 December 2015: 6.0 times).

Investments in Available-For-Sale Financial Assets

As at 31 December 2016, our balance of investments in available-for-sale financial assets was approximately RMB4,706 million, representing an increase of RMB795 million as compared with the balance of RMB3,911 million as at 31 December 2015. Such increase was mainly due to new investments and appreciation of the existing investments of the Group.

Pledge of assets

As at 31 December 2016, the Group had approximately RMB397 million (31 December 2015: RMB68 million) in banks as guarantee deposit for the issue of letters of credit and loans.

Capital commitments and contingencies

In May 2015, the Group entered into a limited partnership agreement with Yunfeng Fund USD II, pursuant to which the Group subscribed a capital contribution of USD30 million. As at 31 December 2016, the Group paid a capital contribution of USD21 million with remaining balance of USD9 million (equivalent to approximately RMB60 million) as capital commitments.

In March 2016, the Group entered into a limited partnership agreement with Yunfeng Fund RMB III, pursuant to which the Group subscribed a capital contribution of RMB100 million. As at 31 December 2016, the Group paid a capital contribution of RMB66 million with remaining balance of RMB34 million as capital commitments.

In September 2015, the Group entered into a limited partnership agreement with Hongtai Fund, with a total capital commitment of RMB100 million. As at 31 December 2016, the Group paid a capital contribution of RMB30 million with remaining balance of RMB70 million as capital commitments.

In May 2015, the Group entered into a limited partnership agreement with China Momentum Fund, with a total capital commitment of USD10 million. As at 31 December 2016, the Group paid a capital contribution of USD7 million with remaining balance of USD3 million (equivalent to approximately RMB24 million).

In April 2015, the Group entered into a limited partnership agreement with 7 Seas Venture Capital L.P., with a total capital commitment of USD5 million. As at 31 December 2016, the Group paid a capital contribution of USD2 million with remaining balance of USD3 million (equivalent to approximately RMB21 million) as capital commitments.

In September 2016, the Group entered into a limited partnership agreement with Beijing Sequoia Yade Investment Centre LLP. (北京紅杉亞德股權投資中心（有限合夥）), with a total capital commitment of RMB50 million. As at 31 December 2016, the Group paid a capital contribution of RMB38 million with remaining balance of RMB13 million as capital commitments.

In September 2016, the Group entered into a limited partnership agreement with CDB Boyu II (Shanghai) Investment LLP. (國開博裕二期（上海）股權投資合夥企業（有限合夥）), with a total capital commitment of RMB50 million. As at 31 December 2016, the Group paid a capital contribution of RMB49 million with remaining balance of RMB1 million as capital commitments.

Foreign Exchange Risk

The functional currency of the Company is US Dollars owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against the Company's HK Dollars bank deposits, were recognised as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars. The Company's financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange differences from the translation of financial statements are not recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group.

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi, and partial overseas investments were carried out in USD. Except for foreign exchanges losses (gains) for the period under review mainly derived from our unutilised capital in foreign currencies in the PRC, the exchange rate risk of the Group was insignificant.

Significant Investments and Acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries for the year ended 31 December 2016.

Investor Relations Report

The Company has always believed that the maintenance of investor relations is a long-term systematic and important task for the Company. The Company's management and investor relations team have been committed to building strong bilateral communication channels with investors. On one hand, we continue to help investors understand our business better, through transparent, accurate, and timely disclosure of our corporate financial performances and operations. On the other hand, we promote corporate integrity, self-discipline, and standardized operations, and continuously improve the Company's management and governance structure, in order to maximize corporate values and shareholders' interests.

For the year 2016, the Company summarizes the investor relations achievements as below:

1. Results Announcement and Investment Summits:

Right after the announcements of the 2015 annual results and the 2016 interim results in March and August 2016 respectively, the Group announced the latest business performance, future development direction and strategies in a timely manner. Meanwhile, information in relation to our results was available on the Company's website in the same day, for investors' further inspection. In addition, the Company's management and investor relations team took part in investment summits, which held by investment banks, aim to enhance our interaction and communications with global investors.

Management of China Dongxiang interacting with investors

2. Ongoing Daily Communication:

In daily operation, the Company conducts multi-channel and multi-level communication with investors and analysts, which include:

- Company Visits and Telephone Conferences:

  In 2016, face-to-face meetings and telephone conferences were promptly conducted with investors and analysts for announcing operating performance of the Company in a timely manner.

- Investors Store Visits:

  In 2016, based on the needs of our investors and analysts, and for them to better understand our operation, we arranged stores visits in Beijing and Shanghai, etc.

- Company Website:

  The Company continuously and timely update Investor Relations Section in its corporate website (http://www.dxsport.com) to disseminate the Company's relevant information, so that investors can update the development about the Company. Meanwhile, The Company has investor relations e-mail box to receive inquiries and suggestions rose by investors, and responded them promptly.

- Phone Inquiry Services for Investors and Media:

  The Company provides phone inquiry services for investors and media, which are handled and answered by investor relations department. The Company ensures smooth lines within working hours, in order to provide timely answers to various issues and inquiries from shareholders, potential investors, analysts and media.

3. AGM:

In accordance with the Listing Rules of the Hong Kong Stock Exchange, annual general meeting is convened regularly to discuss the Company's business strategies and investment plans equitably and transparently, in order to maintain and respect the legitimate rights and interests of all shareholders, especially for small and medium ones.

4. Accomplishments and Prospects

In 2016, in addition to the "Listed Company with the Most Valuable Brand" at the China Securities "Golden Bauhinia Awards", China Dongxiang ranked fifth in "The Top 20 with Most Investment Value" at the "Top 100 Hong Kong Listed Companies Selection" event organized by Finet Group Ltd and Tencent QQ.com.

Looking ahead, spearheaded by the Company's management, we will continue devoting efforts to build positive and proactive investor relations by communicating regularly with shareholders, analysts, potential investors and public groups. We will adhere to transparent, accurate, and timely manner to disseminate our latest results, and further tap into capital market, so as to construct a long-term stable and reasonable shareholder structure.

Meanwhile, we encourage all shareholders, analysts, potential investors to share with us their views and valuable suggestions about the Group via various channels, including mail, e-mail and telephone, in order for us to constantly improve our corporate operation and administration.

China Dongxiang, third from the left, receives China Securities Golden Bauhinia Awards — Listed Company with the Most Valuable Brand

Environmental, Social and Governance Report

INTRODUCTION

As a well-known sportswear brand, China Dongxiang (Group) Co. Ltd. is acutely aware of the importance of the environmental, social and governance (ESG) matters for the future development of the Group. We recognize that sustainable development of our business requires our continued progress in terms of the economy, environment, and social responsibility.

Through this report, we would like to disclose to each stakeholder the Group's work on environmental, social and governance matters and its results. For a long time, the Group is committed to becoming the champion multi-brand sportswear company in the PRC. While we develop our operation and business, management standard and work performance on environmental and social issues will be tirelessly raised so as to achieve sustainable development for the Group.

1. MANAGING POLICIES AND IDENTIFYING ISSUES

1.1 Ideal of sustainable development

China Dongxiang (Group) Co. Ltd accords guiding importance to the ideal of sustainable development for the Group's long-term healthy development and seeks to implement it gradually into our corporate culture. The Group advocates the fulfillment of relevant responsibilities towards its employees, consumers, suppliers, the environment and community while creating value for its shareholders and investors. The Group aims at the maximization of general social well-being as an enterprise-citizen of outstanding qualities.

1.2 Identifying concrete issues

China Dongxiang (Group) Co. Ltd is actively concerned with the demands relating to environmental, social and governance matters put forward by internal and external stakeholders upon the Group. The Group identifies key concerns based on initiating communication and investigation with major stakeholders, which then become the focus of the report and our initiatives.

The major stakeholders identified by the Group are the government and regulatory authorities, shareholders and investors, employees, suppliers and distributors, consumers, and the general society and public. The Group uses a number of channels to communicate with each major stakeholder regarding environmental, social and governance matters.

Table 1: Major stakeholders identified, their expectations and means of communication

Major stakeholders	Expectation	Means of communication
Government and regulatory authorities	Operation in compliance with the laws	Implementing policies and regulations and disclosure of information
Shareholders and investors	Good corporate governance and well-managed, profitable operation	General meetings and financial reporting
Employees	Good payroll and benefits, career path, work-life balance	Staff meetings, corporate events and career development platform
Suppliers and distributors	Fair competition and quality assurance	Meetings and interviews
Consumers	Satisfaction with products & services, confidentiality protection	Customer service hotlines, trade fairs, internet
General society and public	Compliant operation, social charity	Charity events and investments

Key concerns are studied based on the major internal and external stakeholders identified, among which the most noteworthy are supply chain management, product liability, anti-corruption and labour laws (As per Figure 1).

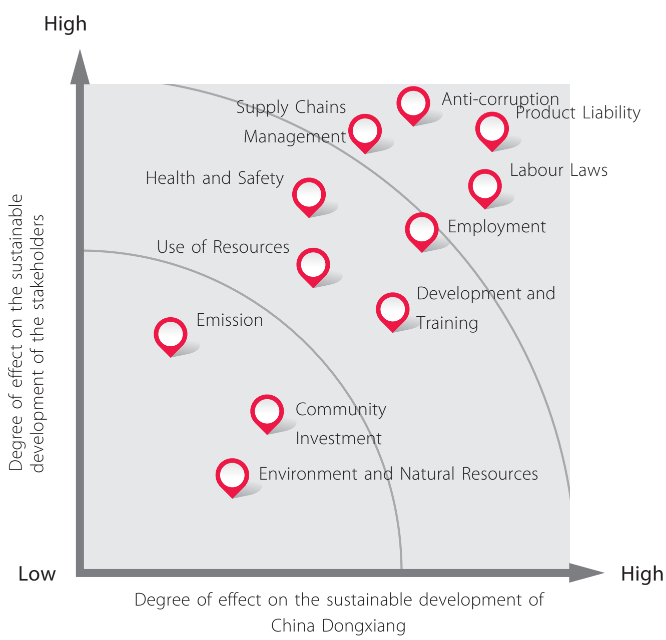


Figure 1 Level of concern of major internal and external stakeholders for environmental, social and governance issues

2. RESPONSIBILITIES TOWARDS THE ENVIRONMENT

2.1 Environmental management policies

Climate change is making a prominent impact on the conditions of survival for human beings as shortage of resource and environmental pollution worsen globally. Currently, environmental responsibilities have become one of the core issues in corporate social responsibility, and sustainable development is being accorded increasing importance by investors and stakeholders of businesses. The Group sets great store by environmental responsibilities to be assumed by companies. Important laws and regulations, including the Environmental Protection Law and the Energy Conservation Law of the People's Republic of China, are complied with as amended. Inputs for environmental protection are enhanced so as to promote reduction in energy consumption and emission.

The Group will continue to put our focus on the reduction in greenhouse gas emission. Reuse of recyclables is promoted and management of the use of electricity and water is reinforced by the Group so as to make efforts in coping with global climate change. Power consumption in offices comprises most of the Group's energy consumption. Therefore, an eco-friendly office environment is our key goal for sustainable development. In order to enhance the standard of management and degree of control for emission of greenhouse gases, the Group prepares relevant regulatory protocols to require less unnecessary energy consumption in daily operation from the staff.

2.2 Environmental management initiatives

In recent years, florescent light tubes are widely used in the office of the Group in replacement of light bulbs, which are low in energy efficiency. Based on actual needs, lighting is required to be turned off after the end of work. According to weather conditions, air conditioning is adjusted for maximum and minimum temperature thresholds for winter and summer. Waste water and scraps are required to be disposed of in designated buckets to be used for watering plants and cleaning.

For office stationery, the Group encourages using automatic pencil leads and ball pen refills, a paper-free office, and printing on both sides of the paper to reduce paper waste. The Group also introduced an efficient electronic office system and established a telephone conference system, which reduce carbon emission generated from staff travelling. Should working out of office become necessary, it is advised to use public transport. As an exemplary work, the Group arranges shuttle buses travelling between the Group and urban centres to reduce the use of vehicles by lone passengers which helps cut down on gas emission and cost of working off-site.

Relevant regulations on energy saving are set for operating stores of the Group as well. Each store is requested to turn on lightings by time slots; before operating hours, only part of the lightings shall be turned on, and all appliances should be turned off after closing, to reduce unnecessary energy use. For the lightings in the storehouses and fitting rooms, lights should be off once unoccupied. Currently, all self-owned stores have florescent light tubes installed.

Figure 2 Our staff members take the Group's Coaches

3. RESPONSIBILITIES TOWARDS EMPLOYEES

3.1 Equal opportunities and comprehensive protection

The Group respects and protects the legal rights of employees and adheres strictly to the Labour Law and Labour Contract Law of the People's Republic of China as well as to relevant documents such as the Recruitment Management System and Resignation Management System which are internal to the Group. During the signing, renewal, termination and release of labour contracts, the Group strictly complies with the statutory procedures in order to protect practically the employees' legal rights.

Our objective is to allow the talent of every single employee to be demonstrated in a suitable position. The Group offers equal career development opportunities for every employee regardless of age, gender and ethnicity. Going forward, the Group will continue to abide by gender-neutral policies and steward the industry towards even greater gender equality.

The Group actively listens to constructive opinions and suggestions offered by employees for their work and gives employees an insight into the development of the Group and other vital matters related to the immediate interest of the staff, and offers opportunities and channels for employees to express opinions. Advice and recommendations are sought annually from the staff on the Group's development and questions from employees are answered. In addition, the Group conducts yearly surveys on the employees' satisfaction regularly and prepares an investigation report from the findings, analysing concerns identified during the survey and proposing measure for improvement as a basis and reference for further works in the upcoming year.

3.2 Care for staff

The Group makes contribution to social insurance plans for its employees in accordance with the relevant national and regional regulations. The Welfare Management System sets out numerous forms of employees' welfare offered by the Group, including additional medical insurance, personal accident insurance, transport allowance, lunch allowance, free annual health check and medical insurance mechanisms against critical diseases, among other. The Group encourages its employees to make full use of their leave entitlements to achieve better work-life balance and enhance work efficiency.

We care about every individual employee who makes contribution to the Group. According to the Payroll Management System, allowance is provided for the employees with reference to their length of service, and additional bonus is offered on paid annual leaves as their length of service increases in recognition of their diligent contribution for the Group.

Attendance Management System sets out the paid annual leave entitlements of the employees and encourages the employees to use their legal entitlements to leaves. In addition to statutory national holidays, every employee is entitled to paid annual leaves which increases according to their length of service. Office areas are equipped with pantries to provide a relaxation area. Every Friday, activities are held to give employees a chance to break off from their busy routine and enjoy their office life better. Healthy lifestyle and joyous working are values which the Group consistently conveys to its employees. Currently, three clubs are organised for soccer, badminton and jogging, respectively, to encourage employees to take part in more physical exercises outside their working hours.


Figure 3 Our staff members joined the activities held by our badminton club

3.3 Legal Recruitment

Protection of Women's and Child Rights and Interests Law of the People's Republic of China is strictly complied with by the Group and recruitment is conducted according to formulated procedures. Human resources departments verify the age of recruited employees before they begin work in order to ensure the candidates are above the legal age of 16 and prevent employing child workers. No minors below the age of 16 are found to work in any position of the Group since its establishment.

The Group values the individual rights of the employees and good employer-employee relationships. It is specifically required that no administrator shall keep custody of the identity cards or personal belongings of any staff members. It is promised that payroll is paid out in full amount and on time. The employees shall have the right to make request for any kinds of leave according to the human resource management system of the Group. After receiving such leave request, the human resource department approves a suitable number of leave days based on the relevant system. The Group encourages the employees to complete their assigned tasks within their working hours. The Attendance Management System requires that the total overtime working hours of employees shall not exceed 40 hours per month.

3.4 Development and Training

Development of talents is the core of our talent management strategy. The Group regards development of the employees' career and capability as the most valuable strategic investment of the Group as an effective means to ensure continuous increase in work efficiency and growth of the Group's talents.

Based on this principle, the Group has formulated a number of training management systems, such as Training Management System, New Employee Training Management System and Dispatched Employee Training Management System, in order to create learning opportunities for employees. Mechanisms are set up to provide a diverse growth in experience and reinforce the leadership and professionalism of employees of different ranks. Measures for professional training, cultivating leadership and talent team-building are available for employees to enhance self-worth and achieve personal goals while growing in tandem with the Group. During the year, the Group offers 616 training hours for new employees, 454 training hours for professional skills and 788 training hours for store staff.

IV. PRODUCTS AND CUSTOMERS

4.1 Product Liability

The Group always attaches importance to product quality and strictly controls every part of the production and distribution process to ensure meeting consumers' purchase intention and their satisfaction. With regard to the product quality, in addition to the compliance with the national standards, the Group also developed a more rigorous product quality control standards, according to which the quality assurance department provides the suppliers with guidance and recommendations on the quality risks which may occur to such aspects as the fabric and accessories used by the suppliers and the production process, monitors each steps of the production process and continues to carry out follow up action on the rectification of the quality problems of the products so as to ensure a stable and continuous improvement on the product quality.

As an iconic brand, we require our suppliers to comply with our strict product quality standards. In cooperation with the suppliers, the Group will deploy on-site inspectors to the suppliers' factories for supervision and provision of guidance. The inspectors will from time to time perform spot checks and real-time monitoring of their production processes. Prior to the mass production of our products, the Group will require a supplier to send a sample product to its quality assurance department. After the sample product is approved by our Company, an inspector will send the sample product and the approvals to the supplier's factory and the Group's logistics department as the product standard for mass production and warehouse acceptance. After the ordered products are delivered to the Group's logistics department, a warehouse quality inspector will spot check the incoming products again based on such standards to ensure that their quality meets the quality requirements so that no defected products can be released to the market.

The Group will provide after-sale services to the distributors and the consumers in accordance with the "Law of the People's Republic of China on Product Quality", the "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" and relevant rules of the Group. In the event that a distributor or a consumers finds any defects in the Group's product during the warranty period, they may return the product together with complete proof of purchase for exchange of goods.

4.2 Respect of Privacy

The Group places a high value on the protection of consumer information and implements strict confidentiality standards and requirements on personal data of the consumers collected from daily selling activity and customer complaints. The Group requires new employees to sign confidentiality agreements on their first day of report duty. In the event that an employee seriously breaches the confidentiality agreement, the Group has the power to terminate the employment contract with such employee who is obliged to assume the corresponding liability. Under the Group's information management system, only a small number of core employees are granted permissions to bulk export the personal data of the consumers. Data exported in bulk will be encrypted by an operator. In addition, bulk export of consumer data will be recorded on the system log files in order to track the use of the confidential information and to minimize misappropriation of such data.

4.3 Advertising

In order to ensure that the Group carries out its advertising and marketing activities legally under applicable laws and regulations of the People's Republic of China, strengthens its management and builds up a positive corporate image, the Group has developed a number of systems to regulate the advertising of its products in accordance with the "Advertisement Law of the People's Republic of China". The Group requires that a responsible person and the division of responsibility must be clearly identified upon the approval of an advertising project and an accountability system must be implemented for the project. The steps of the review process for the content of an advertisement are also optimized to combine routine and spot checks so as to further ensure the truth and accuracy of the contents of the advertisements. We also regularly hold internal training seminars on advertising laws and regulations for our staff members in order to form an open monitoring mechanism by which every staff member knows and is able to check relevant laws and regulations so that greater efforts can be made to improve our review process. As a result, the Group has not received any warning or penalty from any competent authorities for any false misrepresentation found in its advertisements since its incorporation.

4.4 Protection of Intellectual Property Rights

The Group strictly abides by such laws and regulations relating to the intellectual property rights as the "Trademark Law of the People's Republic of China", the "Copyright Law of the People's Republic of China", the"Patent Law of the People's Republic of China" and their implementation rules for safeguarding and protecting the legal rights and interests of the Group. A number of measures were also implemented for the protection of the intellectual property rights as follows:

(1) regularly check the announcements issued by the Trademark Office and make objections or other applications to the application for registration of those trademarks imitating or similar to the Group's;

(2) renew the registration of any expiring trademark or submit new application for registration of any trademark or patent based on the need of the Group's business development; and

(3) actively cooperate with public security and procuratorial bodies and people's courts to investigate and deal with counterfeit goods and provide appraisal reports for the purpose of effectively combating counterfeit goods and safeguarding the legal rights and interests of the Group.

V. COMPLIANCE AND OPERATION

5.1 Management of Suppliers

The Group implements a strict supplier recruitment and evaluation system. A supplier which meets the recruitment conditions must have experience in manufacturing first-tier branded products both domestically and abroad and be subject to the Group's site visits and comprehensive scoring system before it can be qualified for inclusion in our supplier list.

The Group insists on building an accountable supply chain and is seriously concerned with the environmental protection and management standards of its suppliers. In the process of sourcing raw materials, the Group explicitly requires that the raw materials used by the suppliers for production are in full compliance with environmental protection requirements, in strict accordance with national and industry standards, and without any harmful chemical substances.

For the purpose of sourcing new suppliers, the Group has in place a detailed inspection list that covers a supplier's responsibilities to its employees, the environment and the community to ensure that the supplier would do its best to protect its employees' rights and interests, provide a safe working environment, and bear its responsibilities to the environment and the community. A supplier will not be accepted as a qualified supplier before it meets the basic criteria.

During the course of cooperation with the suppliers, the Group will designate its own inspectors to station in the suppliers' factories for carrying out real-time monitoring on such areas as the performance of the suppliers' employees and production safety, and quarterly appraisals and reviews on the above-mentioned areas. Through this arrangement, we are able to require a supplier to make continuous improvement in these areas. The results of the quarterly supplier's social responsibility appraisal will be recorded in the comprehensive appraisal benchmark for such supplier, which will affect the results of its overall appraisal.

5.2 Anti-Corruption

The Group firmly opposes to any form of corruption, bribery, fraud and other illegal activities. In our daily operation, we require that the management members of the Group at all levels set themselves as role models to their subordinates, and establish a business image of integrity and fairness for China Dongxiang Group. No managers of any level of the Group shall connive or conceal any unfair competition or commercial bribery. All employees should follow the principles of fairness and integrity, and act in line with the accepted business ethics. For business activities, the Group has also in place the "Cash Expenditure System" and the "Gift Management System" for gifts given to and entertainment arranged for its business partners, which sets out the standard and the approval process of giving gifts in detail.

It is the requirement of the Group that its employees shall avoid any personal interests arising from business dealings with any business units. In the event that an employee has any family members or relatives working with such units, he/she should inform his/her immediate superior of such relation and avoid any direct or indirect involvement in any business activities with relevant units.

The Group encourages and supports all employees to monitor the occurrence of any unfair competition or commercial bribery. An employee who voluntarily exposes or reports any unfair competition will be protected by the Group. An employee may choose to report such incident to his/her immediate superior in the reporting line of the unit he/she works with or directly report it to the Group's internal audit department which will then carry out rigorous screening of the reported incidents and will commence a special audit after obtaining an authorization from the executive committee. In the event that the reported incident is proved to be true, a report containing the final results will be submitted to relevant executive officer in charge for follow-up action.

VI. CHARITY AND COMMUNITY INVESTMENT

With the rapid growth of the PRC's economy, the sports industry has become an important part of the PRC's economic growth. In response to such massive opportunities for development, the General Administration of Sport issued the "Sport Development Strategy during the 13th Five-year Plan Period" in 2016 with the goals to continuously modify the policies on the domestic sports industry, optimize the industry's structure and increase the sports service industry's contribution to the economy and its profit margins through planning in order to fully leverage the unique role of sports in constructing healthy China, facilitating economic restructuring and upgrading, and enhancing national cohesion and cultural competitiveness.

As a leading sporting goods company in the PRC, the Group attaches great importance and provide support to the development of sports industry in the PRC, strives to drive the Group's business growth in concurrent with its encourage to the sports and games and bears corporate social responsibility more actively. In 2016, the Group actively worked together with relevant government departments and social institutions to sponsor or co-host a number of sporting events, aimed at bringing a new sports atmosphere to the PRC. Looking forward, the Group will continue to take sports as a key area of community investment, make thorough long-term planning and identify more sports projects for the Group to make further community investment.

Case: Kappa Cup--City Orienteering Competition

On 30 July, 2016, just before the opening of the Olympics in Rio de Janeiro, a red hot special sporting event named "Kappa Cup--City Orienteering Game, Shanghai Station" was held in Luwan Stadium as part of the second Shanghai Huangpu District Community Games. The event, having been supported and title-sponsored by the Group, melded the city's landmarks with the orienteering game, fused with elements of Andersen's fairy tales which brought more fun and entertainment to the event. All participants wore Kappa track tees, creating an eye-pleasing urban landscape for the city.

Figure 4 Kappa Cup--City Orienteering Game, Shanghai Station

VII. DESCRIPTIONS OF THE REPORT

Summary of the report:

China Dongxiang (Group) Co. Ltd. has given an account of the Group's achievements in corporate social responsibility in such areas as environment and community in its "Environmental, Social and Governance Report for 2016".

Content of the report:

The content of the report mainly includes those key issues on environmental and social sustainability that major stakeholders are concerned about.

Basis of preparation:

The report was prepared based on the "Environmental, Social and Governance Reporting Guide" issued by The Stock Exchange of Hong Kong Limited.

Scopes of the Report:

Organizational scope: Unless otherwise specified, this report covers China Dongxiang (Group) Co. Ltd and its PRC subsidiaries.

Period: From 1 January 2016 to 31 December 2016.

Release Cycle: This is released on annual basis.

Sources of information: The information and cases contained in this report were extracted from the original records or financial reports recorded during the Group's actual operation.

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of our Board:

Name	Age	Position
Mr. Chen Yihong (陳義紅)	58	Chairman, Chief Executive Officer and Executive Director
Ms. Chen Chen (陳晨)	30	Executive Director
Dr. Chen Guogang (陳國鋼)	57	Independent Non-Executive Director
Mr. Gao Yu (高煜)	43	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	54	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 58, is our founder, chairman, chief executive officer and executive director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. Mr. Chen had completed an executive Master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002. Mr. Chen had completed "China CEO Program" of Cheung Kong Graduate School of Business (長江商學院) in 2009. Mr. Chen serves as an independent director of Huayi Brothers Media Corporation (華誼兄弟傳媒股份有限公司), a company listed on the Shenzhen Stock Exchange, since 30 December 2014.

Ms. Chen Chen (陳晨), aged 30, has been appointed as an executive director and a member of the executive committee of the Company with effect from 4 December 2014. Ms. Chen joined the Company in 2012. Ms. Chen is primarily responsible for overseeing the marketing and design of Kappa products of the Company. Ms. Chen served as product planning representative in the apparel planning team of the Company from 2012 to 2013. Ms. Chen was promoted as the manager of the marketing department and apparel design department and the vice president of the brand department in 2013. Ms. Chen obtained her bachelor's degree in Fashion Design Technology — Surface Textiles from University of the Arts — London College of Fashion, London, United Kingdom in 2010.

Ms. Chen is the daughter of Mr. Chen Yihong, chairman of the Board and chief executive officer of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chen Guogang (陳國鋼), aged 57, is our independent non-executive director, chairman of the audit committee and member of the remuneration committee. Dr. Chen is currently the vice president of China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司). Dr. Chen is the independent non-executive director of Guotai Junan Securities Co. Ltd. (國泰君安證券股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601211) and YTO Express Group Co., Ltd. (圓通速遞股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600233) respectively. Dr. Chen is a non-executive director of Far East Horizon Limited (遠東宏信有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 3360) while Dr. Chen is also the chairman of CMI Capital Co., Ltd. (中民投資本管理有限公司).

Dr. Chen obtained a doctorate degree in economics from Xiamen University (廈門大學) in 1988. He is a senior accountant granted by the Ministry of Foreign Trade and Economic Cooperation in the People's Republic of China and a certified public accountant granted by China Certified Public Accountant Association.

Dr. Chen joined New China Life Insurance Company Ltd. (新華人壽保險股份有限公司) (a company listed on the Stock Exchange, stock code: 1336) in April 2010 and served as the chief financial officer. He was subsequently appointed as the vice president and chief financial officer of New China Life Insurance Company Ltd. in July 2011. From 2005 to 2010, Dr. Chen served as a director of Sinofert Holdings Limited (中化化肥控股有限公司) (a company listed on the Stock Exchange, stock code: 297). He was a director of Sinochem International Corporation (中化國際（控股）股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600500) from 2000 to 2010. Dr. Chen also served as the chief financial officer of Sinochem Group (中國中化集團公司) from December 2000 to April 2010, general manager of the finance department of Sinochem Group from June 1999 to December 2000, deputy chief financial officer of Sinochem Group from February 1999 to June 1999, vice president of China International United Petroleum and Chemicals Co., Ltd. (中國國際石油化工聯合公司) from May 1997 to February 1999, vice director of the finance department of Sinochem Group from January 1995 to May 1997, general manager of the petroleum accounting department of Sinochem Group from March 1994 to January 1995, financial manager of its U.S. agrichemical subsidiary (中國中化集團公司美國農化公司) from July 1991 to March 1994. Prior to this, Dr. Chen served as deputy chief financial officer of Hino Company (香港鑫隆有限公司) in Hong Kong from July 1988 to July 1991 and was an assistant professor at Xiamen University from July 1984 to March 1985.

Mr. Gao Yu (高煜), aged 43, is our independent non-executive director. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is an independent non executive director of Belle International Holdings Limited (百麗國際控股有限公司) and a non-executive director of Sparkle Roll Group Ltd (耀萊集團有限公司), two companies listed on the main board of Hong Kong Stock Exchange. He is also a director of Shandong Buchang Pharmaceuticals Co. Ltd (山東步長製藥股份有限公司) which is listed on Shanghai Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette Inc's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors' degrees in engineering and economics.

Dr. Xiang Bing (項兵), aged 54, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 19 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院).

He is an independent non-executive director, committee member of the audit committee and remuneration committee of Dan Form Holdings Company Limited (丹楓控股有限公司), HC International, Inc. (慧聰網有限公司), Enerchina Holdings Limited (威華達控股有限公司), Sinolink Worldwide Holdings Limited (百仕達控股有限公司) and Longfor Properties Co. Ltd. (龍湖地產有限公司). All the above mentioned companies are listed on the Hong Kong Stock Exchange.

He is an independent non-executive director of Yunan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司). He is also an independent non-executive director and committee member of audit committee and strategic committee of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司). He is also an independent director and member of audit committee of Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司), all of the above mentioned companies are listed on the Shenzhen Stock Exchange.

Dr. Xiang currently serves as independent non-executive director and committee member of audit committee of E-House (China) Holdings Limited (易居（中國）控股有限公司). A company listed on the New York Stock Exchange.

Dr. Xiang also serves as independent non-executive director and committee member of audit committee and remuneration committee of Perfect World Co., Ltd., (完美時空網絡技術有限公司), a company listed on Nasdaq.

From September 2009 to December 2016, Dr. Xiang was an independent non-executive director, committee member of the audit committee, remuneration committee and nomination committee of Peak Sport Products Co., Limited (匹克體育用品有限公司), a company listed on the Hong Kong Stock Exchange.

Between July 2006 and May 2013, Dr. Xiang was an independent non-executive director and committee member of audit committee, remuneration committee and nomination committee of LDK Solar Co., Ltd. (江西賽維LDK太陽能高科技有限公司). A company listed on the New York Stock Exchange.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Chen Yihong and Ms. Chen Chen. Please refer to the above section headed "Executive Directors" for their biographical details.

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the CG Code as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2016, except for the following deviations from the code provisions:

(i) Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Our Company deviates from this provision because Mr. Chen Yihong performs both the roles of chairman and chief executive officer since 20 October 2011. Mr. Chen is the founder of our Group and has extensive experience in sporting goods industry in China. The Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

(ii) Provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. Provision A.6.7 of the CG Code provides that independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Chen Yihong (executive director) and Dr. Xiang Bing (independent non-executive director) could not attend the annual general meeting of the Company held on 18 May 2016 due to important business appointments. However, the other executive director and the other independent non-executive directors of the Company attended the annual general meeting and had effective communication with the shareholders of the Company.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2016.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the standard for securities transactions by directors. The Company has made enquiries of all the directors and all the directors confirmed that they have complied with the required standards for the year ended 31 December 2016.

COMPLIANCE WITH THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORTING GUIDE

During the current financial year, the Company has complied with the rule 13.91 of the Listing Rules and the "comply or explain" provisions set out in Appendix 27 of the Listing Rules as "Environmental, Social and Governance Reporting Guide", and made disclosures concerning relevant information on pages 35 to 44 in the "Environmental, Social and Governance Report".

THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in pages 53 to 54 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

As at the date of this Report, the Board comprises five members, of whom two are executive Directors, and three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman and Chief Executive Officer)*
Ms. Chen Chen

Independent Non-Executive Directors:
Dr. Chen Guogang (appointed and effective from 1 June 2016)
Mr. Gao Yu
Dr. Xiang Bing

Biographical details of the current Directors and the relationships between the Directors are set out in the section headed "Directors and Senior Management" of this annual report. Among the members of the Board, Ms. Chen Chen is the daughter of Mr. Chen Yihong, chairman of the Board and chief executive officer of the Company.

The composition of the Board is well balanced with each director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Group. All directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Group. The Company has formal letter of appointment with each Directors setting out the key terms and conditions of his/her appointment. The independent non-executive Director is appointed for a specific term of 1 year. Such appointment shall automatically renew at the expiry and shall continue for further successive periods of one year, subject to a maximum of three years.

The Company has received confirmation from each independent non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent.

In accordance with Article 87 of the Company's articles of association, Ms. Chen Chen and Mr. Gao Yu shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forth coming Annual General Meeting ("AGM").

In accordance with Article 86(3) of the Company's articles of association, Dr. Chen Guogang, appointed as independent non-executive director on 1 June 2016, shall hold office until the forth coming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

Mr. Chen Yihong (re-elected as an executive Director on 18 May 2016) and Dr. Xiang Bing (re-elected as an independent non-executive director on 18 May 2016), shall hold office until they are required to retired in accordance with the Company's articles of association.

At each AGM of the Company, at least one third of the directors (or, if the number of directors is not divisible by three, such number as is nearest to and less than one third) must retire as directors by rotation, provided that every director shall be subject to retirement at an AGM at least once every three years. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Pursuant to CG provision A.6.5 of the Code of the Listing Rules, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

The Company has put in place an on-going training and professional development program for directors.

Each newly appointed director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Company also provides training to develop and refresh the directors' knowledge and skill.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has sent reading materials to directors on regulatory updates or information relevant to the Company or its business.

In August 2016, the Company, together with Norton Rose FulBright Hong Kong, organized a training session to provide the Directors with an update on the Listing Rules.

During the financial year, the Directors participated in the following training:

	Attending seminars/briefings relating to rules and regulations	**Reading newspapers, journals and updates relating to the economy and business management and duties of directors**
Executive Directors		
Chen Yihong	√	√
Chen Chen	√	√
Independent Non-executive Directors		
Chen Guogang (Note 1)	√	√
Gao Yu	√	√
Xiang Bing	√	√
Xu Yudi (Note 2)	√	√

Note 1: appointed as independent non-executive director, chairman of audit committee and member of the remuneration committee with effect from 1 June 2016.

Note 2: resigned as independent non-executive director, chairman of audit committee and member of the remuneration committee with effect from 1 June 2016.

BOARD AND COMMITTEES MEETINGS

In 2016, the Board held 5 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings and Annual General Meeting ("AGM") held in 2016 is set out in the table below.

	Board meetings in 2016	Audit committee meetings in 2016	Attendance of Remuneration committee meeting in 2016	Nomination committee meeting in 2016	AGM in 2016
Executive Directors					
Chen Yihong	5/5	N/A	1/1	1/1	0/1
Chen Chen	5/5	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Chen Guogang (Note 1)	2/2	2/2	1/1	N/A	N/A
Gao Yu	5/5	3/3	N/A	1/1	1/1
Xiang Bing	5/5	3/3	1/1	1/1	0/1
Xu Yudi (Note 2)	3/3	1/1	N/A	N/A	1/1

Note 1: appointed as independent non-executive director, chairman of audit committee and member of the remuneration committee with effect from 1 June 2016.

Note 2: resigned as independent non-executive director, chairman of audit committee and member of the remuneration committee with effect from 1 June 2016.

BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee is governed by its respective Terms of Reference, which are available on the Company's website at www.dxsport.com. All committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

AUDIT COMMITTEE

Members: Dr. Chen Guogang (chairman), Dr. Xiang Bing and Mr. Gao Yu. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Audit Committee is required to oversee the relationship with the Company's external auditor, to review the financial information of the Company, and to review and monitor the Company's financial reporting system, risk management and internal control systems. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of such engagement. The Audit Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences, and is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. Apart from giving pre-approval of all audit services, the Audit Committee also develops and implement policy on the engagement of external auditor to supply non-audit services.

With respect to financial information of the Company, the Audit Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. Apart from considering issues arising from the audit, the Audit Committee discusses any matters that auditor may wish to raise either privately or together with executive Directors and any other persons. The Audit Committee is also required to review the effectiveness of the Company's financial controls, risk management and internal control systems. In addition, the Audit Committee has to ensure co-ordination between the internal and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

The Audit Committee met three times in the year of 2016. The major work performed by the Audit Committee in 2016 included:

(i) Review and recommend the Board's approval of the 2016 external audit plan and 2016 internal audit plan;

(ii) Review and recommend the Board's approval of the 2015 annual financial statements and 2016 interim financial statements;

(iii) Review of the 2016 external audit report and internal audit report;

(iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2016 audit.

(v) Preview the risk management and internal control system for its effectiveness one time in the year of 2016.

REMUNERATION COMMITTEE

Members: Dr. Xiang Bing (chairman), Mr. Chen Yihong and Dr. Chen Guogang. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the remuneration packages of all executive Directors and making recommendations to the Board of the remuneration of non-executive Directors, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

The Remuneration Committee met one time in the year of 2016. The major work performed by Remuneration Committee in 2016 included reviewing and determining the Directors' remuneration for the year ending 31 December 2017.

NOMINATION COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Gao Yu and Dr. Xiang Bing. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Nomination Committee include:

(a) to review the structure, size and composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors of the Company and review the independent non-executive directors' annual confirmations on their independence and where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;

(e) to seek independent professional advice to perform its responsibilities where necessary; and

(f) to report back to the Board on its decisions or recommendations (unless there are legal or regulatory restrictions on its ability to do so) and to prepare a summary of its work during the year for inclusion in the Company's corporate governance (including a report the policies, procedures, process and criteria it has adopted to select and recommend candidates for directorship during the year).

The Nomination Committee met one time in the year of 2016. The major work performed by Nomination Committee in 2016 included reviewing the structure, size, composition and diversity of the board, assess the independence of independent non-executive directors of the Company.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy ("Board Diversity Policy") in August 2013 in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Ms. Chen Chen and Ms. Tang Lijun.

The Board is responsible for the overall management and performance of the Group and the approval of the long-term objectives and commercial strategy. The Executive Committee reports to the Board and is accountable for the day-to-day management of the operations and the implementation of strategy. This Committee is responsible to the Board for driving high level performance of the growth, efficiency and capability programs as well as for resources allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

(i) to prepare and approve the specific operation plan, financial forecast and budget of each subsidiary of the Company in accordance to those of the Company as approved by the Board;

(ii) to monitor and oversee the implementation of the budget as approved by the Board;

(iii) to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

(iv) to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

(v) to appoint or remove senior management of the Company or any of its subsidiaries other than chief executive officer, chief financial officer and internal audit manager of the Company, and to recommend the appointment of chief executive officer, chief financial officer and internal audit manager of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the Code:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year, the Board reviewed and considered the policy and practices of corporate governance of the Company.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that these financial statements give a true and fair view of the financial position of the Company and its subsidiaries, the financial performance and cash flows for that period. The directors are also responsible for ensuring that proper accounting records of the Company and its subsidiaries are kept at all times.

RISK MANAGEMENT AND INTERNAL CONTROL

Aims and Objectives

The Board confirms that it assumes responsibility towards the risk management and internal control system and is responsible for reviewing its effectiveness on an ongoing basis. The risk management and internal control system aims to manage, rather than eliminate, the risks of failing to achieve business objectives, and make reasonable, but not absolute, guarantee for preventing material misstatements or losses. The Board has delegated its responsibility for risk management and internal control, together the relevant authorities, to the Audit Committee. The Audit Committee oversees the management in the design, implementation and oversight of the risk management and internal control system on behalf of the Board. The management had confirmed to the Audit Committee (and the Board) that the relevant system is effective for the year ended 31 December 2016.

Major features of the risk management and internal control system

The risk management structure of the Group and the major responsibilities of each level of the structure are described below:

The Board:
it has the ultimate responsibility and authority for internal control management, assuming the responsibility for corporate governance externally towards the Shareholders and possessing the highest power internally for initiating internal control management works. The Board has delegated its responsibility for risk management and internal control, together the relevant authorities, to the Audit Committee.

The Audit Committee:
it is responsible for overseeing and guiding the management in the establishment and operation of the internal control system, constantly monitoring the risk management and internal control system of the Group, and advising the Board on its effectiveness. The risk management and internal control system is reviewed for its effectiveness at least once per year, and the relevant review covers all major aspects of control, including financial, operational and compliance control. During the review, sufficient resources, adequate qualifications and experience of the staff and employees' training sessions, and enough budget are ensured for accounting, internal audit and financial reporting functions.

The management:
it reviews and maintains an appropriate and effective risk management and internal control system, monitors each section of daily operation to reduce operational risks, reviews investigation reports on risk management and internal control issues prepared by the internal audit and control department or external consultants and reports to the Audit Committee, and addresses the issues and provides feedbacks on a timely basis.

Internal audit and control department:
it is responsible for drafting and making amendments to the risk management and internal control system, and is in charge of determining and testing the risk criteria. The department inspects and addresses abnormal indicators for risk criteria and reports to the management or, in material cases, to the Audit Committee. Internal audit department conducts initial assessment on the effectiveness of the risk management and internal control system and report directly to the Audit Committee.

Programme for identification, assessment and management of material risks

The programme used by the Group for identification, assessment and management of material risks is conducted in accordance with the internal control framework formulated by The Committee of Sponsoring Organisations of the Treadway Commission ("COSO Commission"), summarised as follows:

(i) Control Environment

- Insistence of employees and the management on integrity and ethical values and competence for relevant works;
- The Board is independent from the management and oversees the formulation and effectiveness of the internal control system through the Audit Committee;
- The management establishes the organisational structure, reports on relationships and the appropriate rights and responsibility under the oversight of the Board to achieve the Group's goals;
- Commitment to attracting, developing and retaining talents in complement with the Group's goals;

- To implement a system of accountability for every employee in the responsibilities for internal control during the fulfilment of the Group's corporate goals;

(ii) Risk evaluation

- To ascertain clear objectives to identify and assess the risks in connection with the objectives;
- To identify and analyse from the perspective of the Group in general the risks to be assumed in order to achieve the objectives and determine the basis on which to manage such risks;
- To take into account the potential fraudulent acts in assessing the risks related to achieving goals;
- To identify and assess changes which may materially impact the internal control system;

(iii) Control activities

- To select and formulate control measures in order to reduce the risks in connection with achieving goals to an acceptable level;
- To select and formulate certain general control measures for information technology by using IT services in the pursuit for the Group's goals;
- To ascertain projected objectives with policies and ensure that the policies are implemented in practice with programmes in order to devise control measures;

(iv) Information and communications

- To gather and organise quality information relevant to the Group and the external environment in support for the internal control function;
- To communicate within the Group the information necessary to the operation of internal control, including the goals and responsibilities of internal control;
- To communicate with the external public with regards to the issues which impact the operation of internal control;

(v) Monitoring

- To select, formulate and implement continuous and/or independent assessment to ascertain the existence and normal functioning of each key element in internal control;
- To assess inadequacies in internal control when and as appropriate and notify the person-in-charge, including senior management personnel and the Audit Committee of the Board (if appropriate), about such inadequacies for adopting the remedial actions.

Internal Audit

The responsibilities of the Internal Audit and Control Department (the "IAC") include conducting internal control review based on the approved annual budget plan, and assess regularly the implementation of each financial and operational activity, programme and internal control of the Group. The IAC has unrestricted access to any information related to risk management, control and governance programme of the Group. Audit findings and the remedial plan are submitted by the IAC to the Audit Committee and the management, and internal communications are conducted regularly. The IAC will follow up regularly on all the audit findings to ensure remedies are put in place for every issue. For the year ended 31 December 2016,the IAC implemented and completed 8 internal audit projects and met with the management three times to report the relevant findings to Audit Committee.

Whistle-blowing

To prevent illicit acts as far as possible and ensure compliance and operation by the highest moral standards, the Group has designated specific whistle-blowing policies in place to allow employees, business partners and other related stakeholders to report illegal or non-compliant activities involving the Group to the IAC and the Audit Committee in confidentiality. The identity of the whistle-blower and the relevant records of the whistle-blowing are strictly confidential.

Insider information and information disclosure

The Group is aware of and abides by the requirements of insider information and disclosure of information as set out in such laws and regulations as the Listing Rules and the Securities and Futures Ordinance, pursuant to which an information disclosure system is in place. The Group collects and understands potential insider information and potential price-sensitive information in accordance with the information disclosure system, and conducts discussions with the management and external legal advisors to ensure that potential insider information is accessed and confidential until disclosure as reasonable and practicable. The system regulates the handling of, and the means to publicise insider information, including:

- Designating specific reporting channels to enable each internal business unit to report on potential insider information to the relevant departments;
- Designated personnel and departments will make decision on the further actions to be taken and the means of disclosure (if any), and report to the Audit Committee (the Board);
- Appointing specific persons as the main spokesperson to respond to external inquiries.

For the year under review, the Board has conducted annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016, covering the material financial, operational and compliance controls, and considered the Group's risk management and internal control systems effective and adequate. The Board confirmed that the Group has complied with the relevant code provisions in the CG Code on internal control. The Board has also confirmed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff members are competent to carry out their roles and responsibilities.

EXTERNAL AUDITOR

The Company has engaged PricewaterhouseCoopers ("PwC") as its external auditor. In order to maintain PwC's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all services to be provided by PwC and discusses with PwC the nature and scope of their audit and reporting obligations before the audit commences.

The remuneration paid or payable to the Group's independent auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

	2016 RMB'000
Statutory audit	**3,800**
Non-audit services	**308**
Total	**4,108**

The non-audit services mainly comprised tax compliance and certain agreed upon procedure work. The responsibilities of the independent auditor with respect to the 2016 consolidated financial statements are set out in the section "Independent Auditor's Report" on pages 68 to 160.

COMPANY SECRETARY

Ms. Wai Pui Man, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

COMMUNICATION WITH SHAREHOLDERS

Our Shareholders are very important to us. It is our responsibility to ensure that all Shareholders receive clear, timely and effective information from us.

Our website, www.dxsport.com, is a primary source of information on the Company. The site includes an archive of our business development, financial reports, public announcements, and press releases, as well as detailed information on our corporate governance practices.

The Board views the AGM as one of the principal channels to communicate with the Shareholders of the Company and an opportunity for the Shareholders to raise questions to the Board. The chairman of the Board, chief executive officer, directors and some other senior managements of the Company will be present at the AGM to explain to the Shareholders the Company's business performance, financial situation and future strategies and answer questions from the Shareholders.

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an Investor Relations ("IR") Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 33 to 34 to provide a more comprehensive overview of the work performed by the IR Department in 2016.

SHAREHOLDERS' RIGHT

Pursuant to Articles 57 of the Articles of Association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to the Company's articles of association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The contact details of the Board or the secretary are as below:

The Company Secretary
China Dongxiang (Group) Co., Ltd.
Postal address: Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area, Beijing 100176, China
Telephone: (8610) 6783 6585
Facsimile: (8610) 6785 6606
Email: ir@dxsport.com.cn

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as above. Shareholders' questions about their shareholdings should be directed to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar, at Shops 1712-16, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

CONSTITUTIONAL DOCUMENTS

As at 31 December 2016, the Group confirmed that there was not any change on the Memorandum and Articles of Association of the Company.

Report of the Directors

The directors have the pleasure of presenting to the shareholders their report together with the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of People's Republic of China, Macau and Japan as well as investment activities in Mainland of PRC and abroad. The principal activities and other particulars of the subsidiaries are set out on pages 120 to 123 of the annual report.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 16 to 32 of the annual report. That discussion forms part of this directors' report.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares were listed on the Main Board of the Hong Kong Stock Exchange on 10 October 2007.

GROUP PROFIT

The Group's profit for the year ended 31 December 2016 is set out in the consolidated statement of comprehensive income on page 73 to 74 of this annual report.

DIVIDENDS

An interim dividend of RMB2.59 cents and an interim special dividend of RMB2.59 cents in respect of the 6 months ended 30 June 2016 were declared to Shareholders on 17 August 2016 and paid in September 2016.

The directors recommend a final dividend of RMB2.13 cents and final special dividend of RMB2.13 cents per ordinary share of the Company, amounting to approximately RMB117,699,000 and RMB117,699,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 10 May 2017 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.88941 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2017.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Movements in bank loans and other borrowings of the Company and the Group during the year are set out in Note 30 to the consolidated financial statements.

FIVE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last five years is set out on pages 8 to 9 of this annual report.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 24 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2016 amounted to approximately RMB11,265,183,000, which is the total of the share premium account and reserves of the Company calculated in accordance with Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands where the Company is incorporated.

MATERIAL CONTRACT

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling Shareholders.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Chen Yihong *(Chairman and Chief Executive Officer)*
Ms. Chen Chen

Independent Non-Executive Directors:

Dr. Chen Guogang (appointed and effective from 1 June 2016)
Mr. Gao Yu
Dr. Xiang Bing
Mr. Xu Yudi (resigned and effective from 1 June 2016)

In accordance with Article 87 of the Company's articles of association, Ms. Chen Chen and Mr. Gao Yu shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forth coming Annual General Meeting ("AGM").

In accordance with Article 86(3) of the Company's articles of association, Dr. Chen Guogang, appointed as independent non-executive director on 1 June 2016, shall hold office until the forth coming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

Mr. Chen Yihong (re-elected as an executive Director on 18 May 2016) and Dr. Xiang Bing (re-elected as an independent non- executive director on 18 May 2016) shall hold office until they are required to retired in accordance with the Company's articles of association.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent. Particulars of the directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 37 to the consolidated financial statements. Directors' remuneration was determined by reference to his/her duties and responsibilities, experience, performance and market conditions.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" below, no contracts of significance to which the Company, any of its subsidiaries, its holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2016 and up to and including the date of this report.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors are set out on pages 45 to 47 of this annual report.

SHARE OPTION SCHEMES

The Company adopted a share option scheme ("Share Option Scheme") on 12 September 2007 for the purpose of providing an incentive for employees and persons contributing to the Company to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders of the Company and to retain and attract calibres and working partners whose contribution are or may be beneficial to the growth and development of the Company and its subsidiaries.

The Board may from time to time grant options to any individual who is an employee of the Group (including executive Directors) or any entity in which the Company holds any equity interest and such other persons who have contributed or will contribute to the Company as approved by the Board from time to time on the basis of their contribution to the development and growth of the Group ("Grantee").

The Share Option Scheme was adopted on 12 September 2007. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years starting from the date of listing of the Company on 10 October 2007.

Participants of the Share Option Scheme are required to pay HKD1.00 for each option granted upon acceptance of the grant. The exercise price of the options is determined by the Board in its sole and absolute discretion and being at least the highest of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;

(ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the nominal value of the shares.

Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that Grantee on exercise of his options during any 12 month period exceeding 1% of the total Shares then in issue.

The maximum limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other option schemes of the Company must not exceed 30% of the shares in issue from time to time. In addition, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other option schemes of the Company shall not in aggregate exceed 10% of total number of issued shares as of the Listing Date which is 550,000,000 shares, representing 9.93% of the issued share capital of the Company as at the date of this report.

The Company may renew this limit at any time, subject to Shareholders' approval provided that the total number of Shares in respect of which may be granted under the Share Option Scheme and any option schemes of the Company under the Scheme Mandate as renewed must not exceed 10% of the total number of Shares in issue as of the date of such Shareholders' approval.

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 December 2016. There was no share option outstanding under the Share Option Scheme as at 31 December 2016.

RESTRICTED SHARE AWARD SCHEME

On 10 December 2010 (the "Adoption Date"), the Board adopted the restricted share award scheme (the "Share Award Scheme") as an incentive to retain and encourage the participants for the continual operation and development of the Group.

Pursuant to the Share Award Scheme, up to 30,000,000 existing Shares ("Restricted Shares") may be purchased by BOCI-Prudential Trustee Limited ("Trustee") from the market out of cash contributed by the Group and be held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme (the "Scheme Rules").

An administration committee (comprising the remuneration committee and certain senior management of the Company which shall include the chief executive officer of the Board) (the "Administration Committee") may, subject always to the Scheme Rules, from time to time, determine the number of Restricted Shares to be granted and at its absolute discretion select any selected participant (excluding any excluded employee of the Group as provided under the Scheme Rules) to be a selected participant under the Share Award Scheme.

In addition, the maximum number of Restricted Shares which may be granted to a selected participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at 10 December 2010.

The Share Award Scheme is effective from the Adoption Date (i.e. 10 December 2010) and shall continue in full force and effect for a term of 10 years.

A selected participant will be qualified to receive the Restricted Shares which are referable to him after all the qualifying conditions having been fulfilled in accordance with the vesting schedule pursuant to the Scheme Rules. Pursuant to the Scheme Rules, Restricted Shares held by the Trustee which are referable to a selected participant shall not vest in the selected participant if the employment contract of the selected participant has been terminated by the Company or any of its subsidiary because of, amongst others, (i) dishonesty or serious misconduct; (ii) incompetence or negligence in the performance of his duties; (iii) becoming bankrupt; and (iv) being convicted for any criminal offence involving his integrity or honesty etc.

With a view to allow the Board to have more flexibility in the administration of the scheme, the Share Award Scheme has been amended on 6 July 2012 pursuant to which, the grant share under the Share Award Scheme are subject to the vesting schedule or any other date as determined by the Chairman of the Board and the Chief Executive Officer (or any person designated by them).

For the year ended 31 December 2016, 537,000 Restricted Shares were granted to an eligible participant pursuant to the Restricted Share Award Scheme. 405,929 Restricted Shares were vested during the year. As at 31 December 2016, the number of Restricted Shares granted under the scheme amounted to 7,081,000 Shares, representing approximately 0.125% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2016 are as follows:

	Number of Restricted Shares(1)		
Date of grant	**granted during the year**	**vested during the year**	**lapsed during the year**
3/6/2016	537,000	405,929	131,071
	537,000	405,929	131,071

Note:

(1) As at 1/1/2016, the number of restricted shares are 23,456,000 shares. As at 31/21/2016, the number of restricted shares are 23,050,071 shares.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 8 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2016, the interests and short positions of the directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules are as follows:

Interests in Shares, underlying Shares and debentures of the Company:

		Number and class of securities		
Name of Directors	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of total issued Shares**
Mr. Chen Yihong	Interest of a controlled corporation(1)	2,249,387,000 shares	—	40.63%
Ms. Chen Chen	Interest of a controlled corporation(2)	116,944,100 shares	—	2.112%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trustee Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.

(2) Bountiful Talent Ltd, is wholly-owned and controlled by Ms. Chen Chen and Ms. Chen Chen is therefore deemed to be interested in the Shares held by Bountiful Talent Ltd.

Save as disclosed above, as at 31 December 2016, none of the directors and chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the directors:

		Number of Shares		
Name of Shareholders	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of shareholding (%)**
Poseidon Sports Limited	Corporate interest	2,249,387,000	—	40.63%
Talent Rainbow Far East Limited(1)	Interest in a controlled corporation	2,249,387,000	—	40.63%
Harvest Luck Development Limited(1)	Interest in a controlled corporation	2,249,387,000	—	40.63%
Prime Capital Management Company Limited(2)	Investment manager	279,190,706	—	5.04%

Notes:

(1) Mr. Chen Yihong, Harvest Luck Development Limited ("Harvest Luck") and Talent Rainbow Far East Limited ("Talent Rainbow") are deemed to be interested in the Shares held by Poseidon Sports Limited ("Poseidon") by virtue of Harvest Luck and Talent Rainbow being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Poseidon. Harvest Luck is wholly-owned and controlled by Mr. Chen Yihong. The entire issued share capital of Talent Rainbow is held by Billion Giant Development Limited ("Billion Giant"). The entire issued share capital of Billion Giant is in turn held by BOS Trustee Limited as trustee of the Cerises Trust. The Cerises Trust is an irrevocable discretionary trust set up by Mr. Chen Yihong as settlor and BOS Trust Company (Jersey) Limited as trustee on 20 April 2010. The beneficiaries under the Cerises Trust are family members of Mr. Chen Yihong. Mr. Chen Yihong as founder of the Cerises Trust is deemed to be interested in the Shares held by Talent Rainbow under the SFO. On 16 December 2016, the trustee has been changed from BOS Trust Company (Jersey) Limited to BOS Trustee Limited.

(2) As stated in the form of disclosure of shareholder's interests submitted by Prime Capital Management Company Limited on 15 December 2014 (the date of the relevant event set out in the form was 10 December 2014), these Shares were held in Prime Capital Management Company Limited and its affiliates.

Save as disclosed above, as at 31 December 2016, the directors are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTION

During the year ended 31 December 2016, the Company did not enter into any transactions with its connected persons (as defined in the Listing Rules) which was subject to the reporting, announcement and/or shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTION

On 11 March 2016, 上海卡帕體育用品有限公司 (Shanghai Kappa Sporting Goods Co., Limited*) ("Shanghai Kappa"), an indirect wholly-owned subsidiary of the Company, entered into a framework agreement (the "Framework Agreement") with 邁盛悅合體育用品有限公司 (Mai Sheng Yue He Sportswear Company Limited*) ("Mai Sheng Yue He"), pursuant to which Shanghai Kappa agreed to supply goods of Kappa brand and other brands of sportswear products of the Group to Mai Sheng Yue He, subject to such detailed agreements to be entered into between Shanghai Kappa and Mai Sheng Yue He from time to time during the terms of the Framework Agreement.

As at 11 March 2016, Mai Sheng Yue He is owned by 上海嘉班納體育用品有限公司 (Shanghai Gabbana Sporting Goods Co., Limited*) (an indirect wholly-owned subsidiary of the Company) as to approximately 32.6% and by 北京億天博佑投資有限公司 (Beijing Yi Tian Bo You Investment Co., Limited*) ("Chen Co") as to approximately 67.4%. Chen Co is a company owned by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizhong, who are brothers of Mr. Chen Yihong, the chairman and an executive director of the Company. Hence, Mai Sheng Yue He is a connected person of the Company by virtue of it being an associate of Mr. Chen Yihong.

Pursuant to Framework Agreement, the price for the goods to be supplied under the Framework Agreement are to be agreed and determined on an arm's length basis according to the principles of fairness and reasonableness between the parties from time to time, which shall be comparable to, or no less favourable than, the fair market prices for similar goods offered to independent distributors by Shanghai Kappa.

The amount to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Framework Agreement for each of the financial years ending 31 December 2016, 2017 and 2018 will not exceed RMB251,316,000, RMB301,579,000 and RMB361,895,000, respectively ("Annual Caps").

As one of the applicable percentage ratios in respect of the Annual Caps for the transactions contemplated under the Framework Agreement is more than 5%, the transactions contemplated under the Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under the Framework Agreement were approved by the shareholders of the Company in an extraordinary general meeting held on 18 May 2016

Please refer to the announcement of the Company dated 11 March 2016 and the circular of the Company dated 22 April 2016 for further details.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms; and (3) in accordance with the Framework Agreement and on fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and given written notice to the Board to confirm that the above transactions: (1) have been approved by the Board; (2) have been conducted in accordance with the Framework Agreement; (3) were in accordance with the pricing policies of the Company; and (4) did not exceed the Annual Cap.

The related party transactions are set out in Note 35 to the consolidated financial statements. Apart from the continuing connected transaction disclosed above, all other related party transactions did not fall under the scope of "Connected Transaction" and "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules.

MAJOR SUPPLIERS AND CUSTOMERS

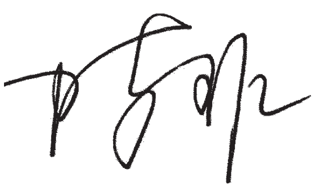
During the year ended 31 December 2016, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 5% and 20% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 12% and 26% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout 2016, the Company has complied with all the code provisions, except three deviations from code provisions A.2.1, E.1.2 and A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 48 to 59 of this report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company at the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.



On behalf of the Board
Chen Yihong
Chairman

22 March 2017

INDEPENDENT AUDITOR'S REPORT

pwc　　羅兵咸永道

Independent Auditor's Report
To the Shareholders of China Dongxiang (Group) Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 160, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 year. 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.

Key audit matter identified in our audit is the valuation of level 3 available-for-sale equity investments.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of level 3 available-for-sale unlisted equity investments Refer to Notes 3.3 to the consolidated financial statements, which disclosed the Group's level 3 unlisted equity investments of RMB2,886 million. The Group has invested in certain available-for-sale equity investments with fair value of RMB4,706 million as at 31 December 2016 and among which, RMB2,719 million is the Group's investments in unlisted available-for-sale equity investments, representing 24.40% of the total assets value of the Group as at 31 December 2016. These unlisted available-for-sale equity investments were investments in private equity funds with portfolios principally composed of equity investments in various unlisted companies or private equity funds and were valued with inputs that were not based on observable market data and hence were classified as level 3 available-for-sale equity investments as at 31 December 2016. Depending on the types of unlisted equity investments, the following fair value assessment methods and related key assumptions and judgements are adopted by the Group's management ("Management") : 1. Net Assets Valuation Report/Summary ("NAV report"): NAV report of the private equity funds prepared by management teams of these funds;	On sample basis, our major procedures on valuation of the level 3 available-for-sale unlisted equity investments were as follows: 1. We evaluated the design and tested the internal controls of the fair value assessment of level 3 available-for-sale unlisted equity investments, such as management's approval of key assumptions and inputs. 2. For the related investments, we reviewed the investment agreements and communicated with Management and the management team of the private equity funds to understand the investment structure and details of the underlying portfolio business. We also checked Management's fair value measurement documents to assess the appropriateness of the valuation method adopted and checked the calculation. 3. In respect of the adoption of NAV reports, we assessed the reliability of the NAV reports Management used by: a) understanding the reputation of the private equity funds the Group invested in using public available information; b) obtaining direct confirmations from the funds; and/or c) comparing available NAV reports with the corresponding periods' audited financial statements of these funds.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Price of recent investment method: the price of the recent investment and changes subsequent to the relevant transaction date; 3. Discounted cash flow method: discount rates and expected future cash flows from these investments; 4. Multiples method: selecting appropriate comparable companies, determining appropriate multiples and discount rate for lack of marketability. The valuation of level 3 available-for-sale unlisted equity investments was a key area of audit focus due to their significance together with the significant and critical judgements used in selection of valuation methods and determination of inputs when performing the fair value assessment.	4. In respect of the price of recent investment method, we assessed whether the price of the recent investment was representative and whether significant changes occurred subsequent to the transaction date by reading the transaction documents and communicating with the management teams of the funds to obtain detailed understanding of the recent transactions, and how events subsequent to the investment date affecting the underlying portfolios in the funds. 5. In respect of discounted cash flow method: We assessed the cash flow forecasts by tracing to the related investment contract terms as there were expected return rates stated in the investment agreements. We also assessed the collectability of the respective investment income and assessed the reasonableness of the discount rate used by Management; 6. In respect of multiples method: We assessed the appropriateness of the comparable companies and multiples selected, and discount rates for lack of marketability used by comparing the risk profile and earnings growth prospects of the underlying companies being valued to the comparable companies through independent research and consulting our valuation specialist. In our view, in the context of the inherent uncertainties as disclosed in the financial statements, we found the Group's key assumptions and judgements used in the fair value assessment of the Group's level 3 available-for-sale equity investments was consistent with our understanding.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND THE AUDIT COMMITTEE 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 and the disclosure requirements of the 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES 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, 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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,

Independent Auditor's Report

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.

We communicate with the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 matter 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.

The engagement partner on the audit resulting in this independent auditor's report is William Wai Nang Lam.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2017

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**1,501,477**	1,468,891
Cost of sales	6	**(650,617)**	(643,288)
Reversal of/(provision for) impairment losses of inventories	6	**3,211**	(10,609)
Gross profit		**854,071**	814,994
Distribution expenses	6	**(488,336)**	(462,010)
Administrative expenses	6	**(158,987)**	(114,191)
Other gains — net	7	**808,974**	800,160
Provision for impairment losses of available-for-sale financial assets	17	**—**	(34,117)
Operating profit		**1,015,722**	1,004,836
Finance income	9	**51,949**	31,040
Finance expenses	9	**(24,096)**	(12,019)
Finance income — net	9	**27,853**	19,021
Share of profit/(loss) of investments accounted for using the equity method	12(b)	**4,250**	(2,876)
Profit before income tax		**1,047,825**	1,020,981
Income tax expense	10	**(178,090)**	(219,364)
Profit for the year		**869,735**	801,617
Profit attributable to:			
— Owners of the Company		**870,306**	802,901
— Non-controlling interests		**(571)**	(1,284)
		869,735	801,617
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	11	**15.79**	14.56
Diluted earnings per share	11	**15.79**	14.56

The notes on pages 80 to 160 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**869,735**	801,617
Other comprehensive income that may be reclassified to profit or loss:		
Change in fair value of available-for-sale financial assets	**(419,349)**	(1,041,826)
Currency translation differences	**237,942**	201,446
Other comprehensive income for the year, net of tax	**(181,407)**	(840,380)
Total comprehensive income for the year	**688,328**	(38,763)
Attributable to:		
— Owners of the Company	**688,899**	(37,479)
— Non-controlling interests	**(571)**	(1,284)
Total comprehensive income for the year	**688,328**	(38,763)

The notes on pages 80 to 160 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
	Note	**2016 RMB'000**	2015 RMB'000
Assets			
Non-current assets			
Lease prepayments	14	**11,151**	11,437
Property, plant and equipment	13	**68,666**	75,402
Intangible assets	15	**229,135**	238,807
Investments accounted for using the equity method	12(b)	**137,299**	144,617
Deferred income tax assets	18	**69,337**	73,423
Available-for-sale financial assets non-current portion	17	**4,516,210**	3,911,487
Financial assets at fair value through profit or loss — non-current portion	22	**72,138**	219,252
Prepayments, deposits and other receivables — non-current portion	21	**311,252**	25,921
Total non-current assets		**5,415,188**	4,700,346
Current assets			
Inventories	19	**255,100**	225,809
Trade receivables	20	**243,690**	294,189
Prepayments, deposits and other receivables	21	**2,402,757**	3,893,494
Available-for-sale financial assets	17	**189,400**	—
Financial assets at fair value through profit or loss	22	**421,438**	257,897
Restricted cash	23	**397,492**	67,648
Term deposits with initial term over three months and within one year	23	**106,798**	231,697
Cash and cash equivalents	23	**1,713,464**	909,865
Total current assets		**5,730,139**	5,880,599
Total assets		**11,145,327**	10,580,945

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Equity			
Equity attributable to owners of the Company			
Share capital	24	**53,589**	53,589
Share premium account	24	**659,018**	940,705
Reserves	25	**8,944,902**	8,536,812
		9,657,509	9,531,106
Non-controlling interests		**17,013**	17,584
Total equity		**9,674,522**	9,548,690
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	18	**118,769**	58,041
Current liabilities			
Derivatives	29	**118,206**	—
Trade payables	27	**163,519**	157,966
Accruals and other payables	28	**220,975**	196,705
Current income tax liabilities		**78,050**	140,133
Borrowings	30	**750,786**	454,552
Provisions	31	**20,500**	24,858
Total current liabilities		**1,352,036**	974,214
Total liabilities		**1,470,805**	1,032,255
Total equity and liabilities		**11,145,327**	10,580,945

The notes on pages 80 to 160 are an integral part of these consolidated financial statements.

The financial statements on pages 73 to 79 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf.

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		53,589	1,714,319	2,435,630	6,136,530	10,340,068	18,868	10,358,936
Comprehensive income								
Profit for the year		—	—	—	802,901	802,901	(1,284)	801,617
Other comprehensive income								
Disposals-fair value reclassified to income statement		—	—	(476,955)	—	(476,955)	—	(476,955)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities		—	—	(564,871)	—	(564,871)	—	(564,871)
Currency translation differences		—	2,774	198,672	—	201,446	—	201,446
Total other comprehensive income, net of tax		—	2,774	(843,154)	—	(840,380)	—	(840,380)
Total comprehensive income		—	2,774	(843,154)	802,901	(37,479)	(1,284)	(38,763)
Dividends relating to 2014 final and 2015 interim	32	—	(776,388)	3,329	—	(773,059)	—	(773,059)
Shares vested under Restricted Share Award Scheme	26	—	—	1,576	—	1,576	—	1,576
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(776,388)	4,905	—	(771,483)	—	(771,483)
Appropriation to statutory reserves	25	—	—	5,937	(5,937)	—	—	—
Total transactions with owners, recognised directly in equity		—	(776,388)	10,842	(5,937)	(771,483)	—	(771,483)
Balance at 31 December 2015		53,589	940,705	1,603,318	6,933,494	9,531,106	17,584	9,548,690

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		53,589	940,705	1,603,318	6,933,494	9,531,106	17,584	9,548,690
Comprehensive income								
Profit for the year		—	—	—	870,306	870,306	(571)	869,735
Other comprehensive income								
Disposals-fair value reclassified to income statement		—	—	(905,555)	—	(905,555)	—	(905,555)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities		—	—	486,206	—	486,206	—	486,206
Currency translation differences		—	(3,132)	243,664	(2,590)	237,942	—	237,942
Total other comprehensive income, net of tax		—	(3,132)	(175,685)	(2,590)	(181,407)	—	(181,407)
Total comprehensive income		—	(3,132)	(175,685)	867,716	688,899	(571)	688,328
Dividends relating to 2015 final and 2016 interim	32	—	(278,555)	2,398	(286,786)	(562,943)	—	(562,943)
Shares vested under Restricted Share Award Scheme	26	—	—	447	—	447	—	447
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(278,555)	2,845	(286,786)	(562,496)	—	(562,496)
Appropriation to statutory reserves	25	—	—	15,376	(15,376)	—	—	—
Total transactions with owners, recognised directly in equity		—	(278,555)	18,221	(302,162)	(562,496)	—	(562,496)
Balance at 31 December 2016		53,589	659,018	1,445,854	7,499,048	9,657,509	17,013	9,674,522

The notes on pages 80 to 160 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**294,959**	359,695
Interest received		**3,186**	11,743
Income tax paid		**(192,608)**	(53,438)
Net cash generated from operating activities		**105,537**	318,000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4,049)**	(14,044)
Purchase of intangible assets		**(1,584)**	(3,356)
Proceeds from disposal of property, plant and equipment	33	**998**	367
Redemption of term deposits with initial terms of over three months and long term bank deposits	23	**124,899**	534,322
Purchase of financial assets (exclude available-for-sale financial assets)		**(4,382,989)**	(2,021,605)
Sale of financial assets (exclude available-for-sale financial assets)		**5,462,122**	792,858
Dividends received from the investment in available-for-sale financial assets		**75,497**	99,721
Interest received from financial assets (exclude available-for-sale financial assets)		**46,009**	202,042
Investments in available-for-sale financial assets	17	**(1,923,167)**	(707,531)
Proceeds from disposal of available-for-sale financial assets		**1,842,854**	891,674
Payment of financial liabilities		**—**	(609,020)
Investments in associates		**—**	(62,082)
Net cash generated from/(used in) investing activities		**1,240,590**	(896,654)
Cash flows from financing activities			
Proceeds from borrowings	30	**788,814**	454,552
Repayment of borrowings	30	**(508,903)**	—
Dividends paid	32	**(565,341)**	(776,388)
Increased in restricted cash pledged for bank loans	23	**(329,844)**	—
Net cash used in financing activities		**(615,274)**	(321,836)
Net increase/(decrease) in cash and cash equivalents		**730,853**	(900,490)
Cash and cash equivalents at beginning of the year		**909,865**	1,726,567
Exchange gains on cash and cash equivalents		**72,746**	83,788
Cash and cash equivalents at end of the year	23	**1,713,464**	909,865

The notes on pages 80 to 160 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended 31 December 2016

1. GENERAL INFORMATION

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the People's Republic of China (the "PRC"), Macau and Japan as well as investment activities in mainland of PRC and abroad.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 10 October 2007.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

IFRS 14	Regulatory Deferral Accounts
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to IAS 27	Equity method in separate financial statements
Annual Improvements Project	Annual Improvements 2012–2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(a) New and amended standards adopted by the Group (Continued)

The adoption of these amendments did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

(b) New standards and interpretations not yet adopted

The following new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements:

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
IFRS 16	Leases
Amendments to IAS 12	Income taxes
Amendments to IAS 7	Statement of cash flows
Amendments to IFRS 2	Classification and measurement of share-based payment transaction
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture

None of these above new standards and amendments to standards and interpretations is expected to have a significant effect on the consolidated financial statements of the Group, except the followings set out below:

(i) IFRS 9, "Financial instruments"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available under IFRS 9; and
- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(i) IFRS 9, "Financial instruments" (Continued)

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the derivatives that are liabilities held by the Group are also classified as financial liabilities at fair value through profit or loss under the new standard. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt IFRS 9 before its mandatory date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(ii) IFRS 15, "Revenue from contracts with customers"

The International Auditing and Assurance Standards Board ("IAASB") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and the following areas, if applicable, may be affected:

- revenue from service — the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under IFRS 15, and

- rights of return — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(iii) IFRS 16, "Leases"

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB71,531,000, (Note 34). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRS or IFRIC interpretation that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(d) Business combinations (Continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements, exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Joint arrangements (Continued)

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is United States Dollars ("USD") and the functional currency of most of its subsidiaries is Renminbi ("RMB") or Japanese Yen ("JPY"). The consolidated financial statements are presented in RMB, which is the presentation currency of the financial statements of the Company and the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance expenses-net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains — net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Changes in the fair value of securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings	20–35 years
— Office furniture and equipment	2–15 years
— Vehicles	5 years
— Leasehold improvements	2–18 years or over lease term, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains — net', in the consolidated statement of comprehensive income.

2.8 Leasehold land use right

Leasehold land use rights are stated at cost less accumulated amortisation and impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods from 20 to 50 years. Amortisation of leasehold land use rights is calculated on a straight-line basis over the period of the leases.

2.9 Intangible assets

(a) Trademarks

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 40 years.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are not subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss,loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and other financial assets designated to be measured at fair value and changes through profits and losses. A financial asset is classified in held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables', 'other financial assets' and 'cash and bank balances' in the balance sheet (Note 2.16 and 2.17).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'Other (losses)/ gains — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other gains. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other gains when the Group's right to receive payments is established.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised(such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Derivative financial instrument

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not designate any derivatives as hedging instruments.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, and deposits held at call with banks with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowings costs

General and specific 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.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Past-service costs are recognised immediately in the consolidated statement of comprehensive income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when the Group can no longer withdraw the offer of those benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Share-based payments

The Company adopted the China Dongxiang Group Co., Ltd. Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 26(b)) on 10 December 2010. The fair value of the services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted as at date of grant, including any market performance conditions, excluding the impacts of any service and non-market performance vesting conditions as well as including any non-vesting conditions, when applicable. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of restricted shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

In the Company's entity financial statements, the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity account.

2.25 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns, value added taxes and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods — wholesale

The Group manufactures and sells a range of sport-related apparels, footwears and accessories to its distributors in China and Japan. Sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Certain distributors are entitled to return goods or additional sales discounts in accordance with agreements between the Group and its distributors. Management estimates the quantities of goods returns and additional sales discounts based on historical experience and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts.

(b) Sales of goods — retail

The Group operates a chain of retail shops and outlets for selling sport apparels, footwears and accessories in China and Japan. Sales of goods are recognised when the Group sells a product to customers. Retail sales are usually in cash or by credit card.

Revenue from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of acceptance by the customers. Transactions are settled by cash, credit card or through third party online payment platforms.

(c) Sales of goods — consignment sales

Consignment sales are the sales of goods of the Group under which the recipient undertakes to sell the goods on behalf of the Group. Revenue is recognised by the Group when the goods are sold by the recipient to a third party.

(d) Royalty income

Royalty income is recognised in the consolidated statement of comprehensive income on an accrual basis in accordance with the substance of the relevant agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Interest income

Interest income is recognised using the effective interest rate method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the less or are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and Japan with most of the transactions denominated and settled in RMB and JPY, while limited purchases and sales are from overseas (other than Japan) that are settled mainly in USD. Foreign exchange risk also arises from certain bank deposits denominated in currencies other than the functional currencies of the respective companies. These include mainly the deposits denominated in Hong Kong Dollars ("HKD") and USD in the PRC subsidiaries, the functional currency of which is RMB, and the deposits of the Company which are denominated in RMB and the bank borrowings of the Company which is denominated in HKD while the functional currency of the Company is USD. Analyses of cash and bank balances and the bank borrowings by currencies are disclosed in Note 23 and Note 30. The Group currently does not hedge its foreign exchange exposure.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, post-tax profit for the year would have changed mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances and the bank borrowings.

	2016 RMB'000	2015 RMB'000
Year ended 31 December:		
Post-tax profit for the year (decrease)/increase		
— Strengthened 5%	**(29,549)**	(29,562)
— Weakened 5%	**29,549**	29,562

(ii) Cash flow and fair value interest rate risk

The Group's exposure to change in interest rate risk mainly concerns its cash in bank, treasury products, loans receivable and borrowings. The Group currently does not hedge its exposure to interest rate risk. Details of the Group's cash and bank balances, treasury products, loans receivable and borrowings balances are disclosed in Note 23, Note 21 and Note 30 respectively.

(iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

As at 31 December 2016, if the share price of the Group's listed equity securities had risen/fallen by 1% while all other variables had been held constant, the Group's other comprehensive income and post-tax profit for the year would have increased/decreased by approximately RMB19,862,000 (2015: RMB25,318,000) and RMB3,336,000 (2015: RMB1,436,000), respectively.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group's credit sales are only made to customers with appropriate credit history.

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, financial assets at fair value through profit or loss, available-for-sale financial assets, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 December 2016 all the bank deposits are deposited in high quality financial institutions without significant credit risk. The table below shows the bank deposit balances of the Group in the banks as at 31 December 2016 and 2015. Management does not expect any losses from non-performance of these banks.

	As at 31 December	
Rating (i)	**2016 RMB'000**	2015 RMB'000
Cash and bank balances		
A-1	**1,631,463**	912,863
A-2	**444,154**	157,124
B	**74,092**	70,121
Others	**68,045**	69,102
	2,217,754	1,209,210
Treasury products		
A-1	**—**	206,889
A-2	**714,204**	2,881,260
B	**287,990**	—
	1,002,194	3,088,149

(i) The source of the credit rating is from Standard & Poor as at 31 December 2016.

The Group's other financial assets with credit risk as at 31 December 2016 mainly include the investments in limited partnership funds established for the purpose of making equity investments and loans receivable. In addition, management periodically assesses the credit risk of these investments and makes provision when necessary.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group has significant cash and bank balances and investments in treasury products issued by banks with maturity within one year and liquidity risk is considered to be minimal. The Group controls its liquidity risks by maintaining sufficient cash and cash equivalents, which are generated mainly from the operating and investing cash flow.

The table below analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	RMB'000
At 31 December 2016	
Borrowings including interest payable (Note 30)	**752,555**
Trade payables (Note 27)	**163,519**
Accruals and other payables (Note 28)	**99,599**
Derivatives (Note 29)	**118,206**
	1,133,879
At 31 December 2015	
Borrowings including interest payable (Note 30)	460,257
Trade payables (Note 27)	157,966
Accruals and other payables (Note 28)	108,496
	726,719

All the balances are due within one year.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. As at 31 December 2016 and 2015, the Group has no net debt.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016 and 2015:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2016				
Assets				
Available-for-sale financial assets (Note 17)	**1,986,190**	**—**	**2,719,420**	**4,705,610**
Financial asset at fair value through profit or loss (Note 22)	**327,165**	**—**	**166,411**	**493,576**
	2,313,355	**—**	**2,885,831**	**5,199,186**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2015				
Assets				
Available-for-sale financial assets (Note 17)	2,531,817	—	1,379,670	3,911,487
Financial asset at fair value through profit or loss (Note 22)	157,887	—	319,262	477,149
	2,689,704	—	1,698,932	4,388,636

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1. Instruments included in level 1 mainly include investments in common shares of a US listed company and HK listed companies, and preferred shares of a HK listed company.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value such financial instrument are observable, the instrument is included in Level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation methods used to value financial instruments include:

- using the Net Assets Valuation Report ("NAV report") of the private equity funds prepared by the management team of these funds when these NAV reports are available;
- applying the price of recent investment method, and the related key assumptions and judgements include the price of the recent investment and changes subsequent to the relevant transaction date;
- applying the discounted cash flow method, and the related key assumptions and judgements include discount rates and expected future cash flows from these investments;
- applying the multiples method, and the key assumptions and judgements include selecting appropriate comparable companies, determining appropriate multiples and discount rate for lack of marketability.

There were no changes in valuation techniques during the reporting period.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments for the year end 31 December 2016 and 2015:

Financial instruments in level 3	2016 RMB'000	2015 RMB'000
At 1 January	**1,698,932**	1,351,091
Exchange differences	**21,148**	11,606
Additions	**1,387,831**	659,354
Change in fair value	**138,920**	52,998
Impairment losses recognised in profit or loss	**—**	(34,117)
Disposal	**(361,000)**	(342,000)
At 31 December	**2,885,831**	1,698,932
Total (losses) for the year included in profit or loss for assets held at the end of the year, under provision for impairment losses of available-for-sale financial instruments	**—**	(34,117)
Total (losses) for the year as in "Other gains-net" included in profit or loss for assets held at the end of the year	**(85,808)**	(68,153)
Change in unrealised gains for the year included in other comprehensive income for assets held at the end of the year	**300,225**	121,151

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets and derivatives

The fair value of financial instruments and derivatives that are not traded in active markets is determined by using valuation techniques. These techniques include the use of the net assets value provided by the respective private equity funds, price of recent investments, discounted cash flow analysis model and multiples, etc. To the extent practical, models use only observable data. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The estimated fair value of the Group's financial assets may not be equal to the related actual results. It may cause adjustments to the fair value of the Group's financial assets.

(b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial position and short-term business outlook of the investments, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(c) Income taxes

The Group is mainly subject to income taxes in the PRC and Japan. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Sales returns and discounts provision

Depending on agreement between the Group's certain subsidiaries and their distributors, selected certain distributors are entitled to return goods or additional sales discounts. Management estimates the amounts of goods returns and additional sales discount based on historical experience and market condition and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts. Management will adjust the provision where actual sales returns or sales discounts are more or less than previously estimated.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) Inventory provision

Inventories are stated at the lower of cost and net realisable value. Management makes provision based on historical experience and on the estimation of future market condition and sales. Management will adjust the provision where actual net realisable value is higher or lower than previously estimated. This requires significant judgement. As at 31 December 2016, the Group made a provision for impairment loss of out-season inventories of RMB114,937,000 (2015: RMB118,148,000) (Note 19).

(f) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at each balance sheet date. Management reassesses the adequacy of impairment provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be public information or easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained. As at 31 December 2016, the Group made a provision for impairment of trade and other receivables of RMB115,917,000 (2015: RMB141,763,000) (Note 20, 21).

(g) Useful life of trademark

The Group's management determined that the useful life of Kappa, Phenix and other trademarks is 40 years (Note 15). This estimate is based on the management's experiences in the sport apparel industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sport apparel market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark asset will be written off or written down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

5. SEGMENT INFORMATION

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the PRC, Macau and Japan as well as investment activities in the PRC and abroad.

The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The chief operating decision maker considers and assesses the performance of the investment activities and sportswear business separately, and sportswear business were assessed from a geographic perspective, including China (Mainland of the PRC) and Japan segments as follows:

- China — includes distribution and retail of sport apparel under Kappa Brand and other brands, and international business which includes the provision of Kappa Brand products in other countries.

- Japan — includes distribution and retail of sport apparel under Kappa, Phenix and other brands.

- Investment — includes investment in kinds of financial assets and treasury products issued by commercial banks.

Sales between segments are carried out on terms set out in agreements governing the transactions. The revenue from external customers, segment operating profit/(loss) and segment profit/(loss) reported to the chief operating decision maker are measured in a manner consistent with that presented in the consolidated statement of comprehensive income.

5. SEGMENT INFORMATION (CONTINUED)

The segment information for the year ended 31 December 2016 and as at 31 December 2016 is as follows:

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2016					
Total revenue before inter-segment elimination	1,146,766	377,176	—	—	1,523,942
Inter-segment revenue	(16,900)	(5,565)	—	—	(22,465)
Revenue from external customers	1,129,866	371,611	—	—	1,501,477
Cost of goods sold	(407,840)	(242,777)	—	—	(650,617)
Reversal of/(provision for) impairment losses of inventories	4,221	(1,010)	—	—	3,211
Segment gross profit	726,247	127,824	—	—	854,071
Other gains — net	14,732	6,768	787,474	—	808,974
Segment operating profit/(loss)	288,001	(5,588)	773,176	(39,867)	1,015,722
Finance income	35,197	3,098	—	13,654	51,949
Finance expense	(13,765)	(2,422)	—	(7,909)	(24,096)
Share of profit of investments accounted for using the equity method	5,466	23	(1,239)	—	4,250
Profit/(loss) before income tax	314,899	(4,889)	771,937	(34,122)	1,047,825
Income tax expense	(112,644)	(1,011)	(64,435)	—	(178,090)
Profit/(loss) for the year	202,255	(5,900)	707,502	(34,122)	869,735
Other material items of income and expense					
Depreciation and amortisation	20,252	3,929	—	—	24,181
Reversal of impairment losses of trade and other receivables	(13,779)	—	—	—	(13,779)
Advertising and selling expenses	238,888	38,534	—	—	277,422

5. SEGMENT INFORMATION (CONTINUED)

The segment information for the year ended 31 December 2015 and as at 31 December 2015 is as follows:

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2015					
Total revenue before inter-segment elimination	1,068,624	418,521	—	—	1,487,145
Inter-segment revenue	(15,864)	(2,390)	—	—	(18,254)
Revenue from external customers	1,052,760	416,131	—	—	1,468,891
Cost of goods sold	(374,149)	(269,139)	—	—	(643,288)
Provision for impairment losses of inventories	(7,133)	(3,476)	—	—	(10,609)
Segment gross profit	671,478	143,516	—	—	814,994
Other gains — net	4,246	5,150	790,764	—	800,160
Segment operating profit/(loss)	295,849	5,721	744,828	(41,562)	1,004,836
Finance income	20,945	6	—	10,089	31,040
Finance expense	(2,271)	(9,727)	—	(21)	(12,019)
Share of profit/(loss) of investments accounted for using the equity method	—	54	(2,930)	—	(2,876)
Profit/(loss) before income tax	314,523	(3,946)	741,898	(31,494)	1,020,981
Income tax expense	(97,658)	(1,196)	(120,510)	—	(219,364)
Profit/(loss) for the year	216,865	(5,142)	621,388	(31,494)	801,617
Other material items of income and expense					
Depreciation and amortisation	20,660	2,219	—	—	22,879
Provision for impairment losses of available-for-sale financial assets	—	—	34,117	—	34,117
(Reversal of)/provision for impairment losses of trade and other receivables	(43,027)	672	—	—	(42,355)
Advertising and selling expenses	211,355	41,142	—	—	252,497

5. SEGMENT INFORMATION (CONTINUED)

The operating loss of RMB39,867,000 (2015: RMB41,562,000) (Note 6) reported under "Unallocated" comprised the cost of design and product development of Kappa Brand products incurred by the technical centre of the Group established for product development for both China and Japan markets.

A further analysis of sales of sportswear by brands and activities in China and Japan segments is set out below:

	2016 **RMB'000**	2015 RMB'000
China		
— Distribution of Kappa Brand products	**657,959**	627,801
— Retail of Kappa Brand products	**442,934**	401,897
— International business and others	**28,973**	23,062
	1,129,866	1,052,760
Japan		
— Distribution and retail of Kappa Brand products	**123,855**	141,674
— Distribution and retail of Phenix Brand products	**247,756**	274,457
	371,611	416,131
Turnover	**1,501,477**	1,468,891

During the year ended 31 December 2016, revenue of approximately RMB330,766,000 is derived from related parties (2015: 448,139,000) (Note 35). This revenue is attributable to the China segment.

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5. SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities and reconciliations to the Group's total assets and total liabilities are as follows:

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2016					
Interests in investments accounted for using the equity method	53,224	15,650	68,425	—	137,299
Available-for-sale financial assets	—	—	4,705,610	—	4,705,610
Deferred income tax assets	69,337	—	—	—	69,337
Other assets	2,833,050	319,674	3,077,580	163,361	6,393,665
Total assets before inter-segment elimination	2,955,611	335,324	7,851,615	163,361	11,305,911
Inter-segment elimination	(43,712)	(14,661)	—	(102,211)	(160,584)
Segment assets	2,911,899	320,663	7,851,615	61,150	11,145,327
Deferred income tax liabilities	67,962	3,730	47,077	—	118,769
Current income tax liabilities	76,878	1,172	—	—	78,050
Other liabilities	626,255	136,461	570,701	46,373	1,379,790
Total liabilities before inter-segment elimination	771,095	141,363	617,778	46,373	1,576,609
Inter-segment elimination	(15,107)	(44,324)	—	(46,373)	(105,804)
Segment liabilities	755,988	97,039	617,778	—	1,470,805

5. SEGMENT INFORMATION (CONTINUED)

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2015					
Interests in investments accounted for using the equity method	66,908	15,627	62,082	—	144,617
Available-for-sale financial assets — non-current portion	—	—	3,911,487	—	3,911,487
Deferred income tax assets	73,423	—	—	—	73,423
Other assets	2,020,196	361,609	4,110,443	117,946	6,610,194
Total assets before inter-segment elimination	2,160,527	377,236	8,084,012	117,946	10,739,721
Inter-segment elimination	(54,668)	(5,888)	—	(98,220)	(158,776)
Segment assets	2,105,859	371,348	8,084,012	19,726	10,580,945
Deferred income tax liabilities	—	3,586	54,455	—	58,041
Current income tax liabilities	139,130	1,003	—	—	140,133
Other liabilities	251,161	189,060	454,552	42,394	937,167
Total liabilities before inter-segment elimination	390,291	193,649	509,007	42,394	1,135,341
Inter-segment elimination	(5,931)	(54,761)	—	(42,394)	(103,086)
Segment liabilities	384,360	138,888	509,007	—	1,032,255

As at 31 December 2016, the total non-current assets other than financial assets and deferred tax assets located in the PRC amounted to RMB469,208,000 (2015: RMB488,350,000) and located in other countries and regions amounted to RMB73,513,000 (2015: RMB63,239,000).

6. EXPENSES BY NATURE

The expenses included in cost of sales, reversal of/(provision for) impairment losses of inventories, distribution expenses and administrative expenses are analysed as follows:

	2016 RMB'000	2015 RMB'000
Cost of inventories recognised as cost of sales (Note 19)	**650,617**	643,288
Advertising and selling expenses	**277,422**	252,497
Employee salary and benefit expenses (Note 8)	**151,044**	152,448
Logistic fees	**70,232**	72,813
Design and product development expenses	**39,867**	41,563
Operating lease in respect of buildings	**25,538**	21,019
Travelling expenses	**16,151**	14,512
Amortisation of lease prepayments and intangible assets (Note 14, 15)	**12,985**	12,782
Depreciation of property, plant and equipment (Note 13)	**11,196**	10,097
Legal and consulting expenses	**8,474**	5,716
Auditor's remuneration		
— Audit services	**3,800**	3,500
— Non-audit services	**308**	141
(Reversal of)/Provision for impairment losses of inventories (Note 19)	**(3,211)**	10,609
(Reversal of) impairment losses of trade and other receivables (Note 20, 21)	**(13,779)**	(42,355)
Others	**44,085**	31,468
	1,294,729	1,230,098

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7. OTHER GAINS — NET

	2016 RMB'000	2015 RMB'000
Gain on disposal of available-for-sale financial assets	**967,588**	476,955
Investment income from financial assets	**115,253**	418,964
Change in fair value of financial instruments at fair value through profit or loss	**(295,369)**	(106,355)
Government subsidy income	**11,876**	4,569
Royalty income	**3,986**	3,497
Others — net	**5,640**	2,530
	808,974	800,160

8. EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2016 RMB'000	2015 RMB'000
Wages and salaries	**100,511**	100,351
Pension costs (Note (a))	**20,297**	20,022
Termination benefits	**1,207**	3,782
Restricted Share Award Scheme (Note 26(b))	**447**	1,576
Other benefits	**28,582**	26,717
	151,044	152,448

Notes:

(a) Pensions — defined contribution plans

The employees of the Group in PRC, Hong Kong and Japan participate in defined contribution retirement benefit plans organised by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 13% to 21% (2015: 13% to 21%) in the PRC and 9.10% (2015: 8.90%) in Japan of the employees' basic salaries for the year, depending upon the applicable local regulations.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

8. EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining three (2015: three) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and others	2,963	6,816
Pension costs	81	88
	3,044	6,904

The emoluments fell within the following bands:

	Number of individuals 2016	2015
Emolument bands:		
HKD1,000,001 to HKD2,000,000	3	—
HKD2,000,001 to HKD3,000,000	—	1
HKD3,000,001 to HKD5,000,000	—	2
	3	3

9. FINANCE EXPENSE — NET

	2016 RMB'000	2015 RMB'000
Finance income:		
— Foreign exchange gain	38,641	14,955
— Interest income	13,308	16,085
	51,949	31,040
Finance expenses:		
— Interest expense	(18,748)	(5,093)
— Others	(5,348)	(6,926)
	(24,096)	(12,019)
Finance income — net	27,853	19,021

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	**129,513**	169,254
— Taxation in Japan	**1,011**	802
Deferred income tax (Note 18)	**47,566**	49,308
	178,090	219,364

The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company.

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the year ended 31 December 2016 (2015: Nil).

According to the PRC New Corporate Income Tax Law ("New CIT Law"), distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. As at 31 December 2016, the Group had provided a deferred tax liability amounted to RMB42,924,000 (2015: RMB39,103,000) in relation to the profit of the PRC subsidiaries that will be distributed in the future (Note 18).

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2016 applicable to this subsidiary was 15% for the taxable income part less than JPY8,000,000 and 23.4% for the taxable income part over JPY8,000,000 (2015: 15% or 25.5%)) of the assessable profit. The inhabitant tax is determined based on the taxpayer's share capital, operating locations and number of employees and rates on the taxpayer's income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2016 (2015: Nil), the subsidiary was subject to the minimum inhabitant tax payments.

10. INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated companies as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax	**1,047,825**	1,020,981
Tax calculated at tax rates applicable to profits in the respective countries	**108,855**	162,083
Tax effects of:		
— Tax losses for which no deferred income tax asset was recognised	**10,598**	7,441
— Provision for withholding income tax on profits of PRC subsidiaries to be distributed to foreign investors (Note 18)	**42,924**	39,103
— Expenses or losses not deductible for tax purpose	**678**	1,756
— Utilisation of previous unrecognised tax losses	**—**	(1,244)
— Elimination of unrealised profit among the Group's companies	**15,035**	10,225
Income tax expense	**178,090**	219,364

11. EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the year.

	2016	2015
Profit attributable to owners of the Company (RMB'000)	**870,306**	802,901
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,513,180**	5,512,580
Basic earnings per share (RMB cents per share)	**15.79**	14.56

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. As at 31 December 2016, no ordinary share subject to potential dilution (2015: Nil).

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12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2016:

Company name	Place of incorporation	Particulars of issued/registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
Hong Kong Dongxiang Sports Development Holdings Limited	Hong Kong	10,000 ordinary shares of HKD1 each	100%	—	—	Investment holding, Hong Kong
Dongxiang (Netherlands) Cooperative U.A.	Netherlands	EUR755,738	100%	—	—	Investment holding, Netherlands
光景集團有限公司 Brilliant King Group Ltd.	British Virgin Island	USD1	100%	—	—	Investment holding, British Virgin Island
明泰企業有限公司 Bright Pacific Enterprises Limited	British Virgin Island	USD100	100%	—	—	Investment holdings, British Virgin Island
Achilles Sports Pte. Ltd.	Singapore	100,000 ordinary shares of USD1 each	—	100%	—	Owns trademark, Singapore
Gaea Sports Limited	Hong Kong	1 ordinary share of HKD1	—	100%	—	Investment holding, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Ltd.	Beijing, the PRC	RMB10,000,000	—	100%	—	Design and sales of sport-related footwear, apparel and accessories, PRC
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB20,000,000	—	100%	—	Design and sales of sport-related footwear, apparel and accessories, PRC
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB1,500,000	—	100%	—	Design, production and sales of sport-related footwear, apparel and accessories, PRC

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Company name	Place of incorporation	Particulars of issued/registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB158,000,000	—	100%	—	Design and consulting services, PRC
西亞體育用品商貿（蘇州）有限公司 Thea Sporting Goods Trading (Suzhou) Co., Ltd.	Suzhou, the PRC	USD80,000,000	—	100%	—	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC
赫拉體育用品商貿（上海）有限公司 Hera Sporting Goods Trading (Shanghai) Co., Ltd.	Shanghai, the PRC	USD40,000,000	—	100%	—	Sales of sport-related footwear, apparel and accessories, PRC
考伊斯體育用品商貿（上海）有限公司 Coeus Sporting Goods Trading (Shanghai) Co., Ltd.	Shanghai, the PRC	USD50,000,000	—	100%	—	Sales of sport-related footwear, apparel and accessories, PRC
上海嘉班納體育用品有限公司 Shanghai Gabbana Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB120,000,000	—	100%	—	Design and consulting services, PRC
上海杜爾斯體育用品有限公司 Shanghai Tours Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB50,418,451	—	100%	—	Design and consulting services, PRC
上海克瑞斯體育用品有限公司 Shanghai Crius Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB4,000,000	—	100%	—	Retailing of sport-related footwear, apparel and accessories, PRC
Hebe Fashions Co., Ltd.	Singapore	Singapore Dollar 1	—	100%	—	Investment holding, Singapore
Cronus Sports Co., Ltd.	Singapore	Singapore Dollar 1	—	100%	—	Investment holding, Singapore
Phenix Co., Ltd.	Japan	JPY99,000,000	—	91%	9%	Brand development, design and sales of sport-related apparel, Japan

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Year ended 31 December 2016

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Company name	Place of incorporation	Particulars of issued/registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
北京快樂運動體育用品有限公司 Beijing Happy Sporting Goods Co., Ltd.	Beijing, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
大連克瑞斯體育用品有限公司 Dalian Crius Sporting Goods Co., Ltd.	Dalian, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
深圳克瑞斯特體育用品有限公司 Shenzhen Crius Sporting Goods Co., Ltd.	Shenzhen, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
鄭州克瑞斯體育用品有限公司 Zhengzhou Crius Sporting Goods Co., Ltd.	Zhengzhou, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
武漢克瑞斯體育用品有限公司 Wuhan Crius Sporting Goods Co., Ltd.	Wuhan, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
湖南克瑞斯體育用品有限公司 Hunan Crius Sporting Goods Co., Ltd.	Changsha, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Company name	Place of incorporation	Particulars of issued/registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
上海動向體育用品有限公司 Shanghai Dongxiang Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB20,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
杭州克雷斯體育用品有限公司 Hangzhou Crius Sporting Goods Co., Ltd.	Hangzhou, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
太倉泰坦體育用品有限公司 Taicang Taitan Sporting Goods Co., Ltd.	Taicang, the PRC	RMB1,500,000	—	100%	—	Design, production and sales of sports-related footwear, apparel and accessories, PRC
上海卡帕動力兒童體育用品有限公司 Shanghai Kappa Kinetic Kids Sporting Goods Co., Ltd.	Shanghai, the PRC	RMB1,000,000	—	100%	—	Design, sales of children's clothing
西藏普魯都斯投資管理有限公司 Tibet Plutus Investment Management Co., Ltd.	Tibet, the PRC	RMB10,000,000	—	100%	—	Investment
西藏佑德投資管理有限公司 Tibet Youde Investment Management Co., Ltd.	Tibet, the PRC	RMB2,000,000	—	100%	—	Investment
西藏雷澤資本投資有限公司 Tibet Leize Capital Investment Co., Ltd.	Tibet, the PRC	RMB10,000,000	—	100%	—	Investment

The non-controlling interests as at 31 December 2016 and 2015 was not material to the Group.

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2016 RMB'000	2015 RMB'000
Joint ventures (i)	**68,874**	81,465
Associates (ii)	**68,425**	63,152
At 31 December	**137,299**	144,617

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	2016 RMB'000	2015 RMB'000
Joint ventures (i)	**5,489**	54
Associates (ii)	**(1,239)**	(2,930)
For the year ended 31 December	**4,250**	(2,876)

(i) Investment in joint ventures

	2016 RMB'000	2015 RMB'000
At 1 January	**81,465**	15,621
Addition	**—**	65,838
Share of profit	**5,489**	54
Exchange difference	**—**	(48)
Elimination of unrealised profit	**(18,080)**	—
At 31 December	**68,874**	81,465

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(i) Investments in joint ventures (Continued)

Nature of investments in joint ventures of 2016 and 2015

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method	Investment date
Indirectly held:					
Shanghai Phenix Apparel Co., Ltd. (上海菲尼克斯製衣有限公司)	The PRC	38.00%	Note (*)	Equity	30 April 2008
Mai Sheng Yue He Sporting Goods Co., Ltd. (邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015
ShanXi Mai Sheng Mai Yue He Sporting Goods Co., Ltd. (山西邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015
Shenyang Mai Sheng Mai Yue He Sporting Goods Co., Ltd. (瀋陽邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015
Tianjin Sheng Mai Sheng Yue He Sporting Goods Co., Ltd. (天津邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015
Nanjing Mai Sheng Yue He Sporting Goods Co., Ltd. (南京邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015
Zhejiang Mai Sheng Yue He Sporting Goods Co., Ltd. (浙江邁盛悅合體育用品有限公司)	The PRC	30.00%	Note (**)	Equity	31 December 2015

Note:

(*) Shanghai Phenix Apparel Co., Ltd ("Shanghai Phenix") is principally engaged in production of apparel and sportswear for the Group and other companies.

(**) Prior to the reorganisation of Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Beijing") in December 2015, MSYH Beijing is the parent company of Shanxi Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Shanxi"), Shenyang Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Shenyang"), Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Tianjin"), Nanjing Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Nanjing"), and Zhejiang Mai Sheng Yue He Sporting Goods Co., Ltd. ("MSYH Zhejiang") (collectively "Other Five MSYH Companies"). In December 2015, through a series of reorganisations of MSYH Beijing, the Group's equity interest in MSYH Beijing increased from 22.05% to 30.00%. At the same time, MSYH Beijing disposed all of its equity interest in Other Five MSYH Companies and the Group acquired 30% equity interest in MSYH Shanghai, MSYH Shenyang, MSYH Tianjin, MSYH Nanjing and MSYH Zhejiang, respectively. Upon the completion of the reorganisations, MSYH Beijing and the Other Five MSYH Companies (collectively "Six MSYH Companies") became joint ventures of the Group according to the shareholders' agreements.

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(i) Investments in joint ventures (Continued)

Summarised financial information for joint ventures

Set our below are the joint ventures of the Group as at 31 December 2016 which, in the opinion of the directors, are material to the Group.

Summarised balance sheets

	Shanghai Phenix 2016 RMB'000	Six MSYH Companies 2016 RMB'000	Total 2016 RMB'000
At 31 December			
Current			
Total current assets	30,475	596,754	627,229
Total current liabilities	(5,377)	(377,900)	(383,277)
Non-current			
Total non-current assets	16,085	14,090	30,175
Total non-current liabilities	—	—	—
Net assets	41,183	232,944	274,127

Summarised statement of comprehensive income

	Shanghai Phenix 2016 RMB'000	Six MSYH Companies 2016 RMB'000	Total 2016 RMB'000
Revenue	29,181	1,067,075	1,096,256
Profit before income tax	107	15,828	15,935
Income tax expense	(47)	(2,344)	(2,391)
Post-tax profit	60	13,484	13,544
Other comprehensive income	—	—	—
Total comprehensive income	60	13,484	13,544

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(i) Investments in joint ventures (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's share of interest in the joint venture:

	Shanghai Phenix 2016 RMB'000	Six MSYH Companies 2016 RMB'000	Total 2016 RMB'000
Closing net assets at 31 December	41,183	232,944	274,127
The Group's share in percentage	38%	30%	
The Group's interest	15,650	71,304*	86,954
Elimination of unrealised profit	—	(18,080)	(18,080)
Carrying value	15,650	53,224	68,874

* As at 31 December 2016, as one of the Six MSYH Companies had negative net assets, the Group used an adjusted closing net assets (up to zero net assets of this joint venture company) as the base to calculate the Group's interest in the Six MSYH Companies.

Summarised financial information for joint ventures

Summarised balance sheets

	Shanghai Phenix 2015 RMB'000	Six MSYH Companies 2015 RMB'000	Total 2015 RMB'000
At 31 December			
Current			
Total current assets	31,014	601,467	632,481
Total current liabilities	(7,482)	(397,518)	(405,000)
Non-current			
Total non-current assets	17,591	15,511	33,102
Total non-current liabilities	—	—	—
Net assets	41,123	219,460	260,583

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(i) Investments in joint ventures (Continued)

Summarised statement of comprehensive income

	Shanghai Phenix 2015 RMB'000	Six MSYH Companies 2015 RMB'000	Total 2015 RMB'000
Revenue	32,296	1,166,059	1,198,355
Profit/(loss) before income tax	224	(26,435)	(26,211)
Income tax expense	(83)	(1,093)	(1,176)
Post-tax profit/(loss)	141	(27,528)	(27,387)
Other comprehensive income	—	—	—
Currency translation differences	(126)	—	(126)
Total comprehensive income/(loss)	15	(27,528)	(27,513)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's share of interest in the joint venture:

	Shanghai Phenix 2015 RMB'000	Six MSYH Companies 2015 RMB'000	Total 2015 RMB'000
Closing net assets at 31 December	41,123	219,460	260,583
The Group's share in percentage	38%	30%	
The Group's interest	15,627	65,838	81,465
Carrying value	15,627	65,838	81,465

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(ii) Investments in associates

	2016 RMB'000	2015 RMB'000
At 1 January	**63,152**	—
Addition	**—**	66,082
Share of loss	**(1,239)**	(2,930)
Share of other comprehensive income	**(1,787)**	—
Exchange difference	**8,299**	—
At 31 December	**68,425**	63,152

Nature of investments in associates as at 31 December 2016 and 2015:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the business	Measurement method	Investment date
Boundary Bay Investment LLC	US	35%	Note (*)	Equity	30 April 2015
Chengdu Ren Yi Yue Li Tech. Co., Ltd.	The PRC	20%	Note (**)	Equity	18 August 2015

(*) On 30 April 2015, the Group acquired 35% equity interests in Boundary Bay Investment LLC ("BBI LLC") at a consideration of approximately RMB62 million. BBI LLC is an investment holding company which owned 99.99% of Point Roberts Resort, LP, a Washington limited partnership formed on 22 March 2007. The principal activity of Point Roberts Resort, LP is the overall management of the Point Roberts Marina and surrounding area.

(**) On 15 September 2015, the Group invested in Chengdu Ren Yi Yue Li Tech. Co., Ltd ("Chengdu Ren Yi Yue Li") as a 20% shareholder at a consideration of RMB4 million. Chengdu Ren Yi Yue Li is a technology company focusing on developing of sports related softwares/platforms.

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(ii) Investments in associates (Continued)

Summarised financial information for associates

Summarised balance sheets

	BBI LLC	Chengdu Ren Yi Yue Li	Total
	2016	2016	2016
	RMB'000	RMB'000	RMB'000
At 31 December			
Current			
Total current assets	111,082	3,484	114,566
Total current liabilities	(4,365)	(15)	(4,380)
Non-current			
Total non-current assets	191,606	—	191,606
Total non-current liabilities	(104,805)	—	(104,805)
Net assets	193,518	3,469	196,987

Summarised statement of comprehensive income

	BBI LLC	Chengdu Ren Yi Yue Li	Total
	2016	2016	2016
	RMB'000	RMB'000	RMB'000
Revenue	12,640	5	12,645
Loss before income tax	(2,465)	(1,882)	(4,347)
Income tax expense	—	—	—
Post-tax loss	(2,465)	(1,882)	(4,347)
Other comprehensive income	(5,106)	—	(5,106)
Currency translation differences	23,712	—	23,172
Total comprehensive income/(loss)	16,141	(1,882)	14,259

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(ii) Investments in associates (Continued)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's share of interest in associates:

	BBI LLC 2016 RMB'000	Chengdu Ren Yi Yue Li 2016 RMB'000	Total 2016 RMB'000
Closing net assets at 31 December	193,518	3,469	196,987
The Group's share in percentage	35%	20%	
The Group's interest	67,731	694	68,425
Carrying value	67,731	694	68,425

Summarised financial information for associates

Summarised balance sheets

	BBI LLC 2015 RMB'000	Chengdu Ren Yi Yue Li 2015 RMB'000	Total 2015 RMB'000
At 31 December			
Current			
Total current assets	97,878	5,129	103,007
Total current liabilities	(4,061)	222	(3,839)
Non-current			
Total non-current assets	187,502	—	187,502
Total non-current liabilities	(103,942)	—	(103,942)
Net assets	177,377	5,351	182,728

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(b) Investments accounted for using the equity method (Continued)

(ii) Investment in associates (Continued)

Summarised statements of comprehensive income

	BBI LLC 2015 RMB'000	Chengdu Ren Yi Yue Li 2015 RMB'000	Total 2015 RMB'000
Revenue	10,638	—	10,638
Profit before income tax	414	(1,375)	(961)
Income tax expense	—	—	—
Post-tax profit	414	(1,375)	(961)
Other comprehensive income	—	—	—
Total comprehensive income	414	(1,375)	(961)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's share of interest in associates:

	BBI LLC 2015 RMB'000	Chengdu Ren Yi Yue Li 2015 RMB'000	Total 2015 RMB'000
Closing net assets at 31 December	177,377	5,351	182,728
The Group's share in percentage	35%	20%	
The Group's interest	62,082	1,070	63,152
Carrying value	62,082	1,070	63,152

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Office furniture and equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2015							
Cost	5,108	86,482	56,441	6,076	14,561	344	169,012
Accumulated depreciation	—	(28,459)	(49,510)	(5,216)	(7,922)	—	(91,107)
Exchange difference	(884)	(278)	(2,664)	—	(2,347)	(137)	(6,310)
Net book amount	4,224	57,745	4,267	860	4,292	207	71,595
Year ended 31 December 2015							
Opening net book amount	4,224	57,745	4,267	860	4,292	207	71,595
Additions	2,617	3,239	4,744	139	2,788	517	14,044
Disposals	—	—	(344)	(31)	(102)	(273)	(750)
Depreciation (Note 6)	—	(3,319)	(5,614)	(309)	(855)	—	(10,097)
Exchange difference	119	61	209	—	210	11	610
Closing net book amount	6,960	57,726	3,262	659	6,333	462	75,402
At 31 December 2015							
Cost	7,725	89,721	58,232	5,646	16,836	588	178,748
Accumulated depreciation	—	(31,778)	(52,515)	(4,987)	(8,366)	—	(97,646)
Exchange difference	(765)	(217)	(2,455)	—	(2,137)	(126)	(5,700)
Net book amount	6,960	57,726	3,262	659	6,333	462	75,402
Year ended 31 December 2016							
Opening net book amount	**6,960**	**57,726**	**3,262**	**659**	**6,333**	**462**	**75,402**
Additions	**178**	**238**	**2,953**	**299**	**391**	**—**	**4,059**
Disposals	**—**	**(2)**	**(600)**	**(55)**	**(138)**	**(510)**	**(1,305)**
Depreciation (Note 6)	**—**	**(3,453)**	**(5,687)**	**(206)**	**(1,850)**	**—**	**(11,196)**
Exchange difference	**272**	**184**	**528**	**—**	**673**	**49**	**1,706**
Closing net book amount	**7,410**	**54,693**	**456**	**697**	**5,409**	**1**	**68,666**
At 31 December 2016							
Cost	**7,903**	**75,805**	**44,907**	**4,864**	**17,010**	**78**	**150,567**
Accumulated depreciation	**—**	**(21,076)**	**(42,535)**	**(4,167)**	**(10,139)**	**—**	**(77,917)**
Exchange difference	**(493)**	**(36)**	**(1,916)**	**—**	**(1,462)**	**(77)**	**(3,984)**
Net book amount	**7,410**	**54,693**	**456**	**697**	**5,409**	**1**	**68,666**

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Administrative expenses	**5,686**	5,656
Manufacturing overheads included in cost of goods sold	**2,179**	2,654
Distribution and selling expenses	**3,331**	1,787
	11,196	10,097

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

There is no pledge of property, plant and equipment of the Group as at 31 December 2016 and 2015.

The Group owns freehold land and buildings located in Shibata City, Niigata province, Japan and Washington, the US.

The Group also owns buildings on land with land use right term within 50 years located in Beijing and Jiangsu province, the PRC.

14. LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000
At 1 January 2015	
Cost	14,262
Accumulated amortisation	(2,540)
Net book amount	11,722
Year ended 31 December 2015	
Opening net book amount	11,722
Amortisation charge (Note 6)	(285)
Closing net book amount	11,437
At 31 December 2015	
Cost	14,262
Accumulated amortisation	(2,825)
Net book amount	11,437
Year ended 31 December 2016	
Opening net book amount	**11,437**
Amortisation charge (Note 6)	**(286)**
Closing net book amount	**11,151**
At 31 December 2016	
Cost	**14,262**
Accumulated amortisation	**(3,111)**
Net book amount	**11,151**

Lease prepayments for land use rights represent the Group's interests in land in the PRC and held on leases within 50 years. As at 31 December 2016, the remaining lease periods of the land use right are from 39 to 40 years.

Amortisation expenses of the Group's lease prepayments for land use rights and for stores have been charged to administrative expenses and distribution and selling expenses in the consolidated statement of comprehensive income, respectively.

15. INTANGIBLE ASSETS

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2015				
Cost	397,569	8,605	65,513	471,687
Accumulated amortization	(163,280)	(1,003)	(56,179)	(220,462)
Exchange difference	(3,735)	—	22	(3,713)
Net book amount	230,554	7,602	9,356	247,512
Year ended 31 December 2015				
Opening net book amount	230,554	7,602	9,356	247,512
Additions	—	—	3,356	3,356
Amortisation charge (Note 6)	(7,025)	(215)	(5,472)	(12,712)
Exchange difference	623	—	28	651
Closing net book amount	224,152	7,387	7,268	238,807
At 31 December 2015				
Cost	397,569	8,605	68,869	475,043
Accumulated amortisation	(170,305)	(1,218)	(61,651)	(233,174)
Exchange difference	(3,112)	—	50	(3,062)
Net book amount	224,152	7,387	7,268	238,807
Year ended 31 December 2016				
Opening net book amount	**224,152**	**7,387**	**7,268**	**238,807**
Additions	**—**	**—**	**1,584**	**1,584**
Amortisation charge (Note 6)	**(7,517)**	**(215)**	**(4,967)**	**(12,699)**
Exchange difference	**1,422**	**—**	**21**	**1,443**
Closing net book amount	**218,057**	**7,172**	**3,906**	**229,135**
At 31 December 2016				
Cost	**397,569**	**8,605**	**70,453**	**476,627**
Accumulated amortisation	**(177,822)**	**(1,433)**	**(66,618)**	**(245,873)**
Exchange difference	**(1,690)**	**—**	**71**	**(1,619)**
Net book amount	**218,057**	**7,172**	**3,906**	**229,135**

15. INTANGIBLE ASSETS (CONTINUED)

The KAPPA trademarks represent the perpetual rights of the use of KAPPA trademarks in the PRC, Macau and Japan. The KAPPA trademarks for the PRC and Macau were purchased by the Group from a third party in 2006 at a consideration of USD35,000,000 (equivalent to approximately RMB280,994,000). The KAPPA trademarks for Japan were obtained in the acquisition of Phenix Co., Ltd. ("Phenix") in April 2008. The KAPPA and Phenix trademarks are subject to amortisation on a straight-line basis over an estimated useful life of 40 years.

Amortisation expenses in relation to trademarks have been charged to distribution and selling expenses and those in relation to computer software have been charged to administrative expenses in the consolidated statement of comprehensive income.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	Available-for-sale RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per balance sheet				
As at 31 December 2016				
Available-for-sale financial assets (Note 17)	**4,705,610**	**—**	**—**	**4,705,610**
Financial assets at fair value through profit or loss (Note 22)	**—**	**493,576**	**—**	**493,576**
Trade and other receivables excluding prepayments (Note 20 and 21)	**—**	**—**	**2,941,118**	**2,941,118**
Cash and bank balances (Note 23)	**—**	**—**	**2,217,754**	**2,217,754**
	4,705,610	**493,576**	**5,158,872**	**10,358,058**
As at 31 December 2015				
Available-for-sale financial assets (Note 17)	3,911,487	—	—	3,911,487
Financial assets at fair value through profit or loss (Note 22)	—	477,149	—	477,149
Trade and other receivables excluding prepayments (Note 20 and 21)	—	—	4,200,885	4,200,885
Cash and bank balances (Note 23)	—	—	1,209,210	1,209,210
	3,911,487	477,149	5,410,095	9,798,731

16. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Financial liabilities at amortised cost RMB'000	Liabilities at fair value through profit and loss RMB'000	Total RMB'000
Liabilities as per balance sheet			
As at 31 December 2016			
Borrowings (Note 30)	**750,786**	**—**	**750,786**
Trade and other payables (Note 27 and 28)	**263,118**	**—**	**263,118**
Derivatives (Note 29)	**—**	**118,206**	**118,206**
	1,013,904	**118,206**	**1,132,110**
As at 31 December 2015			
Borrowings (Note 30)	454,552	—	454,552
Trade and other payables (Note 27 and 28)	266,462	—	266,462
	721,014	—	721,014

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Available-for-sale financial assets		
At 1 January	**3,911,487**	4,580,210
Additions	**2,003,167**	707,531
Disposals — cost	**(992,515)**	(484,719)
Disposals — fair value changes reclassified to income statement	**(905,555)**	(476,955)
Change in fair value	**503,455**	(580,223)
Investment income declared by investee funds	**73,348**	115,073
Investment income received	**(75,497)**	(99,721)
Impairment losses	**—**	(34,117)
Currency translation differences	**187,720**	184,408
At 31 December	**4,705,610**	3,911,487

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

The available-for-sale financial assets include the following:

	2016 RMB'000	2015 RMB'000
Market value of listed securities		
(a) Alibaba Group Holding Limited ("Alibaba")	**1,986,190**	2,531,817
Unlisted equity securities		
(b) Yunfeng Fund RMB II	**324,692**	150,000
(c) Tibet Ruixintong Venture Investment Center LP	**300,334**	—
(d) Hangzhou Yuanxin Dongchao Equity Investment LP	**275,184**	227,983
(e) CITIC Mezzanine Fund I	**247,667**	242,222
(f) Herun Piloting Jiashi Investment Preferred Cornerstone Investment Fund	**200,000**	—
(g) Yunfeng Fund USD II	**185,564**	160,003
(h) Wing Lung Growth Fund SPC Limited	**183,896**	—
(i) Tebon innovation Capital Special Asset Management Plan	**155,490**	155,568
(j) Xiaocun Industry Development Private Placement Investment No. 8 Fund	**73,286**	—
(k) Beijing Sequoia Investment Management Center	**70,240**	50,356
(l) Yunfeng Fund RMB III	**68,100**	—
(m) Elite International Investment Fund VII LP	**66,000**	—
(n) Shenzhen Chishan Evergreen Equity Investment Center LP	**64,088**	—
(o) Vision Knight Capital (China) Fund	**60,000**	30,000
(p) Others	**444,879**	363,538
	2,719,420	1,379,670

Available-for-sale financial assets are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
USD	**2,429,084**	2,749,187
RMB	**2,276,526**	1,162,300
	4,705,610	3,911,487

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Notes:

(a) In September 2011, the Group subscribed for limited partnership agreements with Yunfeng E-Commerce Funds, pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD100,000,000 (equivalent to RMB638,080,000 at historical exchange rate), which had been fully paid as at 31 December 2012. Yunfeng E-Commerce Funds are established for the purpose of making investments in Alibaba Group Holding Limited, a leading group focused on the Chinese E-commerce industry. Pursuant to Alibaba's Initial Public Offerings ("IPO") on New York Stock Exchange in September 2014, Yunfeng E-Commerce Funds distributed the shares of Alibaba to its limited partners. Since the Group planned to hold the share of Alibaba for a long term strategy, management designated these financial assets as available-for-sale financial assets.

(b) In August 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Yunfeng Fund RMB II, which mainly invests in express industry, sports industry, healthcare industry and emerging technologies industry.

(c) In September 2016, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Tibet Ruixintong Venture Investment Center LP, which is a limited partnership established for the purpose of operating personal housing trust loan business in the PRC.

(d) In September 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Hangzhou Yuanxin Dongchao Equity Investment LP, which mainly made investments in manufacturing industry in the PRC.

(e) In September 2011, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in CITIC Mezzanine Fund I, which is a limited partnership established for the purpose of making equity and debt investments in enterprises mainly operating business in the PRC.

(f) In February 2016, the Group subscribed for fund units of Herun Piloting Jiashi Investment Preferred Cornerstone Investment Fund, which mainly invested in financial services and high-tech industry entities.

(g) In May 2013, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership in Yunfeng Fund USD II, which invests in listed and unlisted companies, including high-tech industry, financial service industry and manufacturing industry.

(h) In January 2016, the Group entered into subscription agreements with Wing Lung Growth Fund SPC Limited ("Wing Lung Fund"), which advanced loans to a real estate development company in Sichuan in the PRC. Pursuant to the aforementioned subscription agreements, the Group does not have any voting rights in Wing Lung Fund. The Group requested full redemption of its investment in Wing Lung Fund in December 2016, and received the cash in February 2017.

(i) In August 2014, the Group participated in an asset management plan of Tebon Innovation Capital which invests in projects of real estate industry.

(j) In April 2016, the Group subscribed for fund units of Xiaocun Industry Development Private Placement Investment No. 8 Fund, which invested in a listed company of glass manufacturing business in the PRC.

(k) In December 2014, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Beijing Sequoia Investment Management Center, which mainly invests in energy industry.

(l) In May 2016, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Yunfeng Fund RMB III, which mainly invests in healthcare industry and internet industry in the US.

(m) In July 2016, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Elite International Investment Fund VII LP, which mainly invests in Atlanta real estate industry in ths US.

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Year ended 31 December 2016

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Notes: (continued)

(n) In May 2016, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Shenzhen Chishan Evergreen Equity Investment Center LP which invested in a financial service company.

(o) In August 2015, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Vision Knight Capital (China) Fund, which is mainly focusing on investments in internet industry, E-commerce industry, consumer retailing empowered by internet and E-commerce, and B2B services empowered by information technologies and internet technologies sectors in China.

(p) Other equity investments mainly include investments in unlisted investment funds, whose investments are mainly in high-tech industry, finance services industry and manufacturing industry.

18. DEFERRED INCOME TAX

	2016 **RMB'000**	2015 RMB'000
Deferred income tax assets		
— To be recovered after more than 12 months	**35,794**	40,728
— To be recovered within 12 months	**33,543**	32,695
	69,337	73,423
Deferred income tax liabilities		
— To be recovered after more than 12 months	**(118,696)**	(57,166)
— To be recovered within 12 months	**(73)**	(875)
	(118,769)	(58,041)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same tax authority.

The movements in deferred income tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

18. DEFERRED INCOME TAX (CONTINUED)

Deferred income tax assets:

	Provision for sales returns/ sales discount RMB'000	Provision for impairment of inventories RMB'000	Provision for impairment of trade and other receivables RMB'000	Other accrued expenses RMB'000	Total RMB'000
At 1 January 2015	202	18,849	51,531	20,264	90,846
Credited/(charged) to the income statement (Note 10)	5,324	1,783	(10,803)	(13,726)	(17,422)
At 31 December 2015	5,526	20,632	40,728	6,538	73,424
Credited/(charged) to the income statement (Note 10)	373	(1,056)	(4,934)	1,530	(4,087)
At 31 December 2016	**5,899**	**19,576**	**35,794**	**8,068**	**69,337**

Deferred tax liabilities:

	Withholding income tax on profit distribution of PRC subsidiaries RMB'000	Fair value changes of investments in financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	—	21,315	(32,119)	(10,804)
(Charged)/credited to the income statement (Note 10)	(39,103)	—	7,218	(31,885)
Credited to other comprehensive income	—	(15,352)	—	(15,352)
At 31 December 2015	(39,103)	5,963	(24,901)	(58,041)
Credited to the income statement (Note 10)	(42,924)	—	(555)	(43,479)
Credited to other comprehensive income	—	(17,249)	—	(17,249)
At 31 December 2016	**(82,027)**	**(11,286)**	**(25,456)**	**(118,769)**

As at 31 December 2016, deferred income tax assets of RMB36,421,000 (2015: RMB31,951,000) have not been recognised in respect of the tax losses amounting to RMB190,904,000 (2015: RMB178,251,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

18. DEFERRED INCOME TAX (CONTINUED)

According to the New CIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the year ended 31 December 2016, the Group decided to distribute the profit of 2016 of the PRC subsidiaries in the future to foreign investors. Therefore, deferred tax liabilities in respect of those profits of RMB42,924,000 (2015: RMB39,103,000) were recognised.

19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	**363,201**	327,768
Raw materials	**2,609**	12,538
Work in progress	**4,205**	3,623
Low value consumables	**22**	28
Less: provision for inventories	**(114,937)**	(118,148)
	255,100	225,809

The cost of inventories recognised as cost of sales sold amounted to approximately RMB650,617,000 (2015: RMB643,288,000) (Note 6) for the year ended 31 December 2016.

For year ended 31 December 2016, the Group made a reversal of impairment losses of out-season inventories of RMB3,211,000 (2015: provision for impairment losses of out-season inventories of RMB10,609,000).

20. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables		
— Third parties	**255,229**	312,107
— Related parties (Note 35(b))	**96,863**	108,330
	352,092	420,437
Less: provision for impairment	**(108,402)**	(126,248)
Trade receivables, net	**243,690**	294,189

20. TRADE RECEIVABLES (CONTINUED)

The Group's sales are mainly made on credit limits and the Group would deny credit sales to customers if the trade receivables of these customers exceeded their credit limits. The ageing analysis of trade receivables based on goods delivery date as at 31 December 2016 and 2015 was as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	**127,133**	171,458
31 to 120 days	**98,931**	159,043
Over 120 days	**126,028**	89,936
	352,092	420,437

The trade receivables were mainly denominated in RMB and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates.

Movements on the Group's provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**126,248**	183,760
Reversal of impairment losses of receivables	**(5,779)**	(57,870)
Written off impairment losses of receivables	**(12,067)**	—
Exchange difference	**—**	358
At 31 December	**108,402**	126,248

As of 31 December 2016, trade receivables of RMB229,491,000 (2015: RMB271,188,000) were impaired. The amount of the provision was RMB108,402,000 (2015: RMB126,248,000). The individually impaired receivables mainly relate to wholesalers and shopping malls, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	**75,496**	104,574
31 to 120 days	**61,327**	76,199
Over 120 days	**92,668**	90,415
	229,491	271,188

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Current portion:		
Loans receivables (a)	**1,278,773**	613,765
Treasury products issued by commercial banks (b)	**1,002,194**	3,088,149
Amounts due from related parties (Note 35b)	**21,882**	58,651
Advance payments to suppliers	**16,581**	12,719
Interest receivables	**6,018**	2,670
Deposits for operating leases	**3,941**	11,438
Deposits for investment	**—**	80,000
Others (c)	**73,368**	26,102
	2,402,757	3,893,494
Non-current portion:		
Loans receivable (d)	**208,110**	—
Deposits for operating leases	**40,642**	25,498
Amounts due from related parties (Note 35b)	**10,015**	15,938
Others (c)	**60,000**	—
Less: provision for impairment	**(7,515)**	(15,515)
	311,252	25,921

Notes:

(a) As at 31 December 2016, the current loans receivables held by the Group mainly include:

(i) In June 2016, the Group lent USD30,000,000 (equivalent to RMB 201,459,000) to China Yufu Payment Group Co., Ltd. which bears an interest rate of 6.5% per annum with maturity of 12 months.

(ii) In July 2016, the Group lend RMB200,000,000 to an individual person which bears an interest rate of 8% per annum with maturity of 7 months. As at the report date, this loan had been extended for another period of 6 months.

(iii) In August 2016, the Group lent RMB150,000,000 to Yufu Holding Group Co., Ltd. which bears interest rate of 11% per annum with maturity of 12 months.

(iv) In April 2015, the Group lent USD10,000,000 (equivalent to RMB69,370,000) to HomeValue Holding Co., Ltd. which bears an interest rate of 12% per annum with maturity of 12 months. The term of this debt was extended for another one year in April 2016, which bears an interest rate of 10% per annum.

(v) In September 2016, the Group lent RMB280,000,000 to Shanghai Yuhong Co., Ltd. with maturity of 12 months, which is interest-free.

(vi) In October 2015, the Group lent RMB45,000,000 to Mr. Xia Du which bears an interest rate of 8.5% per annum with maturity of 24 months. As at 31 December 2016, the balance was reclassed as current portion of loans receivables.

(vii) In November 2016, the Group lent RMB300,000,000 to Yintai Co., Ltd. which bears an interest rate of 10% per annum with maturity of 12 months.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) The treasury products are unlisted, issued by commercial banks in the PRC, with an expected annual return rate ranging from 1.5% to 5.5% per annum, denominated in RMB and with various maturity periods all within 12 months.

(c) The Group signed a capital withdrawal agreement with Jiashi Investment Management Co., Ltd. ("Jiashi") on 30 December 2016 to withdraw all of the Group's equity investment of RMB100,000,000 in Jiashi. Pursuant to the shareholders' agreement of Jiashi, an amount of RMB40,000,000 (40% of the equity investment) should be paid by Jiashi within one month after the completion of the capital reduction of Jiashi in Industrial and Commercial Bureau ("the registration change date of Jiashi"). The Group will be entitled to an annual interest rate of 10% for the remaining amount of RMB60,000,000 (60% of the equity investment) after the registration change date of Jiashi which is expected to be settled after 12 months. As at 31 December 2016, the RMB40,000,000 was recorded as "Other receivables — current portion" and the RMB60,000,000 was recorded as "Other receivables — non-current portion".

(d) The non-current loans receivables held by the Group include:

In December 2016, the Group lent USD30,000,000 (equivalent to RMB208,110,000) to Kupono Partners LLC which bears interest rate of 7% per annum with maturity of 4 years.

The prepayments, deposits and other receivables were mainly denominated in RMB, USD and JPY. Their carrying amounts approximated their fair values as at the balance sheet dates. The amounts of the provision for other receivables was RMB7,515,000 as at 31 December 2016 (2015: RMB15,515,000).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 **RMB'000**	2015 RMB'000
Non-current portion (a)	**72,138**	219,252
Current portion (b)	**421,438**	257,897

Notes:

(a) The non-current portion of financial assets at fair value through profit or loss includes preferred shares of a company listed on the Main Board of the Hong Kong Stock Exchange.

(b) The current portion of financial assets at fair value through profit or loss mainly includes investments in shares listed on Nasdaq Stock Market (NASDAQ), New York Stock Exchange (NYSE) and the Main Board of the Hong Kong Stock Exchange, and REITS listed on the Main Board of SGX Securities Trading.

23. CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Restricted cash — restricted bank deposits (a)	**397,492**	67,648
Term deposits with initial term over three months and within one year (b)	**106,798**	231,697
Cash and cash equivalents	**1,713,464**	909,865
	2,217,754	1,209,210

Note:

(a) The restricted bank deposits as at 31 December 2016 mainly comprised deposits held in bank accounts for issuing letters of credit for a subsidiary of the Group and deposits held in bank accounts as pledge for the Company's bank loan. For the year ended 31 December 2016, the average interest rate on the restricted bank deposits was 1.10% (2015: 2.08%) per annum.

(b) The interest rates on term deposits with initial term over three months and within one year as at 31 December 2016 are in the range of 0.05% to 2.18% per annum. The deposits earn interests at floating rates based on prevailing market rates.

(c) As at 31 December 2016 and 2015, the cash and bank balances were denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**713,183**	369,015
USD	**1,212,191**	595,726
HKD	**214,831**	193,448
JPY	**63,494**	49,920
Others	**14,055**	1,101
	2,217,754	1,209,210

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

24. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Number of issued ordinary shares at par value HKD$0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of issued ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2015	5,536,401,000	55,365	53,589	1,714,319	1,767,908
Dividends paid (Note 32)	—	—	—	(776,388)	(776,388)
Currency translation difference	—	—	—	2,774	2,774
At 31 December 2015	5,536,401,000	55,365	53,589	940,705	994,294
At 1 January 2016	5,536,401,000	55,365	53,589	940,705	994,294
Dividends paid (Note 32)	—	—	—	(278,555)	(278,555)
Currency translation difference	—	—	—	(3,132)	(3,132)
At 31 December 2016	**5,536,401,000**	**55,365**	**53,589**	**659,018**	**712,607**

No share options had been granted by the Company during the years ended 31 December 2015 and 2016 and there were no outstanding share options granted as at 31 December 2016.

25. RESERVES

	Capital reserve (note a) RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	284,660	6,998	24,149	(629,163)	2,820,404	(71,418)	6,136,530	8,572,160
Profit for the year	—	—	—	—	—	—	802,901	802,901
Disposals-fair value reclassified to income statement (Note 17)	—	—	—	—	(476,955)	—	—	(476,955)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities	—	—	—	—	(564,871)	—	—	(564,871)
Foreign currency translation reserve (Note (b))	—	—	—	198,672	—	—	—	198,672
Dividends relating to the shares held for Restricted share Award Scheme (Note 26(b))	3,329	—	—	—	—	—	—	3,329
Appropriation to statutory reserves (Note (c))	—	—	5,937	—	—	—	(5,937)	—
Shares vested under Restricted Share Award Scheme	(3,288)	1,576	—	—	—	3,288	—	1,576
At 31 December 2015	284,701	8,574	30,086	(430,491)	1,778,578	(68,130)	6,933,494	8,536,812

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25. RESERVES (CONTINUED)

	Capital reserve (note a) RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	**284,701**	**8,574**	**30,086**	**(430,491)**	**1,778,578**	**(68,130)**	**6,933,494**	**8,536,812**
Profit for the year	—	—	—	—	—	—	**870,306**	**870,306**
Disposals-fair value reclassified to income statement (Note 17)	—	—	—	—	**(905,555)**	—	—	**(905,555)**
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities	—	—	—	—	**486,206**	—	—	**486,206**
Foreign currency translation reserve (Note (b))	—	—	—	**243,664**	—	—	**(2,590)**	**241,074**
Dividends relating to the shares held for Restricted share Award Scheme (Note 26(b))	**2,398**	—	—	—	—	—	**(286,786)**	**(284,388)**
Appropriation to statutory reserves (Note (c))	—	—	**15,376**	—	—	—	**(15,376)**	—
Shares vested under Restricted Share Award Scheme	**(1,179)**	**447**	—	—	—	**1,179**	—	**447**
At 31 December 2016	**285,920**	**9,021**	**45,462**	**(185,180)**	**1,453,949**	**(66,951)**	**7,499,048**	**8,944,902**

Notes:

(a) The capital reserve represents mainly the difference between the fair value of shares of the Company issued and the carrying amount of the net assets of the subsidiaries acquired under common control combination upon group reorganisations in the year 2007.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(c) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

26. SHARE BASED COMPENSATION SCHEMES

(a) Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 12 September 2007, the purpose of which is to provide an incentive for employees and persons contributing to the Group. The Share Option Scheme shall be valid and effective for 10 years from the date of listing of the Company. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes of the Group shall not exceed 10% of the number of issued shares of the Company from time to time.

No share options had been granted by the Company during the years ended 31 December 2016 and 2015 and there were no outstanding share options granted as at 31 December 2016 and 2015.

26. SHARE BASED COMPENSATION SCHEMES (CONTINUED)

(b) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.23(c)) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, the China Dongxiang (Group) Co., Ltd. Restricted Share Award Scheme Trust (the "Trust") was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. No further purchase of shares of the Company has been made since December 2010. The total amount of RMB87,138,000 paid to acquire the shares was financed by the Company by way of contributions made to the Trust. As the financial and operational policies of the Trust are governed by the Group and Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted shares are granted to selected participants, the fair value of the restricted shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses in the consolidated statement of comprehensive income of the Group.

During the year ended 31 December 2016, 405,929 shares (2015: 1,132,000 shares) out of the 30,000,000 shares purchased from the open market in 2010 as described above, with the fair value of RMB447,000 (2015: RMB1,576,000), were granted to a member of senior management under the Restricted Share Award Scheme.

27. TRADE PAYABLES

The ageing analysis of trade payables based on goods receipt date as at 31 December 2016 and 2015 was as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	**141,189**	84,046
31 to 120 days	**13,063**	66,119
Over 120 days	**9,267**	7,801
	163,519	157,966

The trade payables are mainly denominated in RMB and JPY. The carrying amounts of trade payables approximated their fair values as at the balance sheet dates.

28. ACCRUALS AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Advance from customers	**50,304**	34,818
Salary and welfare payable	**37,491**	32,766
Other taxes and levies payable	**33,581**	20,625
Accruals and other payables	**99,599**	108,496
	220,975	196,705

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

29. DERIVATIVES

	2016 RMB'000	2015 RMB'000
Derivatives	**118,206**	—

During the year 2016, the Group entered certain investments agreements with an investment bank in which the Group would be required to sell and buy certain selected listed shares on the Main Board of the Hong Kong Stock Exchange and NYSE at a fixed price. Such investments were designated as derivatives and stated at fair value as at 2016 year end.

30. BORROWINGS

	The Group As at 31 December	
	2016 RMB'000	2015 RMB'000
Bank Loans		
— Pledged (a)	**459,368**	454,552
Loans from a company (b)		
— Unsecured and interest free	**291,418**	—
	750,786	454,552

30. BORROWINGS (CONTINUED)

Notes:

(a) In June 2015, the Group borrowed an amount of USD70,000,000 (equivalent to RMB454,553,000) from Morgan Stanley Bank, N.A. at an interest rate of 3 months Libor plus 1.9% per annum with maturity of 12 months. The borrowing was secured by 2,000,000 shares of Alibaba Group Holdings Ltd, as owned by the Group. In June 2016, the borrowing was extended and divided into two separate borrowings. One is a borrowing of USD35,000,000 (equivalent to RMB232,092,000) at an interest rate of 3 months Libor plus 1.9% per annum with maturity of 6 months from June 2016. And the other one is a borrowing of USD35,000,000 (equivalent to RMB232,092,000) at an interest rate of 3 months Libor plus 1.9% per annum with maturity of 12 months from June 2016. Both of the two extended borrowings were fully repaid by the Group during the second half year of 2016.

In May 2016, the Group borrowed an amount of USD43,000,000 (equivalent to RMB298,291,000) from China CITIC Bank International Limited at an interest rate of 1 month Libor plus 1.2% per annum with maturity of 12 months. The borrowing was secured by the Group's bank deposits of RMB320,000,000 in China CITIC Bank Corporation Limited (Note 23).

In January 2016, the Group borrowed an amount of HKD180,000,000 (equivalent to RMB161,077,000) from Wing Lung Bank Limited at an interest rate of 6 months Hibor plus 1.7% per annum with maturity of 42 months. The borrowing was secured by the Group's equity investment in Wing Lung Growth Fund SPC Limited (Note 17(f)). An early investment withdrawal request was made by the Group in December 2016 and the borrowing should be repaid by the Group at the same time as the investment withdrawal date. The Group anticipated the borrowing was repayable within the next twelve months.

(b) In August 2016, the Group borrowed an amount of USD42,009,000 (equivalent to RMB291,418,000) from a third party, Forchn International Co., Limited with maturity of 12 months, interest-free.

31. PROVISIONS

The provision represents amount provided for sales returns and sales discount in Japan segment.

The movements in provisions are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**24,858**	20,598
Utilisation	**(38,181)**	(38,942)
Provision	**33,823**	43,202
At 31 December	**20,500**	24,858

32. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Interim dividend paid of RMB2.59 cent (2015: 1.57 cent) per share	**143,393**	86,921
Interim special dividend paid of RMB2.59 cent (2015: 2.10 cent) per share	**143,393**	116,265
Proposed final dividend of RMB2.13 cent (2015: 2.78 cent) per share	**117,699**	153,949
Proposed final special dividend of RMB2.13 cents (2015: 2.25 cent) per share	**117,699**	124,606
	522,184	481,741

The total dividends paid in 2016 amounted to RMB565,341,000 or RMB10.21 cents per share (2015: RMB776,388,000 or RMB14.02 cents per share), comprising 2015 final and final special dividends of RMB278,555,000 and 2016 interim and interim special dividends of RMB286,786,000, of which RMB2,398,000 (2015: RMB3,329,000) were paid to the shares held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 22 March 2017, the board of directors of the Company proposed a final dividend and final special dividend of RMB2.13 cents and RMB2.13 cents per ordinary share of the Company, amounting to RMB117,699,000 and RMB117,699,000 for the year ended 31 December 2016 from the Company's retained earnings, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 10 May 2017.

The aggregate amounts of the dividends paid during 2016 and 2015 have been disclosed in the consolidated statement of comprehensive income in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

33. CASH GENERATED FROM OPERATIONS

	2016 RMB'000	2015 RMB'000
Profit before income tax for the year	**1,047,825**	1,020,981
Adjustments for:		
— Depreciation of property, plant and equipment (Note 13)	**11,196**	10,097
— Loss on disposal of property, plant and equipment	**307**	383
— Amortisation of lease prepayments (Note 14)	**286**	285
— Amortisation of intangible assets (Note 15)	**12,699**	12,497
— (Reversal of)/provision for impairment losses of inventories (Note 6)	**(3,211)**	10,609
— Reversal of impairment losses of trade and other receivables (Note 6)	**(13,779)**	(42,355)
— Share of profit/loss of joint ventures and associates (Note 12)	**(4,250)**	2,876
— Elimination of unrealized profit (Note 12)	**18,080**	—
— Interest income from bank deposits	**(10,122)**	(10,992)
— Investment income from financial assets (Note 7)	**(115,253)**	(418,964)
— Foreign exchange gains, net (Note 9)	**(38,641)**	(13,082)
— Gain on disposal of investment in available-for-sale financial assets (Note 7)	**(967,588)**	(476,955)
— Change in fair value of financial instruments at fair value through profit or loss (Note 7)	**295,369**	106,355
	232,918	201,735
Changes in working capital:		
— Increase in inventories	**(26,080)**	(29,926)
— Decrease in trade receivables, prepayments, deposits and other receivables	**37,503**	58,131
— Increase in trade payables, provisions, accruals and other payables	**50,618**	144,309
— Increase in restricted bank balances	**—**	(14,554)
Cash generated from operations	**294,959**	359,695

In the consolidated cash flow statement, the proceeds from sales of property, plant and equipment comprise:

	2016 RMB'000	2015 RMB'000
Net book amount (Note 13)	**1,305**	750
Loss on disposal of property, plant and equipment	**(307)**	(383)
Proceeds from disposal of property, plant and equipment	**998**	367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016

34. COMMITMENTS

(a) Operating lease commitments — Group as lessee

The Group leases certain properties for retail stores, office premises, and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
No later than 1 year	**38,227**	28,707
Later than 1 year and no later than 5 years	**30,957**	31,102
Over 5 years	**2,347**	54
	71,531	59,863

(b) Investment commitments

	2016 RMB'000	2015 RMB'000
Contracted but not provided for		
— For investment in Hongtai Fund	**70,000**	70,000
— For investment in Yunfeng Fund USD II	**60,156**	78,600
— For investment in Yunfeng Fund RMB III	**34,000**	—
— For investment in China Momentum Fund	**24,161**	26,824
— For investment in Seas Venture Capital L.P.	**20,811**	25,974
— For investment in CDB Boyu Equity Investment Partnership	**1,172**	—
— For investment in Beijing Sequoia Yard Equity Investment Center	**12,500**	—
— For investment in Vision Knight Capital (China) Fund	**—**	30,000
— For investment in Archina Capital Fund	**—**	6,494
	222,800	237,892

(c) Other commitments

The Group provides sponsorship to certain sports teams, mainly in cash payments. The commitments as at the balance sheet dates were as follows:

	2016 RMB'000	2015 RMB'000
No later than 1 year	**13,879**	7,749
Later than 1 year and no later than 5 years	**16,419**	6,157
	30,298	13,906

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or jointly control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman, Executive director and the Chief Executive Officer of the Company. Therefore, close family members of Mr. Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chen Yihong or his close family members are considered to be related parties of the Company as well.

During the years ended and as at 31 December 2016 and 2015, in addition to those disclosed elsewhere in the financial statements, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	2016 RMB'000	2015 RMB'000
Sales of goods:		
— MSYH Beijing (Note 12(i))	**177,423**	448,139
— MSYH Nanjing	**36,223**	—
— MSYH Tianjin	**26,239**	—
— MSYH Shanxi	**42,994**	—
— MSYH Shenyang	**42,088**	—
— MSYH Zhejiang	**5,799**	—
	330,766	448,139
Purchase of goods:		
— Shanghai Phenix Apparel Co., Ltd.	**21,076**	22,680

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	2016 RMB'000	2015 RMB'000
Trade Payables		
— Shanghai Phenix Apparel Co., Ltd.	**758**	309
Trade receivables (Note 20):		
— MSYH Beijing	**27,235**	108,330
— MSYH Nanjing	**34,901**	—
— MSYH Zhejiang	**5,155**	—
— MSYH Shanxi	**7,352**	—
— MSYH Shenyang	**9,029**	—
— MSYH Tianjin	**13,191**	—
	96,863	108,330
Other receivables (Note 21):		
Current portion		
— MSYH Beijing	**21,882**	58,651
Non-current portion		
— MSYH Shanxi	**4,897**	10,397
— MSYH Zhejiang	**5,118**	5,541
	31,897	74,589

Notes:

(i) Prior to December 2015, the Group held 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited (the "MSYH Group") which owned various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC. Mr. Chen Yihong's brother was one of the directors of the MSYH Group and was regarded as having significant influence over the MSYH Group, therefore the MSYH Group was regarded as a related party of the Group. In December 2015, upon the completion of the reorganisations, the Six MSYH Companies (as defined in (Note 12(b)) became joint ventures of the Group.

(ii) The transactions with related companies are conducted based on mutual agreements.

(iii) The receivable and payable balances with related parties are unsecured, interest free.

(c) Key management compensation

	2016 RMB'000	2015 RMB'000
Salaries, bonus and other benefits	**7,131**	13,519
Pension — defined contribution plans	**175**	265
	7,306	13,784

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**10,239,458**	10,237,882
Fair value through profit or loss	**347,173**	69,252
Amounts due from subsidiaries		
— non-current portion	**1,927,736**	1,876,150
	12,514,367	12,183,284
Current assets		
Trade receivables	**33,116**	45,474
Prepayments, deposits and other receivables	**4,547**	4,340
Amounts due from subsidiaries	**35,715**	163,171
Cash and bank balances	**61,153**	19,726
	134,531	232,711
Total assets	**12,648,898**	12,415,995
EQUITY		
Equity attributable to owners of the Company		
Share capital	**53,589**	53,589
Share premium account	**659,018**	940,705
Reserves (Note (a))	**10,606,165**	10,816,335
Total equity	**11,318,772**	11,810,629
LIABILITIES		
Non-current liabilities		
Borrowings	**—**	—
Current liabilities		
Borrowings	**459,368**	—
Amounts due to subsidiaries	**868,356**	603,692
Accruals and other payables	**2,402**	1,674
Total liabilities	**1,330,126**	605,366
Total equity and liabilities	**12,648,898**	12,415,995

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Balance Sheet of the Company (Continued)

The balance sheet of the Company was approved by the Board of Directors on 22 March 2017 and was signed on the behalf.

Note (a) Reserve movement of the Company

	Capital reserves RMB'000	Share- based compensation reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	10,052,372	1,342	(683,551)	(1,983,814)	7,386,349
Profit for the year	—	—	—	2,757	2,757
Foreign currency translation reserve	—	—	94,789	—	94,789
Reversal of impairment of interests in subsidiaries (Note 4(f))	—	—	—	3,332,440	3,332,440
At 31 December 2015	10,052,372	1,342	(588,762)	1,351,383	10,816,335
At 1 January 2016	**10,052,372**	**1,342**	**(588,762)**	**1,351,383**	**10,816,335**
Loss for the year	**—**	**—**	**—**	**(11,519)**	**(11,519)**
Foreign currency translation reserve	**—**	**—**	**85,891**	**—**	**85,891**
Dividend paid	**—**	**—**	**—**	**(289,375)**	**(289,375)**
Fair value change on available-for-sale financial assets	**4,833**	**—**	**—**	**—**	**4,833**
At 31 December 2016	**10,057,205**	**1,342**	**(502,871)**	**1,050,489**	**10,606,165**

37. BENEFIT AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each director of the Company is set out below:

For the Year ended 31 December 2016:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2016						
Mr. Chen Yihong (i)	**194**	**1,767**	**236**	**58**	**47**	**2,302**
Ms. Chen Chen (ii)	**194**	**1,465**	**196**	**58**	**47**	**1,960**
Mr. Xiang Bing	**220**	**—**	**—**	**—**	**—**	**220**
Mr. Xu Yudi	**128**	**—**	**—**	**—**	**—**	**128**
Mr. Gao Yu	**220**	**—**	**—**	**—**	**—**	**220**
Mr. Chen Guogang	**92**	**—**	**—**	**—**	**—**	**92**
	1,048	**3,232**	**432**	**116**	**94**	**4,922**

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2015						
Mr. Chen Yihong (i)	143	1,765	236	53	44	2,241
Ms. Chen Chen (ii)	143	1,454	196	53	44	1,890
Mr. Xu Yudi	163	—	—	—	—	163
Mr. Gao Yu	163	—	—	—	—	163
Mr. Xiang Bing	163	—	—	—	—	163
	775	3,219	432	106	88	4,620

Notes:

(i) Mr. Chen Yihong is also the chief executive of the Group.

(ii) Mr. Qin Dazhong has resigned as chief operating officer, executive director and a member of the executive committee of the Company with effect from 4 December 2014. On the same date, Ms. Chen Chen was appointed as executive director and a member of the executive committee of the Company.

(iii) No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

37. BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

No retirement benefits were paid in 2016 to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: Nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2015: Nil).

(d) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2015: Nil).

(e) There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2015: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

38. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution passed on 22 March 2017, the board of directors of the Company proposed a final dividend and final special dividend of RMB2.13 cents and RMB2.13 cents per ordinary share of the Company, amounting to RMB117,699,000 and RMB117,699,000 for the year ended 31 December 2016 from the Company's retained earnings, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 10 May 2017.

39. COMPARATIVE FIGURES

Certain comparative figures have been restated to be consistent with current year's presentation and classification.

China Dongxiang (Group) Co., Ltd. 中國動向（集團）有限公司

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