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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)

2017 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of China Dongxiang (Group) Co., Ltd. (the “Company”) is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2017. This announcement, containing the full text of the 2017 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company’s 2017 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.dxsport.com.

DONGXIANG

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
2017



DDONG GIGI KAVI NGI

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VISION & MISSION

Seul '88.

ATLETICA / La velocista Usa è la più bella immagine di u

Ridi, Florence, ridi

La Griffith vince i 100 metri col sorriso sulle labbra



Una pagina firmata Kappa.

Partecipare ai Giochi di Seul è stato splendido, vincere è stato un gioco. Almeno per Kappa. Kappa, sponsor della nazionale U.S.A. di atletica leggera, ringrazia Florence Griffith, Carl Lewis, Jackie Joyner Kersee, Joe DeLoach e tutti gli atleti statunitensi che hanno portato alla vittoria il marchio Kappa. E dopo Seul '88, la storia continua a Barcellona '92.



Kappa

Kappa. Sponsor ufficiale della nazionale USA di atletica leggera.

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**



CORPORATE INFORMATION

Executive Directors

Mr. Chen Yihong (Chairman)
Mr. Zhang Zhiyong (Chief Executive Officer)
(appointed and effective from 10 October 2017)
Ms. Chen Chen

Independent Non-Executive Directors

Dr. Chen Guogang
Mr. Chen Johnny
(appointed and effective from 5 July 2017)
Mr. Gao Yu
Dr. Xiang Bing (resigned and effective from 5 July 2017)

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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road,
P.O. Box 1586,
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

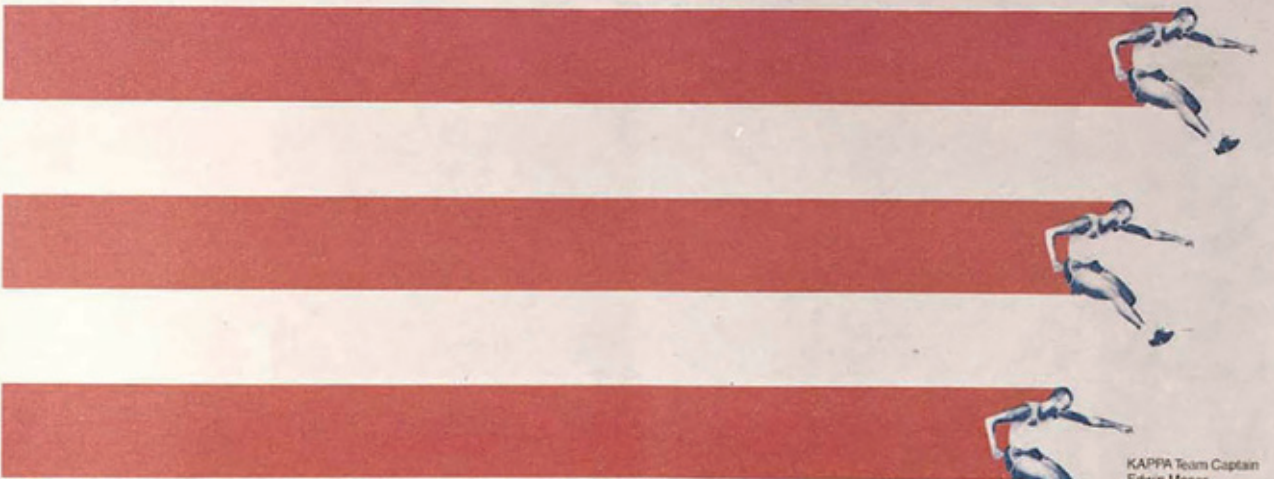
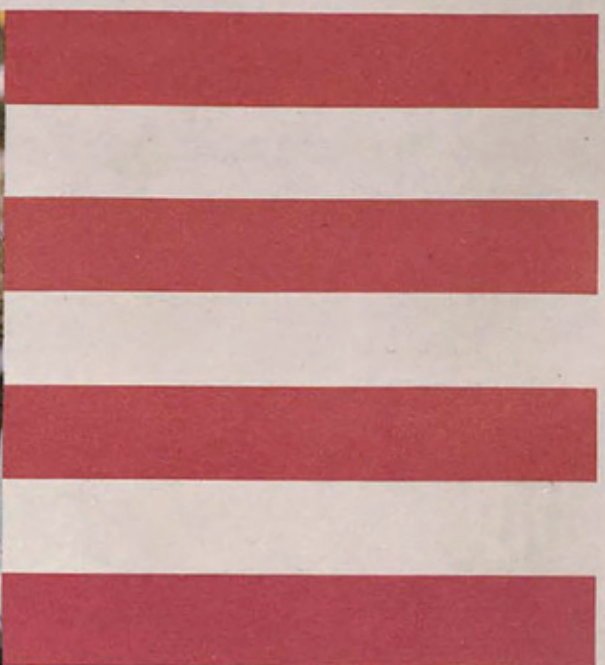
Principal Bankers

Morgan Stanley Asia International Limited
Industrial and Commercial Bank of China
China CITIC Bank

Website

www.dxsport.com

Kappa is coming.



KAPPA is the world class line of sportswear. The choice of world class athletes like Edwin Moses, and the United States Track and Field Team.

The choice of world class events like the World Cup, the New York City Marathon, and the 1984 and 1988 Summer Games.

KAPPA marketing is world class, too. Our sponsorship of the U.S. National Track and

Field Team is the biggest in the history of amateur sports.

KAPPA gives the high style and high performance world class competitors demand. In Leningrad... Zurich... Rome... and now in the U.S.A.

KAPPA. World Class.

KAPPA Team Captain Edwin Moses.



**An Official Sponsor
U.S. National Track
and Field Team.**

KAPPA

FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

	Note	Year ended 31 December				
		2017	2016	2015	2014	2013
Sales		1,353	1,501	1,469	1,262	1,414
Operating profit		1,027	1,016	1,005	989	225
Profit before income tax		930	1,048	1,021	975	275
Profit attributable to equity holders		805	870	803	915	210
Non-current assets		6,288	5,415	4,701	5,378	3,747
Current assets		4,611	5,730	5,880	5,931	5,221
Current liabilities		862	1,352	974	939	311
Net current assets		3,749	4,378	4,906	4,992	4,910
Total assets		10,899	11,145	10,581	11,309	8,968
Total assets less current liabilities		10,037	9,793	9,607	10,370	8,657
Equity holders' equity		9,585	9,658	9,531	10,340	8,609
Gross profit margin (%)		56.2	56.7	56.2	50.7	48.2
Net profit margin (%)		59.5	58.0	54.7	72.5	14.9
Earnings per share						
— basic (RMB cents)		14.51	15.79	14.56	16.61	3.82
— diluted (RMB cents)		14.51	15.79	14.56	16.61	3.82
Total assets per share (RMB cents)	1	196.55	202.15	191.94	205.21	162.80
Debt to equity holders' equity ratio	2	0.14	0.15	0.11	0.09	0.04

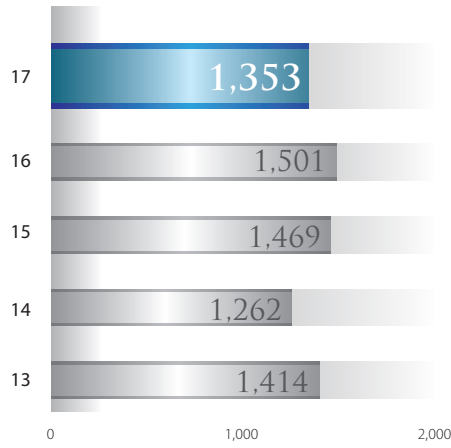
Notes:

- (1) The number of ordinary shares used in the calculation for the year ended 31 December 2017, 2016, 2015, 2014 and 2013, are 5,545,204,000 shares, 5,513,180,000 shares, 5,512,580,000 shares, 5,511,030,000 shares and 5,508,643,000 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.

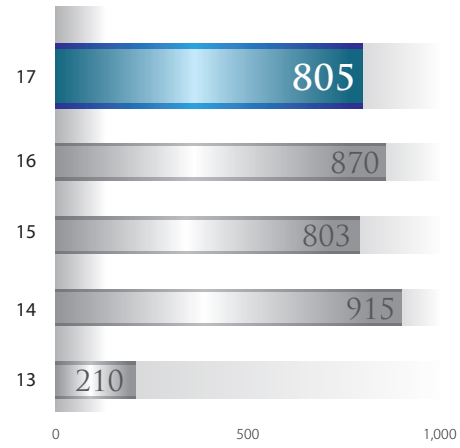
FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

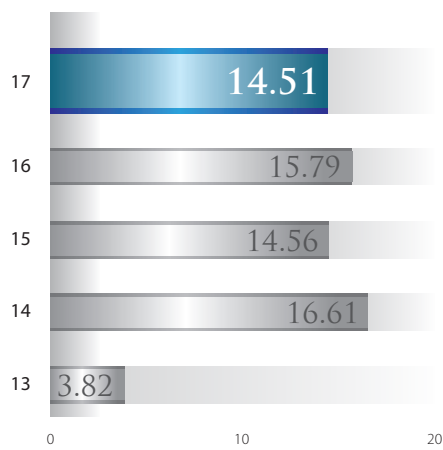
SALES



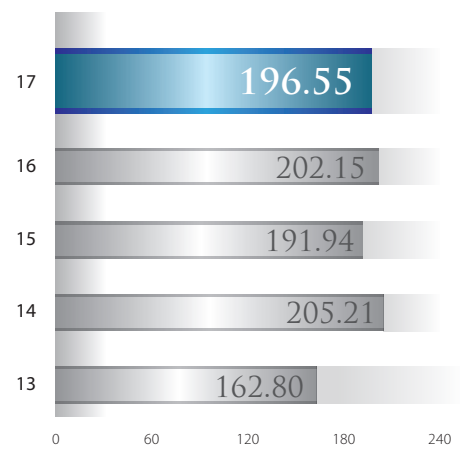
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



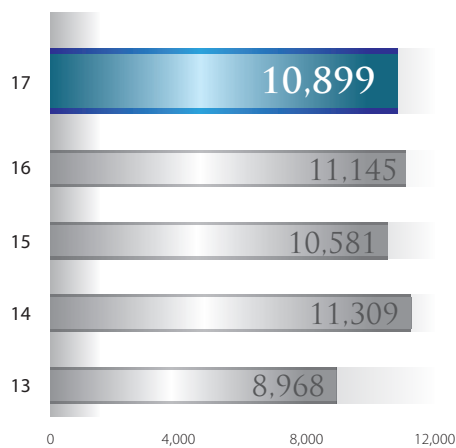
EARNINGS PER SHARE — BASIC (RMB CENTS)



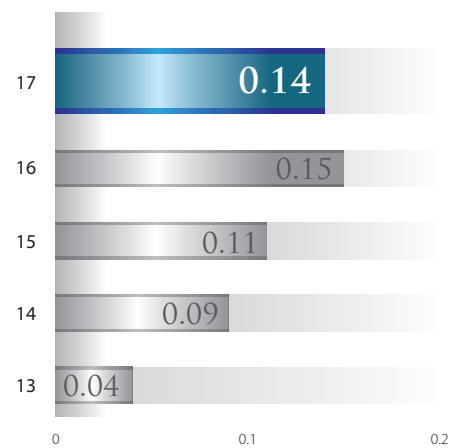
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)





 **Kappa**



CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present on behalf of the Board our annual results for the year ended 31 December 2017, as we welcome the blooming spring after a bleak winter season in 2017 deeply felt across the nation.

The global economy generally registered a positive turnaround in 2017, as China reported RMB36,630 billion in total retail sales of consumer goods. Assisted and driven by national policies and benefiting from a broad social context dominated by stronger health awareness, the development of China's sporting industry was notably characterised by "fast growth" and "enormous potential". As much as providing new opportunities, novel concepts such as spending upgrades and digital marketing have also presented the industry with unprecedented challenges and escalating competition. We have had mixed fortunes tackling these challenges.

The Group's revenue for the reporting period decreased by 9.9%, year-on-year, to RMB1,353 million, while operating profit increased by 1.1% to RMB1,027 million as compared to the previous year. For the reporting period, profit attributable to equity holders decreased by 7.5% to RMB805 million. Basic earnings per share conceded by 8.1%, year-on-year, to RMB14.51 cents. Nevertheless, the Company has maintained sound cash condition and, as a reward to shareholders for their unfailing support, the Board of Directors has proposed to distribute 30% and 40% of the net profit attributable to equity holders for the year ended 31 December 2017 as final dividend and special final dividend, respectively, together with the additional special interim dividend, representing a dividend payout ratio of 189% for the full year.

Year 2017 marked the tenth anniversary of China Dongxiang's IPO and listing. Given rapid changes that were at times hard to tackle, we were convinced that new reforms were inevitable. Hence, China Dongxiang implemented the following important measures in 2017.

In connection with our "Brand + Product" initiative, we are convinced that products remain the best marketing signature of a company, while product innovation is the driving force behind its sustainable development, as well as a crucial factor that makes sure it stands out amidst intense market competition. In view of the above, Kappa experimented with cross-boundary cooperation with artists from various sectors such as entertainment, music and other art forms in 2017, strengthening the products with classic side-strip logo which is our brand attributes. In the meantime, we continued to conduct 360-degree brand marketing through a combination of online and offline activities, through product innovation and a whole range of comprehensive, multi-dimensional marketing, Kappa's brand image of being "passionate, rebellious and outgoing" has been imparted to the minds of consumers in general.

The "Brand + Retail" concept continued to be implemented on all fronts. In view of adverse market conditions, the Group started to carry out a range of robust and effective measures, including the closure of underperforming stores, optimisation of existing store locations and enhancement of overall store image, etc. At the same time, with a view to further consolidating its control over end-sales, the Group decided to acquire Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. (天津邁盛悅合體育用品有限公司). As at the end of December 2017, the Group had a total of 1,487 Kappa stores (including 350 Kappa Kids stores), representing a net decrease of 76 stores (comprising net decrease of 164 Kappa stores and net increase of 88 Kappa Kids stores) compared to that as at the end of last year. These included 515 self-owned and distributorship retail stores under the Kappa brand operated by subsidiary retail companies.

In tandem with the changing profile of domestic retail spending underpinned by a greater emphasis on variety, quality and personal style, a similar trend of upgrading was also emerging in online retail spending. As an important business segment of the Group, the E-commerce segment has been actively exploring new methods to further penetrate the domestic e-commerce market. In this connection, Kappa continued to report spectacular performance in the Single's Day Shopping Festival hosted by Tmall in 2017 in the ninth year of its participation, reporting year-on-year growth of 30% in November 11th online sales (including kids' wear).

The take-over of the kids' wear business by the Group had been completed for almost 2 years, and the kids' wear business maintained stable growth in 2017. In the meantime, the kids' wear business made vigorous efforts to launch a range of marketing activities, such the "China Football Stars Junior" (中國足球小將) football tournament sponsored by Kappa, which enjoyed enormous exposure online underpinned by 1.1 billion clicks on Weibo, in an extremely powerful promotion exercise for the brand. For the year ended 31 December 2017, revenue from the kids' wear business amounted to RMB114 million, accounting for 11.0% of revenue for the China segment and representing offline and online rolling year-on-year growth of 59% and 43%, respectively.

CHAIRMAN'S STATEMENT

There were little improvements in the full-year results of our Japan business following a rather substantial decline for the first six months of the year, as the Group carried on with its reform of the Japan operations. Meanwhile, it is specifically indicated in the "Winter Sports Development Planning (2016-2025)" jointly published by 4 government departments, including the General Administration of Sport of China, that the China's Winter sports industry will worth RMB600 billion in aggregate by 2020, and the development of the industry is expected to drive "300 million people taking part in Winter sports" by 2025. China Dongxiang will seize this opportunity to profit from the white gold of the Winter Olympics economy by launching Phenix in China's Winter sports market. With incessant efforts, we believe that our Japan business will regain its vigour in no time.

With a view to expediting reform and innovation in tandem with market changes throughout the entire value chain of the sporting industry in 2017, China Dongxiang welcomed on board Mr. Zhang Zhiyong, as a new member of the company leadership. Having spent more than 20 years in the industry, Mr. Zhang is bringing with him profound understanding and hands-on experience in the changes of China's consumer market, brand-building in sports, sports and digitalisation and reform management at Chinese companies. In addition, for the purposes of accommodating the needs for implementing the strategy of the Group's business development, achieving strategic goals of our principal business and accelerating internationalization of the Group, we have promptly optimised and reformed the organisational structure of the Group, attracted top talent in different areas and finely adjusted the systems of sales, marketing and operation management, progressively establishing a streamlined and highly-effective organisational structure with an aim to enhance the overall operational efficiency of the Group. Meanwhile, on the back of 15 years' corporate history, we have a profound understanding that the long-term development of a business always comes down to its people. To give the Dongxiang people a stronger sense of ownership, the Group has granted share options to selected employees to encourage these outstanding individuals to commit their future to the Company for the benefit of both. We believe the measures mentioned above will lead China Dongxiang to embark on new ventures in its business achievement.

Over the past few years, investment business has been one of the key growth drivers of the Group, effectively making progress in implementing the "dual-engine" business model of the Group. In recent years, financial investment, as part of our principal business, has constituted impressive achievement, since the Group has effectively developed investment business by cautiously controlling risks on the principle of "profit orientation, cooperation with trusted partners and focus on worthwhile projects". In 2017, the investment business maintained solid with gains on investment of RMB942 million recorded in the reporting period, representing a growth of 19.7%. In 2017, the price of the shares of Alibaba directly held by the Group soared, and the projects of, among others, Ant Financial and JD Finance indirectly held by the Group have significant appreciation potential as expressed by positive market information. The investment in these projects has and will continue to generate satisfactory return to the Group. On the back of prudent investment strategies and our high-calibre investment partners, we believe that our investment business will continue to generate stable and lasting rewards for shareholders.

Finally, I wish to take this opportunity to thank our distributors, partnerships, employees and shareholders for their longstanding support of the Group. In the words of Percy Bysshe Shelley, let us "fear not for the future, weep not for the past". We have geared up for the future and, together, we will welcome a better tomorrow.



Chen Yihong
Chairman

21 March 2018



BRAND PORTFOLIO

DONGXIANG

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.
THE GROUP COMPLETED THE ACQUISITION OF PHENIX IN 2008.

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.

BRAND PORTFOLIO

The Kappa logo features a stylized red and white 'A' symbol followed by the word 'Kappa' in a bold, red, sans-serif font with a white outline.

- 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

The Kappa Kids logo features the stylized 'A' symbol followed by the words 'Kappa Kids' in a bold, red, sans-serif font with a white outline.

- GENETIC INHERITANCE OF KAPPA BRAND
- A KID'S SPORTSWEAR BRAND WITH FASHION ATTRIBUTES

The phenix logo is written in a bold, black, lowercase, sans-serif font with a slight italicized feel.

- 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

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO-ECONOMIC REVIEW

As the impact of the global financial crisis faded, the global economy picked up well with a 3% growth in 2017, delivering the fastest growth since 2011. The developed economies, in general, showed steady recovery on solid growth path. The labour market indicators continued to improve, East Asia and South Asia became the most dynamic economies in the world. Japan extended its economic growth and recovery at a slow pace with a growth in import and a drop in unemployment rate. In spite of the improved near-term outlook, risks to the global economy remain, such as changes in trade policy, deterioration of global financial conditions and geopolitical tensions.

With strong global demand for the goods imported from China as well as the progress achieved in the comprehensively deepening reforms of China throughout 2017, the growth in gross domestic product (the "GDP") of China reached 6.9%. China's economy maintained steady and positive progress throughout the year, and entered into a phase of quality development from a phase of fast growth, achieving economic improvement in terms of quality and efficiency. Looking forward, China's economic growth is expected to stay steady as a result of strong domestic demand and loose macroeconomic policies.

INDUSTRY REVIEW

China recorded total retail sales of consumer goods of RMB36,630 billion for 2017, representing year-on-year growth of 10.2%. The general sentiments in the apparel industry were improving, as the fashion sector reported increasing market shares in resurgent growth. Economic and social developments in China have propelled the nation's sporting industry into a phase of rapid growth, as the domestic sports market embraced a new stage of development with the sporting industry trending positively in general.

China's sporting industry continued to report growth in value-added industrial output for 2017, suggesting enormous potential for growth. According to the State Council document entitled "Certain Opinion on Expediting the Development of the Sporting Industry and Driving Retail Spending on Sports", the total worth of the sporting industry is expected to reach RMB5 trillion by 2025. The sporting industry will become increasingly market-oriented, while the sporting service sector is expected to embrace rapid growth. Meanwhile, the "Report on the Launch of Winter Olympics in China" suggests that a successful Winter Olympics will usher in unprecedented development opportunities for the nation's Winter sports industry. By 2022 when the Winter Olympics is held, China is expected to have 45 million skiers by turnout. The government has announced policies to protect the development of the Winter sports industry to encourage universal involvement in and arouse people's enthusiasm for sporting activities. Gifted with an important opportunity for thriving development, the sporting industry is likely to welcome a prime period of growth sooner rather than later.

Elsewhere, the sporting industry will also embrace opportunities arising from new business models enabled by developments in retail, sporting and Internet technologies, following radical changes in China's retail spending market. Given the kind of technological advances in Big Data and artificial intelligence, the possibility of identifying consumers' demand and providing services in responses thereto with a high level of precision has become more realistic than ever. At the moment, China's sporting industry is full of opportunities as well as challenges, and the nation's sporting market will soon embrace a new phase in which it will be genuinely driven by the macro sporting value chain.

BUSINESS REVIEW

In 2017, the Group continued to adjust the rhythm of our business development, improve sales channel, implement online-and-offline brand promotion strategies, conduct cross-border cooperation with well-known designers and IP as well as enhance brand image. In addition, the investment business maintained stable development, while the retail network stayed solid and healthy development.



1-3. Kappa sponsors "A Seven Faced Man" (柒個我), one of the most watched web series

6. First launch of special edition of A.FOUR at Taikoo Li

4, 5. Bambi Zhu and Sierra Li, well-known artists, participate store promotion activity

7. Co-brand collection displayed at GR8 in Tokyo, Japan



1, 2. Preview exhibition of BANDA series

4. Kappa participates into "The Crazy Wardrobe", a well-known variety show

3. BANDA series products POP featured in "MILK" magazine

5. Kappa participates the Tmall Single's Day Shopping Festival with singer-songwriter Wu Mochou

6. Kappa participates the fifth YOHOOD Global Fashion Carnival

MANAGEMENT DISCUSSION AND ANALYSIS

Brand Building and Marketing

PRC — Kappa brand

In 2017, in addition to a series of online and offline brand marketing campaigns, Kappa conducted cross-border cooperations with a number of top artists and key opinion leaders from different scopes, such as entertainment, music and arts, in order to combine our brand culture with pop arts and culture, enhancing the perception and awareness of Kappa brand among consumers.

Being “passionate, rebellious and outgoing” has always been the core spirit of our brand. In August 2017, the upgraded Omini series with side strip logo was officially launched at over 20 stores throughout the country, attracting a crowd to each of the stores. A preview exhibition of the new products was simultaneously held in Beijing and Chengdu, calling all fashionistas to such event and offering them the most vividly perceptual experience of fashion by the vintage side-strip series. In addition, Kappa has participated into “The Crazy Wardrobe”, a variety show jointly broadcasted by Jiangsu Satellite TV and Youku streaming video, appreciation and attention have been gained by the rise of retro fashion led by the side-strip series.

As Kappa’s slogan #PEOPLE ON THE MOVE# says, Kappa never stops moving forward by innovation, upgrading and reform. In July 2017, the brand new series of A.FOUR LABS meets POSH ISOLATION for KAPPA was launched at a party held at GR8, a famous fashion house in Tokyo, Japan, showcasing the details and visual portrayal of every products under the collaboration, and thus exerting a stunning cross-boundary impact through the quadruple collaboration of arts, music, sports and fashion. For the fall/winter 2017 series, KAPPA x A.FOUR LABS made a splash in the fashion world after its premiere in Paris and the official launch in Tokyo, attracting HIGHSNOBIETY, a well-known fashion website in Germany, to participate into the collaboration and creating a special edition of the series. On Christmas Eve 2017, a launch party for A.FOUR LABS meets POSH ISOLATION for KAPPA by HIGHSNOBIETY SPECIAL EDITION was held at Taikoo Li, Sanlitun, Beijing, attracting huge media coverage and the attention of fashionistas.

Besides, the fifth YOHOOD Global Fashion Carnival took place at the Shanghai World Expo Exhibition in September 2017, Kappa certainly participated into such well-known fashion event in China. All the items in the collaboration series were showcased at the YOHOOD exhibition hall, where visitors may scrutinise every details of each items from fabric to design. In addition, Kappa set up an enjoyable interactive song picking zone for showing the spirits of the collaboration series in visual-audio dimensions.

In 2017, online marketing campaigns were already in full swing. With the growth of online shopping, Wu Mochou (吳莫愁), a singer-songwriter of a new generation, was invited to interpret the most fashionable retro style in the Tmall Single’s Day Shopping Festival. Meanwhile, Kappa has sponsored “A Seven Faced Man” (柒個我), one of the most watched web series, getting enormous attention on social media platforms, such as Weibo, with over 3,000 million views and 820 million page views.

In 2017, we continued to steadily expand our marketing efforts on kid’s wear business and achieved satisfactory results. In the second half of 2017, our promotion events for kids were held in festival seasons and important dates for kids, such as “Best Gifts for the First Day of School” in September, “Gift-giving for National Day and Mid-Autumn Festival” and “New Year Gift Box” in December, with an aim to conduct a larger scale of promotion campaigns. In addition to the promotion campaigns for maximising sales, Kappa sponsored BTV Juvenile Dance Group to participate into the “International Grassland Dance Carnival in Ordos City” and “China Street Dance League — Beijing Division”. In addition, Kappa sponsored the “100 Supermodel Mums and the Next Generation Pageant”, in which the kids had a chance to follow in their mothers’ catwalk footsteps. In August 2017, Kappa commenced the collaboration with “Chinese Young Football Players” so as to



1-3. Kappa Kids sponsors BTV Juvenile Dance Group to participate into the "China Street Dance League — Beijing Division".

6. Kappa sponsors the "100 Supermodel Mums and the Next Generation Pageant"

4, 5. Kappa sponsors the "China Football Stars Junior"

7. BTV Juvenile Dance Group participates into the "International Grassland Dance Carnival in Ordos City"

MANAGEMENT DISCUSSION AND ANALYSIS

infuse our brand culture in young football players as our first step into football apparel for youth. The event gained huge online exposure with over 160 million weibo page views in four days for only one of the activities held in Shanghai and over 1.1 billion clicks on weibo #Chinese Young Football Players#, producing significant effect on our brand promotion.

Japan — Kappa brand

In 2017, Kappa Japan launched a series of effective brand promotion activities by following latest marketing trend in Japan, resulting in stronger brand connotation and more profound perceptions and understanding of the Kappa brand on the part of consumers.

To further expand the influence of the Kappa brand on consumers' behaviour and enhance brand exposure, the promotion efforts on the Kappa brand by the Group have been put through diversified channels. For Kappa Football teamwear, the in-store visual marketing has always been emphasised with distribution of nicely printed lookbooks and hanging of product posters to draw consumers' attention. In the second half of 2017, the Group organised the "Kappa Thanks Match" in Sappore, Hokkaido, the home of Hokkaido Consadole Sappore whom the Group has a sponsorship deal with. The "Kappa Thanks Match" attracted over 30,000 football fans, enhancing the interaction between the brand and consumers as well as further instilling brand preference in consumers.

In respect to Kappa Golf, the Group has conducted multimedia promotions, in addition to the in-store "buy one get one free" promotion, to get maximum exposure in well-known magazines and on social networking platform. In the second half of 2017, product placement of Kappa Golf was presented in a number of TV programmes in Japan. Meanwhile, the Group participated into the "YAMAHA Fans Summit" organised by YAMAHA Corporation by way of product sponsorship, creating a higher level of brand awareness as a result.

Japan — PHENIX brand

In 2017, PHENIX SKI kept targeting on skiers aged 20 to 40 by spotting the interest and demand of the age group of skiers and highlighting the connotation of PHENIX brand, namely "high quality and functional excellence", in order to enhance the brand value. In 2017, the Group unceasingly worked with "SNOW JAPAN" and "PHENIX Team", the well-known skiing websites, providing teamwear to ski racers with an aim to achieve brand promotion and obtain maximum media exposure of PHENIX through media coverage of major skiing events, while conveying the message of "enhancement of brand value" to the core consumers and making a statement to consumers that "PHENIX is the sportswear brand for elite athletes". As the Group always focuses on the brand performance with media, it has kept updating the content of the official website, placed advertisements on social networking platforms and maximised TV coverage for its sponsored athletes with the brand LOGO shown. The adoption of multi-dimensional media exposure, such as magazines, internet and television, has further enhanced the brand awareness of PHENIX.

In 2017, PHENIX OUTDOOR created its new brand connotations of "preferred by the world's top athletes" and "classy but trendy charm" on the promotional foundation of "high quality and functional excellence" by launching a brand new promotional theme of "DAILY MOUNTAIN ACTIVE STYLE", achieving a higher level of brand awareness among consumers. For Fall/Winter 2017, the Group has put a stronger emphasis on media exposure of the brand by further cooperating and interacting with fashion media so as to increase marketing exposure for the products. In addition to printed promotional materials, multi-channel marketing has been employed, such as social media networking, e-commerce websites and in-store posters as well as advertising placements in magazines, on the internet and the television, for customers to know more about the brand and the products, thus enhancing the brand awareness.



MANAGEMENT DISCUSSION AND ANALYSIS

Product Design and Research and Development

Apparel Series

BANDA Series

BANDA series, whether in retro or chic style, has always been eye-catching and appealing with the unique iconic design. By adopting the brand attitude of spirit of innovation with additional fashionable elements infused, BANDA series 2017 represents a vintage-inspired modernness. Cut with an oversized silhouette with stand-up collar, zip-front closure and an adjustable drawstring, BANDA series' track jacket reshapes the classic Omini style in design with depth sensation of retro vibes, creating a charming effect in sportswear and making Kappa BANDA in vogue as urban streetwear in this fall and winter.

WMNS Women's Series

In 2017, the influence of sportswear in fashion by WMNS women's series was on fire, the pure dreamy pink liberates romance and passion. WMNS women's new stylish and comfortable series are extraordinary in terms of use of colours and cutting details. The response of nebulae in elegant purple to unpredictable changes ignites a lumiere show in outer space, combining the spirits of passionate, rebellious and outgoing in prospective urban neon with sports fashion for women, and perfectly epitomising the concepts of elegance and freedom in Kappa's sportswear for women. Every move the girls in WMNS make has a unique modern attitude, turning them into the Star Girls who push limits of power and speed in the outer space, and leading a trend of urban streetwear.

KOMBAT Series

In the life cycle of a fashion trend, constructing a perfect equilateral triangle composed of stylishness, visual aesthetics and practicality are the key values of KOMBAT series. The design of Kappa KOMBAT Fall/Winter 2017 series is inspired by "space exploration", putting the outer space ideas in fashion and embarking on an exploration journey #from the earth to the space#. In addition, a heat retention technology developed by our Japan team has been employed for the down jacket series, striking a perfect balance between design aesthetics and practicality. The down jacket series was injected with cool and chic style, offering street-style movement of freedom and lightness without heat loss.

A.FOUR LABS meets POSH ISOLATION for KAPPA X HIGHSNOBIETY Series

The brand new A.FOUR LABS meets POSH ISOLATION for KAPPA X HIGHSNOBIETY series is the four-way collaboration with the design of Kazuki Kuraishi, the sportswear elements of Kappa, the music of POSH ISOLATION and the dashing lifestyle of HIGHSNOBIETY. Inspired by close encounters and a shared passion for sports, music, art and fashion, the collaboration surprisingly unveils a new and unique quality. The design in unique subdued navy blue with HIGHSNOBIETY logo by the strong quadruple collaboration remains subversive, the spirits of rebellious, passionate and outgoing have been deeply rooted for celebrating the youth and the street culture, bringing warmth to the cold weather this winter.



C2H4 X Kappa UNDECAYABLE Series

C2H4 X Kappa UNDECAYABLE series is a collaboration between C2H4, an original streetwear brand founded by Chen Yixi, a Chinese American designer and Kappa, a century-old sportswear brand. Titled "UNDECAYABLE" exhibited at the New York Fashion Week, the collaboration is built around the resilient and ethos of both C2H4 and Kappa. Inspired by preservatives with a marketing slogan of "Staying young through exercise", the series is defined by 222BANDA side stripe logo with rich details in a bright teal and white colourway. The series lookbook featuring Luka Sabbat, a young male model on the rise, includes an array of track jackets, tees and hoodies.

MANAGEMENT DISCUSSION AND ANALYSIS

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, including sexy, sporty, regular fit and comfort types, based on extensive research and analysis of the leg features, hip measurements and length of pants of Asians. The Kombat pants are well suited to sporting purposes while providing a ready match for any casual wear. With the findings of a thorough study on the users, trials and researches on fabric development and application for pants series have been conducted with the aim of enhancing functionality and value of the product, providing optimal comfort for consumers whilst increasing practicality of the product. Designed to offer maximum fitting qualities, Kappa pants series have met the needs of all groups.



Shoes Series

Year 2017 was a challenging one for Kappa shoes, as it was a year of transformation and realignment for our footwear products. In view of fast-changing new trends in the sports shoes market, Kappa footwear was compelled to make swift adjustments to rise to the challenges of increasing competition in the market. In terms of the strategy for product categories, we have adjusted our product mix to cater to current market requirements. In terms of design and style, we have made substantial, innovative changes: a new comfortable material has been adopted for shoe sole to further enhance comfort and abrasion resistance. Modern shoe-making technologies, such as integrated knit and vacuum forming, have been also employed for shoe upper to enhance the fashionable elements of the products while showcasing fresh endeavours to introduce more varieties. Meanwhile, brand new designs in cosmopolitan style have been launched by introducing a unique European shoe last on the back of international resources. For the summer collection, we have stepped up with our efforts on the development of lightweight breathable shoes, which have been met with positive market response. In 2018, Kappa will continue to offer more valuable and market-competitive footwear products to consumers.

Accessories Series

Kappa's interpretation of the spirit of being passionate, rebellious and outgoing, as well as its constant innovations and upgrades in craftsmanship and technologies, have also been vigorously reflected in its accessories. The accessories have played an important role in matching in the series launched in collaboration with Kazuki Kuraishi in 2017. The waterproof rucksack marketed in 2017 has been a cue to encourage healthy work-life balance by getting people to do more exercise. Fashion-forward ways to wear the baseball cap and stylish small backpack designed exclusively for girls have also enjoyed immense popularity. Meanwhile, the upgraded versions of our classical bags and caps, turning elementary products into popular items of fashion, have been trending strongly among young shoppers. In addition, the 100% cotton socks with unique odor-free features afford additional comfort as daily wear. In 2017, efforts have been made to bring our accessories into greater visual accord with our apparel and footwear series, in order to provide consumers with more matching options in overall styling.

MANAGEMENT DISCUSSION AND ANALYSIS

Omni-channel retail network

During the period under review, the Group continued to optimize its retail network and enhance store efficiency while assessing and making necessary adjustments to its store network under its brand-oriented business model. As at 31 December 2017, the Group had a total of 1,487 Kappa retail stores(including 350 Kappa Kids stores), representing a net decrease of 76 stores (net decrease of 164 Kappa stores and net increase of 88 Kappa Kids stores) as compared to the end of last year. A total of 515 retail stores were directly or indirectly operated by our subsidiaries. In 2017, the sales network remained a full coverage of all major provincial capitals and other major large cities and towns in China.

In 2017, stable development has been achieved in our e-commerce operations by actively participating into promotion events organised by well-known e-commerce platforms to attract new customers, resulting in a better sales performance.

Increasing the contributions of Group projects

In 2017, the Group commenced the transformation and adjustments of its principal business operations in such favourable macro-economic climate, and the dual-engine business model dominated by sportswear and complemented by investment projects was well established. 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 focused on safeguarding the security of funds and ensuring reasonable returns as the standard of the development of our investment business. 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

Though risks and uncertainties persisted, the global economy saw gradual recovery and the sporting industry was trending upwards in general in 2017. As the largest component of the sports market, the sporting gear segment is undergoing structural changes. On the back of its unique brand ethos, diverse development strategies and mature and prudent investment business, China Dongxiang has been able to sustain sound shareholders' return amid challenges as well as opportunities.

Looking to 2018, technical progress and digitalisation will continue to have their impact felt in the process of commercialisation, promising profound impact on channeling, marketing, product and pricing. China Dongxiang will embrace changes and challenges in close tandem with market developments and seize with both hands the opportunities arising from the structural transformation of the sporting gear segment, realising its inherent potential in the process to deliver greater value.

As a listed company, China Dongxiang will continue to look at correlation between assets and capital from a global perspective and identify suitable timing and leverage to integrate capital and sports in a better way in the execution of the Company's strategy of the double-pronged operation of investment and brand.

We will strive to act according to the trends and seek success along the way, as well as to develop variety for a lasting foundation to achieve an evergreen enterprise. In gratitude to all shareholders and people who have been supporting us, we are fully motivated to build broader prospects in realisation of the magnificent vision of Dongxiang, thereby assuring more lucrative return for the Group and shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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 37 to 49 in this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

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 impact 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The sales of the Group in 2017 was RMB1,353 million, decreased by 9.9% as compared to RMB1,501 million in 2016. Profit attributable to equity holders in 2017 was RMB805 million, decreased by 7.5% as compared to RMB870 million in 2016.

Sales Analysis

Sales analysed by geographical segments, business segments and product categories

	2017			2016			Change
	RMB million	% of product/brand mix	% of Group sales	RMB million	% of product/brand mix	% of Group sales	
CHINA SEGMENT							
Kappa Brand							
Apparel	661	74.0%	48.9%	739	72.8%	49.2%	-10.6%
Footwear	214	24.0%	15.8%	252	24.8%	16.8%	-15.1%
Accessories	18	2.0%	1.3%	24	2.4%	1.6%	-25.0%
Kappa Brand total	893	100.0%	66.0%	1,015	100.0%	67.6%	-12.0%
Kids business	114		8.4%	86		5.8%	32.6%
International business and others	30		2.2%	29		1.9%	3.4%
CHINA SEGMENT TOTAL	1,037		76.6%	1,130		75.3%	-8.2%
JAPAN SEGMENT							
Phenix brand	221	69.9%	16.3%	247	66.6%	16.4%	-10.5%
Kappa brand	95	30.1%	7.1%	124	33.4%	8.3%	-23.4%
JAPAN SEGMENT TOTAL	316	100.0%	23.4%	371	100.0%	24.7%	-14.8%
THE GROUP TOTAL	1,353		100.0%	1,501		100.0%	-9.9%

China Segment

Total sales of the Kappa brand business, the core business of the Group, in 2017 was RMB893 million, decreased by RMB122 million from RMB1,015 million in 2016. The sales of the kids business unit in 2017 increased by RMB28 million as compared to that in 2016 to RMB114 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 consumers are better accommodated and satisfied. In addition, the Group has continued to conduct optimisations and adjustments to its retail stores. As at the end of 2017, the number of Kappa retail stores was 1,137, and there were 350 Kappa Kids stores in total as at the end of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	2017		2016		Change
	Sales RMB million	% of sales of Kappa brand	Sales RMB million	% of sales of Kappa brand	
Wholesale	383	42.9%	572	56.4%	-33.0%
Retail	510	57.1%	443	43.6%	15.1%
Total of Kappa brand	893	100.0%	1,015	100.0%	-12.0%

Note: Excluding Kappa Kids business.

Sales of Kappa brand products via wholesale channel in China segment decreased by RMB189 million to RMB383 million in 2017 from RMB572 million in 2016, representing 42.9% of the total sales in China segment in 2017 as compared to 56.4% in 2016.

As at 31 December 2017, the number of self-owned retail stores under Kappa brand operated by our subsidiaries in China reached 515. Sales via retail channel increased by RMB67 million to RMB510 million in 2017 from RMB443 million in 2016, representing 57.1% of the total sales of Kappa brand in China segment in 2017 (2016: 43.6%).

Japan Segment

Sales from Japan Segment in 2017 decreased by RMB55 million to RMB316 million from RMB371 million in 2016. 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 decreased by RMB57 million to RMB593 million in 2017 (2016: RMB650 million).

MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, our gross profit before provision for/(reversal of) impairment losses of inventories has decreased by RMB91 million to RMB760 million (2016: RMB851 million). Our overall gross profit margin before provision for/(reversal of) impairment losses of inventories in 2017 dropped slightly by 0.5 percentage point to 56.2% from 56.7% in 2016.

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

	Year ended 31 December		
	2017 Gross profit margin	2016 Gross profit margin	Change % pts
China Segment	62.4%	63.9%	-1.5
Kappa Brand:			
Apparel	67.8%	69.3%	-1.5
Footwear	56.7%	56.7%	-
Accessories	70.4%	69.7%	0.7
Kappa Brand overall	65.2%	66.2%	-1.0
Kappa Kids	53.3%	58.2%	-4.9
Japan segment	35.8%	34.7%	1.1
Group overall	56.2%	56.7%	-0.5

* Before provision for/(reversal of) impairment losses of inventories

Gross profit margin of Kappa Brand in China segment in 2017 dropped by 1.0 percentage point to 65.2% from 66.2% in 2016.

Gross profit margin of Japan segment in 2017 increased by 1.1 percentage points to 35.8% from 34.7% in 2016. Such increase was mainly due to product optimisation.

Investment on financial assets and other gains, net

Investment on financial assets and other gains, net in 2017 was RMB960 million (2016: RMB809 million).

Investment segment

Revenue from investment segment of the Group in 2017 was RMB942 million (2016: RMB787 million), of which gains on disposal of partial available-for-sale financial assets amounting to RMB671 million, interest income from external borrowings to approximately RMB109 million, investment income from other financial assets to approximately RMB106 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and selling expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses in 2017 was RMB686 million (2016: RMB647 million), constituting 50.7% of the Group's total sales, an increase of 7.6 percentage points as compared with that in 2016. 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 in 2017, efficiency of all staff members has increased. Our overall staff costs increased by RMB6 million to RMB157 million in 2017 from RMB151 million in 2016;

In 2017, advertising and selling expenses increased by RMB74 million to RMB351 million from RMB277 million in 2016. The increase was attributable to the greater efforts put on sales and promotion;

Logistics fee in 2017 substantially remained the same level in 2016 at RMB71 million.

In 2017, the Group continued to take a more cautious but effective approach in investment in product development. Our design and product development expenses was RMB36 million (2016: RMB40 million).

Operating Profit

In 2017, the operating profit of the Group was RMB1,027 million (2016: RMB1,016 million). In 2017, the operating profit margin was 75.9% (2016: 67.7%).

Finance Revenue, Net

In 2017, net finance cost of the Group amounted to RMB79 million (2016: finance revenue of RMB28 million), which consisted of interest income from bank deposits of RMB21 million (2016: RMB13 million), interest expenses for bank loans in the current year of RMB21 million (2016: RMB19 million) and foreign exchange losses, net of RMB75 million during the reporting period (2016: foreign exchange gains of RMB39 million).

Taxation

In 2017, income tax expense of the Group was RMB129 million (2016: RMB178 million). The effective tax rate was 13.9% (2016: 17.0%).

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

Profit attributable to equity holders of the Company in 2017 was RMB805 million (2016: RMB870 million), and net profit margin of the Group was 59.5% (2016: 58.0%).

Earnings Per Share

The basic and diluted earnings per share were both RMB14.51 cents in 2017, decreased by 8.1% against the basic and diluted earnings per share of RMB15.79 cents in 2016.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Final Dividend and Final Special Dividend

An interim dividend of RMB2.90 cents, an interim special dividend of RMB2.90 cents and an additional special dividend of RMB17.32 cents per ordinary share of the Company have been paid in respect of the six months ended 30 June 2017, with a total amount of RMB1,280 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB1.42 cents and RMB2.84 cents per ordinary share, respectively (totalling RMB4.26 cents per ordinary share) for the year ended 31 December 2017.

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 2018, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.80636 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 20 March 2018. The dividend will be paid on or about 28 May 2018 to shareholders whose names appear on the register of members of the Company on 18 May 2018.

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 16 May 2018 to 18 May 2018 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2017 final dividend and final special dividend. In order to qualify for the 2017 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 15 May 2018.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 10 May 2018. 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 7 May 2018 to 10 May 2018 (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 2018.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days in 2017 and 2016 were 49 days and 48 days. The number of average trade receivable turnover days in 2017 was substantially in line with that in 2016.

Average trade payable turnover days in 2017 and 2016 were 96 days and 89 days, respectively.

Average inventory turnover days in 2017 and 2016 were 210 days and 149 days respectively, and the increase in average inventory turnover days was primarily due to an increase in average balance of inventory.

MANAGEMENT DISCUSSION AND ANALYSIS

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 116 days and 130 days, respectively in 2017 as compared to 120 days and 127 days, respectively in 2016. Average inventory turnover days were 111 days in 2017 as compared to 114 days in 2016.

Liquidity and financial resources

As at 31 December 2017, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB1,544 million, a decrease of RMB674 million as compared to a balance of RMB2,218 million as at 31 December 2016. This increase was mainly due to:

- 1) payment of 2016 final dividend and final special dividend and 2017 interim dividend and interim special dividend for an aggregate amount of equivalent to approximately RMB1,509 million;
- 2) net cash inflow from operating activities of approximately RMB21 million;
- 3) cash inflow from bank borrowings of RMB229 million, and cash outflow from repayment of bank borrowings of RMB459 million;
- 4) investment in available-for-sale financial assets of approximately RMB690 million with cash inflow from gains allocated from available-for-sale financial assets of approximately RMB37 million and cash inflow from partial disposal of available-for-sale financial assets of approximately RMB1,472 million;
- 5) investment in other financial assets of approximately RMB2,996 million with cash inflow from gains allocated from other financial assets of RMB141 million and cash inflow from partial disposal of other financial assets of approximately RMB3,214 million;
- 6) Others of an aggregate outflows amount of RMB134 million.

As at 31 December 2017, net assets attributable to our equity holders was RMB9,585 million (31 December 2016: RMB9,658 million). The Group's current assets exceeded current liabilities by RMB3,749 million (31 December 2016: RMB4,378 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2017 was 5.3 times (31 December 2016: 4.2 times).

Investments in Available-For-Sale Financial Assets

As at 31 December 2017, our balance of investments in available-for-sale financial assets was approximately RMB5,063 million, representing an increase of RMB357 million as compared with the balance of RMB4,706 million as at 31 December 2016. Such increase was mainly due to new investments.

Pledge of assets

As at 31 December 2017, the Group had approximately RMB391 million (31 December 2016: RMB397 million) in banks as guarantee deposit for the issue of letters of credit and loans.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments and contingencies

In August 2015, the Group entered into a limited partnership agreement with Shenzhen Hongtai Growth Venture Investment Center L.P. (深圳洪泰成長創業投資中心(有限合夥)), with a total capital commitment of RMB100 million. As at 31 December 2017, the Group paid a capital contribution of RMB60 million with remaining balance of RMB40 million as capital commitments.

In May 2015, the Group entered into a limited partnership agreement with China Momentum Fund, L.P. with a total capital commitment of USD10 million. As at 31 December 2017, the Group paid a capital contribution of USD7 million with remaining balance of USD3 million (equivalent to approximately RMB20 million) as capital commitments.

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 2017, the Group paid a capital contribution of USD3 million with remaining balance of USD2 million (equivalent to approximately RMB13 million) as capital commitments.

In August 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 2017, the Group paid a capital contribution of RMB49 million with remaining balance of RMB1 million as capital commitments.

In June 2017, the Group entered into a limited partnership agreement with Shanghai Xianghe Yongyuan Equity Investment Fund Partnership (Limited Partnership) (上海祥禾涌原股權投資合夥企業(有限合夥)), with a total capital commitment of RMB20 million. As at 31 December 2017, the Group paid a capital contribution of RMB8 million with remaining balance of RMB12 million as capital commitments.

In August 2017, the Group entered into a limited partnership agreement with Hangzhou Yuzhong Venture Capital Investment Fund Partnership (Limited Partnership) (杭州宇仲創業投資合夥企業(有限合夥)), with a total capital commitment of RMB60 million. As at 31 December 2017, the Group paid a capital contribution of RMB30 million with remaining balance of RMB30 million as capital commitments.

In November 2017, the Group entered into a limited partnership agreement with Ningbo Meishan Free Trade Port Zone Sequoia Huisheng Equity Investment Fund Partnership (Limited Partnership) (寧波梅山保稅港區紅杉慧盛股權投資合夥企業(有限合夥)), with a total capital commitment of RMB50 million. As at 31 December 2017, the Group paid a capital contribution of RMB20 million with remaining balance of RMB30 million as capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

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. 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 2017.

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 the 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.

The Company summarizes the investor relations achievements in 2017 as below:

1. Results Announcement and Investment Summits:

Right after the announcements of the 2016 annual results and the 2017 interim results in March and August 2017 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 on the same day, for investors' further inspection. In addition, the Company's management and investor relations team took part in investment summits held by investment banks, aiming to enhance our interaction and communication with global 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 2017, 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 2017, according to the needs of our investors and analysts, and for them to better understand our operation, we arranged store visits in Beijing and Shanghai, etc.

- Company Website:

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

- Phone Inquiry Services for Investors and the Media:

The Company provides phone inquiry services for investors and the media, which are handled and answered by the 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 the media.

3. AGM:

In accordance with the Listing Rules of the Hong Kong Stock Exchange, an 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 2017, China Dongxiang retained its honour of "Listed Company with the Most Valuable Brand" at the China Securities "Golden Bauhinia Awards", illustrating vast investors' recognition for the value of the Company's brand once again.

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 a transparent, accurate, and timely manner in disseminating our latest results, and further tap into the 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, to allow us to constantly improve our corporate operation and administration.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

As a leading international sportswear brand in China, China Dongxiang (Group) Co., Ltd. (hereinafter the "Company") and its subsidiaries (hereinafter the "Group", "we" or "us") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in Mainland of the People's Republic of China (the "PRC"), and abroad. With the rapid development of our business at home and abroad, China Dongxiang is always committed to mutually beneficial cooperation and harmonious development with our community, employees, customers, suppliers, investors and shareholders as well as other business partners.

The purpose of this report is to disclose to each stakeholder the Company's work on environmental, social and governance matters and its results. We have been tirelessly raising the management standard and work performance on environmental and social issues so as to achieve sustainable development for the Group. This report should be read in conjunction with the "Corporate Governance Report" set out in our annual report as well as "Corporate Governance" on the website of China Dongxiang Group.

Save as otherwise indicated, the disclosure of this report includes the Company and its subsidiaries in China. This report covers a period from 1 January 2017 to 31 December 2017.

1. IDEAL OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In the course of our business and development, we accord guiding importance of the ideal of environmental, social and governance to the sustainable development of the Company, and fully realise the effective management of environmental and social risks is not only the sound foundation of our business operation, but also the dual-engine for driving both the Company and the society.

As a responsible enterprise-citizen, we place great emphasis on economic benefits of the Company and returns for our shareholders and investors which are the concrete foundation of the social benefits from the Company. Meanwhile, we encourage the development of our employees and the society by adopting different approaches. The policies of our environmental, social and governance cover four major elements, namely quality products, caring for our staff, win-win coordination and environmental protection.

Quality Products

Our mission is to be the most pioneering and desired sport-life brand, focusing on product quality and consumer safety. As such, we give assurance to consumers with quality sport-life products by strictly controlling our product quality and procurement standards.

Caring for Our Staff

For talent development, we cherish, value and respect each of our staff. We have established a solid comprehensive system for remuneration, benefits and training of our staff with an aim to encourage rapid development of our staff members and provide them a ladder for job promotion. We believe such ladder will attract local and overseas talents in our industry and zealously nurture individuality and creativity of each of our staff members, forming, as a result, a diverse team with full of passion and vitality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Win-win Coordination

We attach importance to long-term win-win cooperation with our business partners. In respect of our suppliers, we have been committed to enhance product quality through combination of assessment and training, assisting our suppliers and ourselves to manage and avoid environmental and social risks. For the communities we operate, we insist on contributing back to the communities by promoting vitality of youth via our products, supporting the development of sports culture and paying attention to labour demand in the society. As a result, win-win coordination has been achieved by long-term cooperation with business partners and social organisations.

Environmental Protection

We put focus on environmental protection and actively promote reduction in energy consumption and emission with an aim to reduce our operational consumption and minimise the impacts of our product on environment and natural resources. We have been improving our management measures and policies for environmental protection in accordance with relevant laws and regulations, and guiding our staff to accomplish our vision on environmental protection by advocacy and education.

MATERIALITY ASSESSMENT

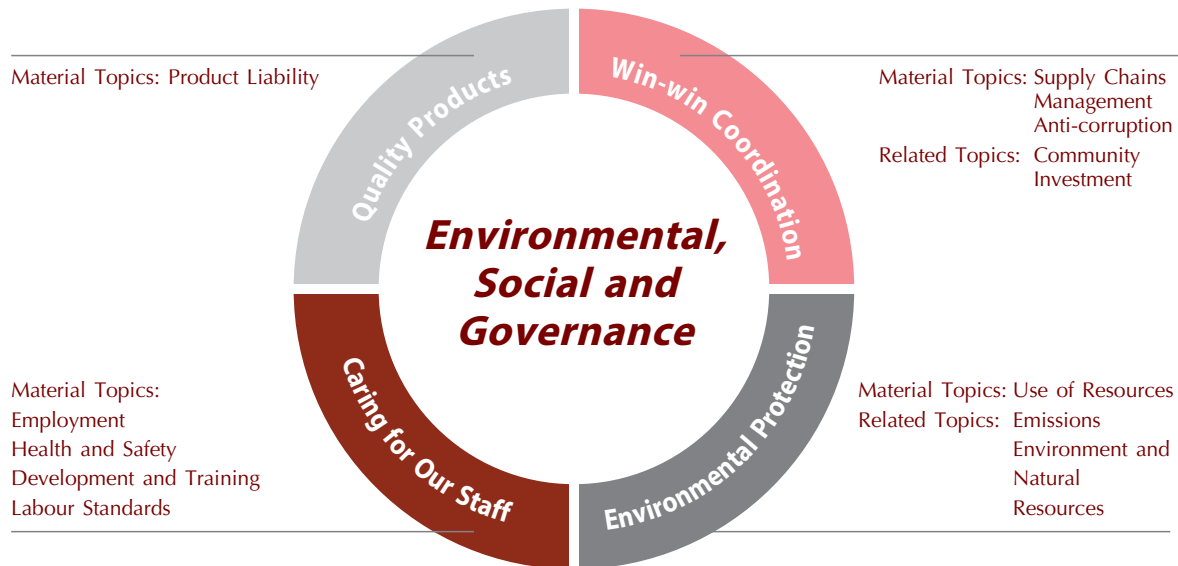
We have relentlessly communicated with the major stakeholders, whether internal or external, through multiple channels in order to sincerely identify their expectations for the Company, which have been served as our guidelines for further appropriate actions and measures to fulfill the expectations of the major stakeholders.

The major stakeholders identified by the Company are the government and regulatory authorities, shareholders and investors, employees, suppliers and distributors, consumers, and the general society and public.

Major stakeholders identified, their expectations and means of communication

Major stakeholders	Expectation	Major 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, high return	General meetings and financial reporting
Employees	Good payroll and benefits, career development opportunities, work-life balance	Staff meetings and corporate events
Suppliers and distributors	Fair competition and quality assurance	Meetings and interviews
Consumers	Quality products & services, confidentiality protection	Customer service hotlines, trade fairs, internet
General society and public	Compliant operation, social charity	Charity events and investments

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



2. QUALITY PRODUCTS

To attract consumers, the Group created its products with an image of vitality, vogue and youth. Meanwhile, we are committed to provide high quality sportswear in state-of-the-art design. With the “Internet Plus” marketing, we have expanded the promotion channels for our brand by combining online and offline brand marketing activities in order to offer consumers excellent products and shopping experience.

Product Quality

Product quality is the cornerstone of our brand value. We always attach importance to product quality and catch up with the updated national or industrial standards, in addition to the compliance with the relevant laws and regulations. Our quality sportswear products have been through a strict quality management process for building consumers’ confidence for our products.

In respect of the industrial standards, we have beaten the clock and fulfilled the up-to-date standards. In 2017, we updated its supply chain of equipment on time and applied new industrial standard for pencil case QB/T 2772-2017, industrial standard for laptop bag QB/T 5082-2017 and industrial standard for backpack Q31/0115000319C002-2017. The application of the new standards reflects stringent requirements of our brand to its products. In addition, our staff members have gained deeper understanding of the industrial standards through a series of training. Our professional quality management personnel are designated by the apparel production management center to participate into training courses for industrial quality standards each year. In September and November 2017, we designated our staff members to participate the national industrial quality management training for knowledge learning and exchange in relation to industry trends and quality standards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, quality control has been applied to each of our production processes from product development, production to sales.

During the process of product development, we put emphasis on the issues of safety and environmental protection in materials development, assessment on the safety of the products developed and examination of physical properties of the materials used in the development process, so as to avoid any safety problems occurred when using the products.

During the process of production, production factories are required to deliver samples to the Company for confirmation, inspection and testing. No production is allowed without passing the inspection and testing. Upon the completion of the production, our staff members from development and production department will conduct inspection and testing at the factories in person for determining product delivery.

In the stage of sales, all products returned to our points of sales are analysed by us for reasons of defects, and our factories have been urged to enhance product quality. In 2017, product quality control was further tightened on shoe supply chain for elevating the quality requirement of shoe products. As a result, product return rate provided by suppliers has reduced to 0.35% from 0.5%.

Respect of Privacy

With the advancement of technology and the rise of online shopping, the Group has been promptly developing online channel. Under such circumstances, we attach great importance to protection of customers' data and privacy in e-commerce business, protecting and safeguarding the interest of our customers.

In 2017, the Company upgraded its management system for online shopping orders to encrypt and place access control on sensitive data of our members, such as telephone and mobile numbers, protecting personal privacy of consumers.

Advertising

Since the commencement of new advertising law in 2017, we have conducted thorough research and strengthen our management, so as to ensure our marketing promotion and advertising activities in compliance with the relevant laws and regulations, such as the "Advertisement Law of the People's Republic of China".

Meanwhile, we have further updated and optimised our mechanism of marketing, promotion and advertising. Firstly, upholding the principles of truth in conducting external promotion, advertising and marketing activities by implementing centralised direction, hierarchical management and carrying out works for the development strategies and objectives of the Company. Secondly, eradicating or minimising false advertising from the source by upholding the principles of "accountability in advertising" and "obtaining advertising approval", it means that person-in-charge shall be identified and tasks shall be separated in all advertising project for implementing an accountability system. Thirdly, conducting regular trainings to allow our staff members gaining greater familiarity with the "Advertisement Law of the People's Republic of China", which will be favourable to our compliance performance. Finally, ensuring the truth and norm of the advertising content by further optimising the effective regulatory system in advertising and improving the regulatory model of follow-up monitoring and random inspection, putting false advertising to an end.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Protection of Trademarks

We strictly abide by such laws and regulations relating to trademarks and intellectual property rights for safeguarding our legal rights and interests as well as enhancing consumers' confidence in our brands. To ensure the interests in our trademarks, we have timely submitted new application for registration or renewed the registration of any trademark, promptly checked the announcements issued by the Trademark Office and made objections or other applications to the application for registration of those trademarks imitating or similar to the Company's. In addition, we have also actively cooperated with relevant government authorities to investigate and deal with counterfeit goods and provide appraisal reports for the purpose of effectively combating counterfeit goods.

3. CARING FOR OUR STAFF

Recruitment

Our people are important asset of the Company as well as our core strength to realize its corporate values. In compliance with relevant laws and regulations, we have ensured legal recruitment and protected the interests of our people. We has optimised our management system and norms for human resources, including organisational structure, remuneration and benefit, performance management and long-term incentives, promoting normative management of staff members of the Group, so as to enhance their satisfaction and teamwork spirit and build up the image of the Group as excellent employer.

There is no discrimination in the recruitment and employment on the basis of national origin, race, gender and religion. Child workers or otherwise compulsory labour are also strictly prohibited.

Employee Engagement Activities

In 2017, we commenced an array of activities to enhance teamwork spirit, sense of belonging and alleviate stress at workplace.

Case 1: Anniversary Celebration

The Company organised a picture drawing activity for all our staff member on 18 April 2017 for celebrating the 15th anniversary. A beautiful picture has been created with the collaboration of our staff.



Case 2: Family Day

We pay close attention to the work-family balance of our employees. Through activities that took place on the Family Day, we wish to express our gratitude to our employees' families for their support and appreciation towards the Company and the staff's efforts.

As the Children's Day approached, we arranged for the staff at the Beijing headquarters to take part in the "Bubble Family Run" together with their children. The event strengthened the bonds between the Group and the families, and conveyed our care to our employees and their next of kin.



Taking advantage of a production break, the Taicang Factory organized a Family Day on 25 March 2017, on which the entire staff brought along their families and walked to the Jincang Lake Park for a picnic on the lawn. Group activities, such as three-legged races and "roll the wheels", also took place. The event enhanced everybody's sense of belonging towards the Company.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

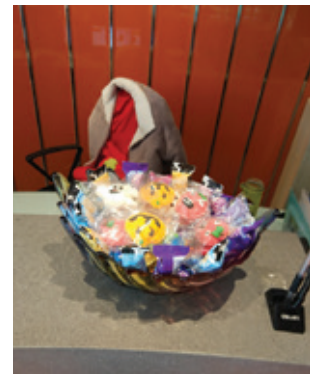
Case 3: Festive Greetings

The Company prepares various gifts for our staff at different festivals, and delivers to them festive greetings, which carry the Group's care for every staff member.



In celebration of the Mid-Autumn Festival, we prepared mooncakes for our staff and sent greetings and blessings to the families of non-resident employees.

The Company treated its staff members to candies and pumpkin cakes for Halloween at the front desk of the premises and staff canteen.



Staff members were invited to prepare presents for exchange at Christmas, which were then given out by Santa Claus. We decorated the Company's premises and canteen, and spent a delightful Christmas with our staff.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEALTH AND SAFETY OF STAFF

We show fundamental respect towards our staff by safeguarding their occupational health and safety. We abide by laws and regulations in relation to occupational health of staff, and put great emphasis on their physical as well as mental health.

Regarding the Taicang Factory, in which production is involved, we equip our production staff in workshops with protective appliances. Moreover, we strictly adhere to fire safety measures and step up inspection and supervision with a view to preventing safety hazards.

As a sportswear company, we value the physical and mental well-being of our employees. To build up their body constitutions and enrich their leisure lives, the Company established an aerobics club, and engaged professional instructors to take charge of the workout sessions. We also built a football team, and we encourage our staff to play football at leisure. In addition, we formed an outdoor activities club, which planned trips and hikes to promote a healthy lifestyle and a positive attitude among our staff.



Subordinate branches spur their employees to exercise proactively and care about their health by, among others, holding sports meets.

DEVELOPMENT AND TRAINING

We always believe that the development in our employees' careers and the enhancement in their abilities are the most valuable strategic investments to the corporation. In the course of training, we advance our employees' vocational capabilities and foster their growth in the working environment by implementing a sound management system and providing diversified training courses, thereby achieving a mutually beneficial development for both the individuals and the corporation.



Training in various forms and contents were available to staff of different ranks, with an aim of assisting them in advancing their careers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Training for the senior management

We organized workshops for the senior management, during which senior managers gathered and examined the Company's business development, and summarized problems and shared successful cases they had come across when they carried out their duties.



Training for middle management

Training courses were scheduled for middle management in 2017. The courses took place 4 times during the year, and each lasted 2 days. Such kind of training courses deepened middle managers' understanding in managing mindsets and methods, strengthened their communication skills and heightened the effectiveness of their managing behaviour.



Training for newcomers

We appointed external lecturers to conduct courses on communication which targeted new employees. Learners were attentive during the classes and actively engaged themselves in the activities. Participants had better comprehension of their future career paths and goals, and found the courses fruitful.



Trainings for Entry-level Staff

We also put emphasis on career development of entry-level staff and provide them trainings. At the store level, we are committed to on-the-job trainings, including regular seminars, communications and trainings for in-store staff on, among others, product display and customer services, providing staff members experiential training. Our staff members may practice what they have learned for on-going performance review and making progress. Meanwhile, we provide opportunities to staff members to demonstrate their talents through testing their management skills in games for organisation skills.



4. WIN-WIN COORDINATION

Management of Suppliers

We insist on accountable procurement, implement a strict supplier recruitment and evaluation system and are seriously concerned with the environmental and risk management of the suppliers. We have formulated supplier recruitment criteria and site evaluation standards for suppliers on which we selectively determine the suppliers who conform to the qualification review and site evaluation. In addition, the suppliers are required by us to tighten control on environmental and social risks by quarterly appraisal and evaluation with an aim to improve the management of suppliers.



Our major scopes of evaluation of suppliers include:

(1) Employees of suppliers:

We pay attention to the legality of suppliers' employees and the skills and competences of production workers in manufacturing.

(2) Production capacity:

We estimate the actual production capacity of the suppliers based on our judgement of the existing number of workers, production lines and equipment of the suppliers, in order to place reasonable quantity of orders, avoiding the risk of compulsory working overtime as a result of inadequate capacity from over-ordering.

(3) Production safety:

We pay on-site visits to suppliers for determining their management capability and level for production safety.

(4) Environmental protection:

We pay attention to the environmental measures taken by the suppliers for the production processes which may cause heavy pollution, such as printing, bleaching and dyeing as well as spraying, evaluating whether such production processes are in compliance with local hygiene standards and causing irreversible environmental harm.

In addition, our staff members from development department have been assigned to visit the production sites of suppliers with whom we cooperate for the purpose of providing trainings on product knowledge to production team and management team and highlighting weak links in production as well as guidance notes. For instance, the suppliers are invited to participate into the trainings on quality standards and quality management system of KAPPA products organised by the supply chain each year.

In August 2017, supply chain conducted a training to the staff members from over 30 garment factories throughout China with over 40 participants. The training focused on, among others, KAPPA quality standards, quality management system and review on the case study of the defects of the last-season garments. The purpose of such training is to allow the suppliers to gain greater familiarity and better control of KAPPA product quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

Integrity and corruption-free are the important intangible assets of the Company. As such, we attach utmost importance to fostering culture of discipline and corruption-free. To better safeguard our corporate image of integrity and fairness, we have established relevant disciplinary system, all of our staff members are prohibited from gaining any personal interests arising from business dealings with any business units. In 2017, the logistics department of the Company centralised the procurement of office supplies to tighten control over corruption risk in procurement.

A number whistle-blowing channels have been in place for our staff members and the whistleblowers are protected by the Group. In case of any incidents reported, internal audit department will carry out rigorous screening and commence a special audit upon obtaining an authorisation from the executive committee. In the event that the reported incident is proven to be true, the staff member(s) in question will be punished for corruption events pursuant to the relevant system.

COMMUNITY INVESTMENT

We actively bear corporate social responsibility. Over the years, we have taken participation in various social philanthropic undertakings and activities, such as charitable donation, assistance for children in poverty, earthquake relief, sports sponsorship and support for sports development.

We are also committed to cooperating with educational institutions, as Taicang factory within the Group has collaborated with vocational schools for years. In late October 2017, for further negotiation about school-enterprise cooperation, representatives of Taicang factory have headed for vocational schools in Yuping and Songtao, Tongren, Guizhou Province, which have worked with Taicang factory for 3 and 2 years respectively. After that, Taicang factory will offer these two schools more internship opportunities.

5. ENVIRONMENTAL PROTECTION

As a responsible global enterprise-citizen, we appreciate that environmental protection plays a significant role in the fulfilment of social and corporate sustainable development. Therefore, we always encourage the adoption of measures for energy conservation and emission reduction so as to minimise the environmental impact of our daily operation. Apart from compliance with major laws and regulations relating to environmental protection, we integrate the ideas of energy conservation and emission reduction into our work processes.

ELECTRICITY CONSERVATION

We uphold the concept of green office and strengthen power consumption management in office premises. Office electricity supply will be cut off automatically in 8 pm in order to prevent overnight illumination. We have gradually installed LED and energy efficient lighting systems in 2017, which almost cover all offices and warehouses. The improvement works will complete in 2018. To avoid unnecessary energy use, we control the illumination of warehouses based on the relevant operation department, types of workstation and specific situations.



In 2017, we have pasted stickers close to each switch and socket, aiming to remind our staff to save energy through vivid cartoons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PAPER UTILISATION

We encourage our staff to use less paper, particularly by advocating printing on both sides and binding up used “waste” paper as note paper or scratch paper. Such move may minimise paper consumption, while reducing volume of waste paper.

Meanwhile, we promote the use of recycled paper. FSC (Forest Stewardship Council)-certified papers¹ are utilised for the printing of our annual and interim reports since the 2013 annual report.

- 1 FSC is a non-governmental, non-profit organisation and is devoted to improving global forest management to achieve social responsibility. FSC-certified wooden products are free from endangered trees or illegal logged wood, with the raw materials coming from forests that are able to meet current and future social, economic and ecological needs. The FSC-certified papers purchased by us belong to FSC MIX series, representing paper from responsible sources.

PACKAGING MATERIALS MANAGEMENT

In terms of packaging material usage, we pay attention to reusing packing cartons. Each part of the supply chain as well as the logistics department will order new cartons based on the estimated shipment. At the time of delivery, we prefer to first employ old cartons that are available for second use and also actively recycle cartons for further use with the hope to cut waste.

6. TABLE OF ENVIRONMENTAL KEY PERFORMANCE INDICATORS

Scope of environmental statistics: The Company and its subsidiaries in the mainland of China (excluding its outlets).

Emissions

Indicators	Performance
Total greenhouse gas emissions (scopes 1 and 2) (tonnes)	1,648.99
Direct emissions (scope 1) (tonnes)	105.33
Bus petrol	39.11
Bus diesel	66.22
Indirect emissions (scope 2) (tonnes)	1,543.66
Purchased electricity	1,543.66
Greenhouse gas emission intensity (tonnes/person)	1.37
Greenhouse gas emission intensity (tonnes/m ²)	0.03
Total hazardous wastes (tonnes)	0.99
Hazardous wastes per capita (tonnes/person)	0.0008
Total non-hazardous wastes (tonnes)	63.35
Non-hazardous wastes (tonnes/person)	0.05

- Notes: 1. Due to its business nature, the significant air emissions of China Dongxiang are greenhouse gas emissions, arising mainly from the use of electricity and fuels generated from fossil fuels.
2. Greenhouse gas inventories encompass carbon dioxide, methane and nitrous oxide, mainly resulting from purchased electricity and fuels. Greenhouse gas accounting is presented in carbon dioxide equivalent in accordance with the 2015 China Regional Grid Baseline Emission Factor issued by China National Development and Reform Commission and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories issued by Intergovernmental Panel on Climate Change (IPCC).
3. Hazardous wastes involved in the operations of China Dongxiang Group primarily include waste toner cartridges and ink boxes of its printing devices. Toner cartridges, ink boxes and other hazardous wastes are recycled and disposed by recyclers under recycle standard.
4. Non-hazardous wastes involved in the operations of China Dongxiang primarily include office rubbish, leftover materials and waste electronic equipment. Office rubbish is disposed collectively by property management companies, while leftover materials and waste electronic equipment which has went through the approved scrap procedures are recycled and disposed by recyclers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy and resource consumption

Indicators	Performance
Total energy consumption (MWh)	2,538.13
Direct energy consumption	410.68
Bus petrol (MWh)	160.42
Bus diesel (MWh)	250.26
Indirect energy consumption	2,127.45
Electricity (MWh)	2,127.45
Energy consumption per person in offices (MWh/person)	2.08
Energy consumption per square metre in office buildings (MWh/m ²)	0.14
Energy consumption per square metre in warehouses (MWh/m ²)	0.0071
Energy consumption per RMB 'million of revenue of Taicang factory (MWh/RMB 'million)	12.59
Water consumption (tonnes)	38,034.60
Water consumption per capita in offices (tonnes/person)	6.68
Water consumption per RMB 'million of revenue of Taicang factory (tonnes/RMB 'million)	359.18
Total packaging materials for finished goods (tonnes)	503.35
Packaging materials used per RMB 'million of revenue (tonnes/RMB 'million)	0.49

- Notes:
1. Energy consumption data is calculated based on the consumption of electricity and fuel as well as the conversion factors provided by the General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008) released by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China.
 2. Electricity consumption per person in offices represents energy consumption per person in the offices of headquarters and subsidiaries.
 3. Electricity consumption per square metre in office buildings represents energy consumption per square metre in the office buildings of headquarters and subsidiaries.
 4. Electricity consumption per square metre in warehouses represents energy consumption per square metre in the warehouses of logistics department and subsidiaries.
 5. Water consumption includes tap water consumption of district offices in Beijing, Nanjing, Dalian and Changsha and tap water consumption of Taicang factory. Water tariffs of other offices are included in property management fees such that the water consumption cannot be calculated separately.
 6. Water consumption in offices per capita represents the water consumption per capita in offices in, among others, Beijing, Nanjing, Dalian and Changsha.
 7. Packaging materials for finished goods mainly refer to cartons and plastic bags.
 8. Packaging materials used per RMB million of revenue denote the amount of packaging materials used by the Group in China when delivering one million RMB of revenue.

DIRECTORS AND SENIOR MANAGEMENT

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)	59	Chairman and Executive Director
Mr. Zhang Zhiyong (張志勇)	49	Chief Executive Officer, president and Executive Director
Ms. Chen Chen (陳晨)	31	Co-president and Executive Director
Dr. Chen Guogang (陳國鋼)	58	Independent Non-Executive Director
Mr. Chen Johnny (陳志宏)	58	Independent Non-Executive Director
Mr. Gao Yu (高煜)	44	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 59, is the founder, chairman and executive director of the Company. Mr. Chen is primarily responsible for the management of the board, company investment operations and corporate planning. Mr. Chen joined the Company in March 2007. 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 Guanghai 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. Zhang Zhiyong (張志勇), aged 49, is the chief executive officer, president and the executive Director of the Company. Mr. Zhang joined the Company in October 2017. Mr. Zhang is responsible for company strategy and managing the overall operations (excluding the investment operations).

Mr. Zhang, joined Beijing Li Ning Footwear Co., Ltd. (北京李寧鞋業有限公司) in October 1992 and had been in charge of its financial system and nationwide retail business system, before becoming the general manager of the company in February 2001, a position he held until June 2004. From the listing on the Main Board of the Stock Exchange of Li Ning Company Limited (Stock Code: 2331) in June 2004 to 3 July 2012, Mr. Zhang was chief executive officer and executive director of Li Ning Company Limited in charge of the overall strategy and implementation of the company. Mr. Zhang stepped down as chief executive officer and executive director of Li Ning Company Limited in July 2012 and October 2014, respectively.

Mr. Zhang has been appointed as an independent non-executive director of C. banner International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1028), since 15 October 2012.

Mr. Zhang has been engaged in the digitalisation of sports gear since October 2014. He has founded Beijing BMAI Sports Goods Co., Ltd. (北京必邁體育用品有限公司) with a proprietary brand name known as "BMAI" and has been the non-executive chairman of the company since then. He also holds the controlling interests in the company.

Mr. Zhang was president of LeSports from August 2016 to January 2017.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang has been involved in China's sporting goods industry since 1992. With more than 20 years' marketing experience in the sector, he brings with him profound understanding of and practical experience in China's ever-changing consumer market, brand-building for sporting goods, digitalisation of the sporting industry, as well as the management of corporate reforms at Chinese companies.

Mr. Zhang holds a bachelor's degree from Beijing Institute of Economics (北京經濟學院) and an EMBA degree from Guanghua School of Management, Peking University.

Ms. Chen Chen (陳晨), aged 31, is the co-president and executive director of the Company. 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 executive director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chen Guogang (陳國綱), aged 58, is the independent non-executive director of the Company and joined the Company in June 2016. 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). Dr. Chen has been appointed as an executive director and the first vice chairman of China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 0245) with effect from 11 January 2017, as well as the chief executive officer of said company with effect from 8 May 2017. In addition, Dr. Chen is also the executive director of China Minsheng Asia Asset Management Co., Ltd (中民投亞洲資產管理有限公司) since 2016. Dr. Chen resigned as chairman of the board of directors of CMI Capital Company Limited with effect from 23 June 2017.

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

DIRECTORS AND SENIOR MANAGEMENT

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. Chen Johnny (陳志宏), aged 58, is the independent non-executive director of the Company and joined the Company in 5 July 2017.

Mr. Chen is currently an independent non-executive director of Stella International Holdings Limited (a company listed on the Stock Exchange, stock code: 1836), Viva China Holdings Limited (a company listed on the Stock Exchange, Stock code: 8032), Uni-President China Holdings Ltd. (a company listed on the Stock Exchange, Stock code: 220), China Minsheng Financial Holdings Corporation Ltd. (a company listed on the Stock Exchange, stock code: 245) and Alibaba Pictures Group Ltd. (a company listed on the Stock Exchange, stock code: 1060), respectively. Mr. Chen is also the chairman and executive director of Convoy Global Holdings Limited (a company listed on the Stock Exchange, stock code: 1019).

Earlier in his career, Mr. Chen served as the assurance partner and general manager of the Beijing office in KPMG from September 1983 to August 1993. He then joined PricewaterhouseCoopers and served as the assurance partner and managing partner of its Beijing office. Mr. Chen subsequently joined Zurich Insurance Group in March 2005, and served as the chairman of Life and General Insurance in its China office from December 2013 to February 2015. Mr. Chen is also the senior advisor of LionRock Capital Limited and an Adjunct Associate Professor of Department of Finance and Department of Management, Hong Kong University of Science and Technology.

Mr. Chen obtained a bachelor's degree in accounting/management from Johnson & Wales University in 1981. He obtained a master's degree in accounting from University of Rhode Island in 1983. He is a certified public accountant in the US since 1985.

Mr. Gao Yu (高煜), aged 44, is the independent non-executive director of the Company and joined the Company in July 2007. 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 a non-executive director of Sparkle Roll Group Ltd (耀萊集團有限公司) which is 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.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Chen Yihong, Mr. Zhang Zhiyong 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 2017, except for the following deviation from the code provisions:

- (i) 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 (chairman and executive director), Dr. Chen Guogang and Dr. Xiang Bing (both independent non-executive directors) could not attend the annual general meeting of the Company held on 10 May 2017 due to important business appointments. However, the other executive director and the other independent non-executive director of the Company had 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 2017.

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 2017.

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 37 to 49 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 page 59 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.

CORPORATE GOVERNANCE REPORT

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

Executive Directors:

Mr. Chen Yihong (*Chairman*)

Mr. Zhang Zhiyong (*Chief Executive Officer*) (appointed and effective from 10 October 2017)

Ms. Chen Chen

Independent Non-Executive Directors:

Dr. Chen Guogang

Mr. Chen Johnny (appointed and effective from 5 July 2017)

Mr. Gao Yu

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 executive director 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, Mr. Chen Yihong 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, Mr. Chen Johnny, appointed as independent non-executive director on 5 July 2017 and Mr. Zhang Zhiyong, appointed as the chief executive officer and executive director on 10 October 2017, 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.

Ms. Chen Chen (re-elected as an executive Director on 10 May 2017) and Dr. Chen Guogang (re-elected as an independent non-executive director on 10 May 2017), 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.

CORPORATE GOVERNANCE REPORT

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.

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
<i>Executive Directors</i>	
Chen Yihong	√
Zhang Zhiyong (Note 1)	√
Chen Chen	√
<i>Independent Non-executive Directors</i>	
Chen Guogang (Note 2)	√
Chen Johnny (Note 3)	√
Gao Yu	√
Xiang Bing (Note 4)	√

Note 1: appointed as the chief executive officer and executive director of the Company with effect from 10 October 2017.

Note 2: ceased as chairman of audit committee and had been appointed as the chairman of the remuneration committee of the Company with effect from 16 August 2017. He remains as a member of the audit committee of the Company.

Note 3: appointed as independent non-executive director, chairman of the remuneration committee, member of audit committee and nomination committee of the Company with effect from 5 July 2017. After that, has been appointed as chairman of audit committee. He remains as a member of Remuneration Committee and Nomination Committee of the Company with effect from 16 August 2017.

Note 4: resigned as an independent non-executive director, chairman of remuneration committee and member of the audit committee and nomination committee of the Company with effect from 5 July 2017.

CORPORATE GOVERNANCE REPORT

BOARD AND COMMITTEES MEETINGS

In 2017, the Board held 6 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings and Annual General Meeting ("AGM") held in 2017 is set out in the table below.

	Board meetings in 2017	Audit committee meetings in 2017	Attendance of Remuneration committee meeting in 2017	Nomination committee meeting in 2017	AGM in 2017
<i>Executive Directors</i>					
Chen Yihong	6/6	N/A	3/3	3/3	0/1
Zhang Zhiyong (Note 1)	1/1	N/A	N/A	N/A	N/A
Chen Chen	6/6	N/A	N/A	N/A	1/1
<i>Independent Non-Executive Directors</i>					
Chen Guogang (Note 2)	5/6	2/3	2/3	N/A	0/1
Chen Johnny (Note 3)	3/3	1/1	2/2	2/2	N/A
Gao Yu	6/6	3/3	N/A	3/3	1/1
Xiang Bing (Note 4)	2/3	2/2	0/1	0/1	0/1

Note 1: appointed as the chief executive officer and executive director of the Company with effect from 10 October 2017.

Note 2: ceased as chairman of audit committee and had been appointed as the chairman of the remuneration committee of the Company with effect from 16 August 2017. He remains as a member of the audit committee of the Company.

Note 3: appointed as independent non-executive director, chairman of the remuneration committee, member of audit committee and nomination committee of the Company with effect from 5 July 2017. After that, has been appointed as chairman of audit committee. He remains as a member of Remuneration Committee and Nomination Committee of the Company with effect from 16 August 2017.

Note 4: resigned as an independent non-executive director, chairman of remuneration committee and member of the audit committee and nomination committee of the Company with effect from 5 July 2017.

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: Mr. Chen Johnny (Chairman), Dr. Chen Guogang 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

CORPORATE GOVERNANCE REPORT

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 2017. The major work performed by the Audit Committee in 2017 included:

- (i) Review and recommend the Board's approval of the 2017 external audit plan and 2017 internal audit plan;
- (ii) Review and recommend the Board's approval of the 2016 annual financial statements and 2017 interim financial statements;
- (iii) Review of the 2017 external audit report and internal audit report;
- (iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2017 audit; and
- (v) Review the risk management and internal control system for its effectiveness one time in the year of 2017.

REMUNERATION COMMITTEE

Members: Dr. Chen Guogang (chairman), Mr. Chen Yihong and Mr. Chen Johnny. 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 three times in the year of 2017. The major work performed by Remuneration Committee in 2017 included reviewing and determining the Directors' remuneration for the year ending 31 December 2018.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Gao Yu and Mr. Chen Johnny. 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 three times in the year of 2017. The major work performed by Nomination Committee in 2017 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.

CORPORATE GOVERNANCE REPORT

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Zhang Zhiyong (chief executive officer), 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 2017.

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, 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 should be ensured for accounting, internal audit and financial reporting functions. Internal audit department conducts initial assessment on the effectiveness of the risk management and internal control system and report directly to the Audit Committee.

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.

CORPORATE GOVERNANCE REPORT

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;

CORPORATE GOVERNANCE REPORT

- 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 2017, the IAC implemented and completed 9 internal audit projects and met with the management 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); and
- Appointing specific persons as the main spokesperson to respond to external inquiries.

CORPORATE GOVERNANCE REPORT

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 2017, 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:

	2017 RMB'000
Statutory audit	4,000
Non-audit services	470
Total	4,470

The non-audit services mainly comprised tax compliance and certain agreed upon procedure work. The responsibilities of the independent auditor with respect to the 2017 consolidated financial statements are set out in the section "Independent Auditor's Report" on pages 75 to 80.

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.

CORPORATE GOVERNANCE REPORT

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 page 36 to provide a more comprehensive overview of the work performed by the IR Department in 2017.

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 Company 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 2017, 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 2017.

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 130 to 133 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 35 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 2017 is set out in the consolidated statement of comprehensive income on page 81 to 82 of this annual report.

DIVIDENDS

An interim dividend of RMB2.90 cents, an interim special dividend of RMB2.90 cents and an additional special dividend of RMB17.32 cents pre ordinary share in respect of the 6 months ended 30 June 2017 were declared to Shareholders on 16 August 2017 and paid in September 2017.

The Board of the Company has recommended the distribution of a final dividend of RMB1.42 cents and final special dividend of RMB2.84 cents per ordinary share of the Company, amounting to approximately RMB80,838,000 and RMB161,303,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 10 May 2018 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.80636 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 20 March 2018.

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 31 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.

REPORT OF THE DIRECTORS

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 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2017 amounted to approximately RMB10,800,458,000, 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*)

Mr. Zhang Zhiyong (*Chief Executive Officer*) (appointed and effective from 10 October 2017)

Ms. Chen Chen

Independent Non-Executive Directors:

Dr. Chen Guogang

Mr. Chen Johnny (appointed and effective from 5 July 2017)

Mr. Gao Yu

Dr. Xiang Bing (resigned and effective from 5 July 2017)

In accordance with Article 87 of the Company's articles of association, Mr. Chen Yihong 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, Mr. Chen Johnny, appointed as independent non-executive director on 5 July 2017 and Mr. Zhang Zhiyong, appointed as the chief executive officer and executive director on 10 October 2017, 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.

Ms. Chen Chen (re-elected as an executive Director on 10 May 2017) and Dr. Chen Guogang (re-elected as an independent non-executive director on 10 May 2017), shall hold office until they are required to retired in accordance with the Company's articles of association.

REPORT OF THE DIRECTORS

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 38 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 2017 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 50 to 52 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. The Share Option Scheme has remained in force for a period of 10 years starting from the date of listing of the Company on 10 October 2007.

REPORT OF THE DIRECTORS

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 9.69% 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 2017. There was no share option outstanding under the Share Option Scheme as at 31 December 2017. The Share Option Scheme has expired and terminated on 10 October 2017.

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.

REPORT OF THE DIRECTORS

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 2017, none of the Restricted Shares were granted to any eligible participant pursuant to the Restricted Share Award Scheme. None of the Restricted Shares were vested during the year. As at 31 December 2017, 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.

As at 1/1/2017, the number of restricted shares are 23,050,071 shares. As at 31/12/2017, the number of restricted shares are 23,050,071 shares.

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 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2017, 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:

Name of Directors	Nature of interest	Number and class of securities		Approximate percentage of total issued Shares
		Long position	Short position	
Mr. Chen Yihong	Interest of a controlled corporation ⁽¹⁾	2,249,387,000 shares	—	39.64%
Mr. Zhang Zhiyong	Beneficial owner	138,410,025 shares	—	2.44%
Ms. Chen Chen	Interest of a controlled corporation ⁽²⁾	116,944,100 shares	—	2.06%
	Beneficial owner	3,000,000 shares	—	0.05%

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 2017, 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.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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:

Name of Shareholders	Nature of interest	Number of Shares		Approximate percentage of shareholding (%)
		Long position	Short position	
Poseidon Sports Limited	Corporate interest	2,249,387,000	—	39.64%
Talent Rainbow Far East Limited ⁽¹⁾	Interest in a controlled corporation	2,249,387,000	—	39.64%
Harvest Luck Development Limited ⁽¹⁾	Interest in a controlled corporation	2,249,387,000	—	39.64%

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.

Save as disclosed above, as at 31 December 2017, 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

On 25 April 2017, Tibet Plutus Investment Management Co., Ltd. ("**Tibet Plutus**"), a wholly-owned subsidiary of the Company, entered into a capital increase agreement (the "**Capital Increase Agreement**") with Huayi Brothers (Tianjin) Sports Culture Co. Ltd. ("**Huayi Sports**"), Huayi Brothers (Tianjin) Investment Co., Ltd. ("**Huayi Brothers (Tianjin)**"), Tibet Wensheng Jinda Investment Co. Ltd. ("**Tibet Wensheng**") and Jiasheng Xingye (Beijing) Investment Co. Ltd. ("**Jiasheng Xingye (Beijing)**"). As at the date of the Capital Increase Agreement, Huayi Sports was held by Huayi Brothers (Tianjin), Tibet Wensheng and Jiasheng Xingye (Beijing) held as to 51%, 25% and 24%, respectively.

Pursuant to the Capital Increase Agreement, Tibet Plutus agreed to contribute RMB20 million (the "**Capital Injection**") in cash to subscribe for approximately 1.82% of the enlarged equity interest of Huayi Sports upon completion of the Capital Injection.

As at the date of the Capital Increase Agreement, Tibet Wensheng is held as to 80% by Mr. Chen Yihong, an executive Director and the controlling shareholder of the Company and hence a controller pursuant to Rule 14A.28 of the Listing Rules. As at such date, Tibet Wensheng held 25% of the entire registered capital of Huayi Sports and was therefore a substantial shareholder of Huayi Sports. Accordingly, the Capital Injection constituted a connected transaction of the Company pursuant to Rule 14A.28 of the Listing Rules.

Please refer to the announcement of the Company dated 25 April 2017 for further details.

CONTINUING CONNECTED TRANSACTION

On 11 March 2016, 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 Mai Sheng Yue He Sportswear Company Limited ("**Mai Sheng Yue He**"), which at the material time was an associate of Mr. Chen Yihong (an executive Director) and hence a connected person of the Company, for regulating the terms of the supply of goods from Shanghai Kappa to Mai Sheng Yue He. The Framework Agreement shall expire on 31 December 2018 and the amount paid/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 ended/ending 31 December 2016, 2017 and 2018 shall not exceed RMB251,316,000, RMB301,579,000 and RMB361,895,000 (each the "**Annual Cap**"), respectively. 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. For the financial year ended 31 December 2017, the transactions conducted pursuant to the arrangement under the Framework Agreement amounted to RMB119,912,000.

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 for the financial year ended 31 December 2017.

REPORT OF THE DIRECTORS

The related party transactions are set out in Note 36 to the consolidated financial statements. Apart from the connected transaction and 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 2017, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 7% and 26% of the Group’s total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 9% and 19% of the Group’s total sales, respectively.

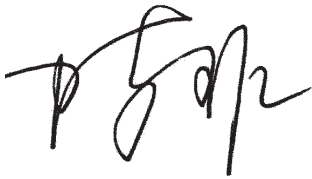
CORPORATE GOVERNANCE

Throughout 2017, the Company has complied with all the code provisions, except two deviations from code provisions 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 53 to 64 of this report.

REPORT OF THE DIRECTORS

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

21 March 2018

**INDEPENDENT
AUDITOR'S REPORT**

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 81 to 168, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

INDEPENDENT AUDITOR'S REPORT

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 unlisted 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 available-for-sale equity investments of RMB2,904 million.

The Group has invested in certain available-for-sale equity investments with fair value of RMB5,063 million as at 31 December 2017 and among which, RMB2,904 million is the Group's investments in unlisted available-for-sale equity investments, representing 26.6% of the total assets value of the Group as at 31 December 2017. 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 2017.

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 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 open market 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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

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") method: NAV report of the private equity funds prepared by management teams of these funds;
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;

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.

How our audit addressed the Key Audit Matter

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;

In our view, in the context of the inherent uncertainties as disclosed in the financial statements, we found the Group's valuation methods and determination of inputs and judgements used in the fair value assessment of the Group's level 3 available-for-sale equity investments was consistent with our understanding.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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, 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.

INDEPENDENT AUDITOR'S REPORT

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 Ng Ping Fai.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 21 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
Revenue	5	1,352,643	1,501,477
Cost of sales	6	(592,929)	(650,617)
(Provision for)/reversal of impairment losses of inventories	6	(6,300)	3,211
Gross profit		753,414	854,071
Distribution expenses	6	(566,316)	(488,336)
Administrative expenses	6	(120,112)	(158,987)
Other gains-net	7	959,864	808,974
Operating profit		1,026,850	1,015,722
Finance income	9	21,003	51,949
Finance expenses	9	(100,476)	(24,096)
Finance (expense)/income -net	9	(79,473)	27,853
Share of (loss)/profit of investments accounted for using the equity method	12(c)	(17,464)	4,250
Profit before income tax		929,913	1,047,825
Income tax expense	10	(128,984)	(178,090)
Profit for the year		800,929	869,735
Profit attributable to:			
— Owners of the Company		804,647	870,306
— Non-controlling interests		(3,718)	(571)
		800,929	869,735

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

Year ended 31 December 2017

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit for the year (Continued)	800,929	869,735
Other comprehensive income that may be reclassified to profit or loss:		
Change in fair value of available-for-sale financial assets	598,115	(419,349)
Currency translation differences	(114,191)	237,942
Other comprehensive income for the year, net of tax	483,924	(181,407)
Total comprehensive income for the year	1,284,853	688,328
Total comprehensive income attributable to:		
— Owners of the Company	1,288,571	688,899
— Non-controlling interests	(3,718)	(571)
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)		
Basic earnings per share	11	14.51
Diluted earnings per share	11	14.51

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

As at 31 December			
	Note	2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	97,168	68,666
Lease prepayments	14	10,866	11,151
Intangible assets	15	222,063	229,135
Investments accounted for using the equity method	12(c)	120,703	137,299
Deferred income tax assets	18	138,198	69,337
Available-for-sale financial assets non-current portion	17	4,850,968	4,516,210
Financial assets at fair value through profit or loss — non-current portion	22	119,167	72,138
Prepayments, deposits and other receivables — non-current portion	21	728,567	311,252
Total non-current assets		6,287,700	5,415,188
Current assets			
Inventories	19	321,021	255,100
Trade receivables	20	234,194	243,690
Prepayments, deposits and other receivables	21	1,977,022	2,402,757
Available-for-sale financial assets	17	212,412	189,400
Financial assets at fair value through profit or loss	22	322,846	421,438
Restricted cash	23	390,859	397,492
Term deposits with initial term over three months and within one year	23	100,899	106,798
Cash and cash equivalents	23	1,051,865	1,713,464
Total current assets		4,611,118	5,730,139
Total assets		10,898,818	11,145,327
Equity			
Equity attributable to owners of the Company			
Share capital	24	861,165	712,607
Shares held for employee share scheme	25	(196)	(196)
Reserve	26	8,724,395	8,945,098
		9,585,364	9,657,509
Non-controlling interests		13,295	17,013
Total equity		9,598,659	9,674,522

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December	
		2017 RMB'000	2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	31	274,497	—
Deferred income tax liabilities	18	163,287	118,769
Total non-current liabilities		437,784	118,769
Current liabilities			
Trade payables	28	152,079	163,519
Accruals and other payables	29	287,649	220,975
Derivatives	30	58,672	118,206
Current income tax liabilities		106,921	78,050
Borrowings	31	228,697	750,786
Provisions	32	28,357	20,500
Total current liabilities		862,375	1,352,036
Total liabilities		1,300,159	1,470,805
Total equity and liabilities		10,898,818	11,145,327

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Note	Attributable to owners of the Company							Total equity RMB'000
		Share capital RMB'000	Share premium account RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
Balance at 1 January 2016		53,589	940,705	(200)	1,603,518	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)	—	241,074	—	237,942	—	237,942
Total other comprehensive income, net of tax		—	(3,132)	—	(178,275)	—	(181,407)	—	(181,407)
Total comprehensive income		—	(3,132)	—	(178,275)	870,306	688,899	(571)	688,328
Dividends relating to 2015 final and 2016 interim	33	—	(278,555)	—	—	(284,388)	(562,943)	—	(562,943)
Shares vested under Restricted Share Award Scheme	27(b)	—	—	4	443	—	447	—	447
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(278,555)	4	443	(284,388)	(562,496)	—	(562,496)
Appropriation to statutory reserves	26	—	—	—	15,595	(15,595)	—	—	—
Total transactions with owners, recognised directly in equity		—	(278,555)	4	16,038	(299,983)	(562,496)	—	(562,496)
Balance at 31 December 2016		53,589	659,018	(196)	1,441,281	7,503,817	9,657,509	17,013	9,674,522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Note	Attributable to owners of the Company							Total equity RMB'000
		Share capital RMB'000	Share premium account RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
Balance at 1 January 2017		53,589	659,018	(196)	1,441,281	7,503,817	9,657,509	17,013	9,674,522
Comprehensive income									
Profit for the year		—	—	—	—	804,647	804,647	(3,718)	800,929
Other comprehensive income									
Disposals-fair value reclassified to income statement		—	—	—	(670,798)	—	(670,798)	—	(670,798)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities		—	—	—	1,268,913	—	1,268,913	—	1,268,913
Currency translation differences		—	—	—	(114,191)	—	(114,191)	—	(114,191)
Total other comprehensive income, net of tax		—	—	—	483,924	—	483,924	—	483,924
Total comprehensive income		—	—	—	483,924	804,647	1,288,571	(3,718)	1,284,853
Dividends relating to 2016 final and 2017 interim	33	—	—	—	—	(1,509,274)	(1,509,274)	—	(1,509,274)
Issuance of new ordinary shares	24(a)	1,179	147,379	—	—	—	148,558	—	148,558
Total contributions by and distributions to owners of the Company, recognised directly in equity		1,179	147,379	—	—	(1,509,274)	(1,360,716)	—	(1,360,716)
Appropriation to statutory reserves	26	—	—	—	14,592	(14,592)	—	—	—
Disposal of a subsidiary		—	—	—	(630)	630	—	—	—
Total transactions with owners, recognised directly in equity		1,179	147,379	—	13,962	(1,523,236)	(1,360,716)	—	(1,360,716)
Balance at 31 December 2017		54,768	806,397	(196)	1,939,167	6,785,228	9,585,364	13,295	9,598,659

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2017

Year ended 31 December			
	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	120,309	294,959
Interest received		20,172	3,186
Income tax paid		(119,940)	(192,608)
Net cash generated from operating activities		20,541	105,537
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(41,079)	(4,049)
Purchase of intangible assets	15	(4,687)	(1,584)
Proceeds from disposal of property, plant and equipment	34	29	998
Redemption of term deposits with initial terms of over three months and long term bank deposits	23	5,899	124,899
Purchase of financial assets (exclude available-for-sale financial assets)		(2,996,220)	(4,382,989)
Sale of financial assets (exclude available-for-sale financial assets)		3,214,419	5,462,122
Dividends received from the investment in available-for-sale financial assets		36,963	75,497
Interest received from financial assets (exclude available-for-sale financial assets)		141,356	46,009
Investments in available-for-sale financial assets		(690,019)	(1,923,167)
Proceeds from disposal of available-for-sale financial assets		1,471,789	1,842,854
Premium received from put option and call option		16,708	—
Net cash generated from investing activities		1,155,158	1,240,590
Cash flows from financing activities			
Proceeds from borrowings	34	228,697	788,814
Repayments of borrowings	34	(459,368)	(492,580)
Interest paid		(20,472)	(16,323)
Dividends paid	33	(1,509,274)	(565,341)
Decrease/(increase) in restricted cash	23	6,633	(329,844)
Net cash used in financing activities		(1,753,784)	(615,274)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		1,713,464	909,865
Exchange gains on cash and cash equivalents		(83,514)	72,746
Cash and cash equivalents at end of the year	23	1,051,865	1,713,464

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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 and investment activities in Mainland of the People’s Republic of China (the “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 21 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

(i) *Compliance with IFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and requirements of the Hong Kong Companies Ordinance Cap. 622.

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.

(ii) *Historical cost convention*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Basis of preparation (Continued)

(iii) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to IAS 12, and
- Disclosure initiative — amendments to IAS 7.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see more 33(c).

(iv) 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 2018 and have not been applied in preparing these consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements to IFRS Standards 2014–2016 Cycle, and
- Transfers of Investment Property — Amendments to IAS 40.

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:

IFRS 9, "Financial instruments"

Nature of change

IFRS 9 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.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Basis of preparation (Continued)

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

IFRS 9, "Financial instruments" (Continued)

Impact (Continued)

While the Group is undertaking a detailed assessment of the classification and measurement of financial assets, the majority of the Group's financial assets include:

- equity instruments currently classified as AFS will have to be reclassified to financial assets at fair value through profit or loss ("FVPL"). Related fair value gains of RMB1,957,344,000 will have to be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018;
- equity investments currently measured at FVPL, including held for trading and designated at fair value through profit or loss, which will continue to be measured on the same basis under IFRS 9;
- loans and receivables currently measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9; and
- wealth management products currently measured at amortised cost (after bifurcating the embedded derivatives) which will be reclassified to FVPL as a whole and the impact to retained earnings is not material.

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 Group does not have any such liabilities. 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) model rather than only incurred credit losses model as is the case under IAS 39. It applies to financial assets classified at amortised cost to the Group. Based on the assessments undertaken to date, the Group doesn't expect a significant increase in the loss allowance for trade debtors and loan debtors, which will be adjusted to the beginning balance of retained earnings in 2018.

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.

Date of adoption by group

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Basis of preparation (Continued)

(iv) *New standards and interpretations not yet adopted (Continued)*

IFRS 15, "Revenue from contracts with customers"

Nature of change

The International Accounting Standards Board ("IASB") 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 and the related literature.

The new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Based on the management current assessment, it is considered that the following areas will 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.
- 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.

The new standard provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

Management expected that the new standards of IFRS 15 will not have significant effect on the financial statements of the Group.

Date of adoption by group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1. Basis of preparation (Continued)

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

IFRS 16, "Leases"

Nature of change

IFRS 16 was issued in January 2016. For leases, it 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.

Impact

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 RMB50,685,000 (Note 35). 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.

Mandatory application date/Date of adoption by group

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 standards that are not yet effective and that would be expected to have a material impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.3).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) *Joint arrangements*

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation and equity accounting (Continued)

(iv) *Equity accounting*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.10.

(v) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

(i) *Business combinations under common control*

Business combinations under common control refers to combinations where the combining entities are controlled by the same parties before and after the combination and that control is not transitory.

The acquirer measures both the consideration paid and net assets obtained at their carrying amounts. The difference between the carrying amounts of the net assets obtained and the carrying amount of the consideration paid is recorded in reserve. All direct transaction cost attributable to the business combination is recorded in the consolidated statements of comprehensive income in the current period. However, the handling fees, commissions and other expenses incurred for the issuance of equity instruments or bonds for the business combination are recorded in the initial measurement of the equity instruments and bonds respectively.

(ii) *Business combinations not under common control*

The acquisition method of accounting is used to account for the business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (Continued)

(ii) Business combinations not under common control (Continued)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 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 received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a 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.

2.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

(i) *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.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance income-net. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains-net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) *Group companies*

The results and financial position of foreign operations (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; and
- income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 – 5 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 proceeds with carrying amount. These are included in other gains-net.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9. Intangible assets

(i) Trademarks

Separately acquired trademarks and licences are shown at historical cost. Trademarks, licenses and customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(ii) 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.

(iii) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Patents, trademark and licences 40 years
- IT development and software 2 – 5 years

2.10. Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11. Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss ("FVPL"),
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

(i) Classification (Continued)

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

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

(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. If collection of the amounts is expected in one year or less they are classified as current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables' and 'term deposits' in the balance sheet (Note 2.16 and 2.17).

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Gain or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the consolidated statement of comprehensive income.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' — in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of the consolidated statement of comprehensive income when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the other gains-net. Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other gains.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3(a).

2.12. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the group currently has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13. Impairment of financial assets

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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) *Assets carried at amortised cost*

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, 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 profit or loss. If a loan 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.

Impairment testing of trade receivables is described in note 20.

(b) *Assets classified as available-for-sale*

If there is objective evidence of impairment for available-for-sale financial assets, 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 removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in the consolidated statement of comprehensive income are not reversed through the consolidated statement of comprehensive income in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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

Raw materials, work in progress and finished goods

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.11 for further information about the group's accounting for trade receivables and note 2.13 for a description of the group's impairment policies.

2.17. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.18. Share capital and shares held for employee share scheme

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.

Where the Company's shares are acquired from the market by the Group in 2010. Restricted Share Award Scheme Trust (the "Trust") under the employee share scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for employee share scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for employee share scheme purchased from the market are credited to shares held for employee share scheme, with a corresponding decrease in employee share-based compensation reserve for employee share scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment 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 reporting period.

2.21 Borrowings cost

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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.

Other borrowing costs are expensed in the period in which they are incurred.

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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.

2.23 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(ii) Pension obligations (Continued)

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.

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.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) 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.

2.24. Share-based payments

The Company adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 27(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24. Share-based payments (Continued)

At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In the Company's 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 legal claims, service warranties and make good obligations 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 can be reliably estimated. 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates 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 on-line 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Interest income

Interest income is recognised using the effective interest method. When a 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 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 not transferred to the group as lessee are classified as operating leases (note 35). 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 financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Recognised financial assets and liabilities denominated in foreign currency different from its functional currency	Sensitivity analysis
Market risk — interest rate	Short-term borrowings at variable rates	Sensitivity analysis
Market risk — security prices	Investments in equity securities	Sensitivity analysis
Credit risk	Cash and cash equivalents, trade and loans receivables	Credit Limits
Liquidity risk	Borrowings, derivatives and other liabilities	Rolling cash flow forecasts

3.1. Financial risk factors

(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 are from overseas (other than Japan) that are settled mainly in USD. Foreign exchange risk also arises from certain bank deposits and loans denominated in currencies other than the functional currencies of the respective companies.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 December 2017				31 December 2016			
	USD RMB'000	EUR RMB'000	HKD RMB'000	RMB RMB'000	USD RMB'000	EUR RMB'000	HKD RMB'000	RMB RMB'000
Deposits	107,802	5,310	272,782	71	303,300	717	214,831	71
Bank loans	—	—	—	—	—	—	(161,077)	—
Trade Payables	(36,898)	—	—	—	(35,960)	(221)	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	2017 RMB'000	2016 RMB'000
Amounts recognised in profit or loss		
Net foreign exchange (losses)/gains included in deposits	(24,246)	26,086
Exchange losses on foreign currency borrowing included in finance costs	(121)	(50)
Net foreign exchange losses included in trade payables	(2,870)	(3,631)
Total net foreign exchange (losses)/gains recognised in profit before income tax for the period	(27,237)	22,405

Sensitivity

As shown in the table below, the Group is primarily exposed to changes in USD/RMB and HKD/RMB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from the deposits denominated in Hong Kong Dollars ("HKD") and USD in the PRC subsidiaries, the functional currency of which is RMB, and the deposits and bank loans denominated in HKD in the Company and overseas subsidiaries of which the functional currency is USD.

	2017 RMB'000	2016 RMB'000
USD/RMB exchange rate — increase 5% (5%)	4,059	12,522
USD/RMB exchange rate — decrease 5% (5%)	(4,059)	(12,522)
HKD/RMB exchange rate — increase 5% (5%)	12,375	233
HKD/RMB exchange rate — decrease 5% (5%)	(12,375)	(233)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Sensitivity (Continued)

Profit is less sensitive to movements in the USD/RMB exchange rates in 2017 than in 2016 because of the decreased amount of USD denominated deposits. Profit is more sensitive to movements in the HKD/RMB exchange rates in 2017 than in 2016 because of the decreased amount of HKD denominated bank loans. The Group's exposure to other foreign exchange movements is not material.

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the group to cash flow interest rate risk. The Group currently does not hedge its exposure to interest rate risk. During 2017 and 2016, the Group's borrowings at variable rate were mainly denominated in US Dollars.

The Group's borrowings are carried at amortised cost. The borrowings are quarterly contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

Profit or loss is sensitive to higher/lower interest expense from borrowings as a result of changes in interest rates.

	Impact on post tax profit	
	2017 RMB'000	2016 RMB'000
Interest rates — increase by 50 basis points (50 bps)	(66)	(41)
Interest rates — decrease by 50 basis points (50 bps)	66	41

(iii) Price risk

The Group is exposed to equity securities price risk because of certain listed equity 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 2017, if all the share prices of the Group's listed equity securities had risen/fallen by 10% consistently 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 RMB215,955,000 (2016: RMB198,620,000) and RMB12,470,000 (2016: RMB33,360,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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 2017, all the bank deposits are deposited in financial institutions of high credit quality without significant credit risk.

The credit risk of trade receivables arises from that customers fail to pay back money on time. The Group has established different credit limits for different customers and accrued enough bad debts according to aging analysis, hence the credit risk is low.

The credit risk of loans receivables arises from that borrowers fail to repay loans on time. All of the loans receivables are secured by mortgages, pledges or guarantees, including shares, real estate, artworks, etc. The Group has assessed the credit status of each borrower and the value of the collaterals has been taken into account when calculating the provision for impairment.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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. Since the Group's financial liabilities are the contractual amounts to be exchanged in derivative financial instruments for which gross net cash flows are exchanged and gross loan commitments, the amounts disclosed in the table are the contractual undiscounted cash flows.

	RMB'000
At 31 December 2017	
Non-derivatives	
Borrowings including interest payable	506,498
Trade payables (Note 28)	152,079
Accruals and other payables (Note 29)	142,291
Total Non-derivatives	800,868
Derivatives (Note 30)	735,525
At 31 December 2016	
Non-derivatives	
Borrowings including interest payable	753,372
Trade payables (Note 28)	163,519
Accruals and other payables (Note 29)	99,599
Total Non-derivatives	1,016,490
Derivatives (Note 30)	3,055,874

Same as disclosed in Note 30, during the year 2017, the Group entered certain investment agreements with an investment bank in which the Group would be required to sell and buy certain selected listed shares on the NYSE at a fixed price. Besides, the Group sold call options and put options, of which the underlyings are listed shares on the NYSE. Such investments were derivatives and stated at fair value as at 2017 year end.

In accordance with the price of listed shares in contracts, the maximum possible amount to settle derivatives is RMB735,525,000 (2016: RMB3,055,874,000), though the final payout may not be to such extent.

All of the derivatives will be mature within one year, while the amount of the non-derivatives which will be due within one year is RMB526,371,000 (2016: RMB1,016,490,000). The amount of the non-derivatives which will be due within one to two years is RMB274,497,000 (2016:Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2017 and 2016, the Group has no net debt.

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 31 December 2017	Level 1 RMB'000	Level 3 RMB'000	Total RMB'000
Assets			
Available-for-sale financial assets (Note 17)	2,159,550	2,903,830	5,063,380
Financial asset at fair value through profit or loss (Note 22)	336,783	105,230	442,013
	2,496,333	3,009,060	5,505,393
Liabilities			
Derivatives (Note 30)	(42,908)	(15,764)	(58,672)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

At 31 December 2016	Level 1 RMB'000	Level 3 RMB'000	Total RMB'000
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
Liabilities			
Derivatives	—	(118,206)	(118,206)

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see (iii) below. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. 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.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis, price of recent investment method and NAV report method.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 31 December 2017 and 31 December 2016:

	Equity securities RMB'000	Financial assets designated at fair value through profit or loss RMB'000	Derivatives RMB'000	Total RMB'000
Opening balance 1 January 2016	1,548,932	150,000	—	1,698,932
Exchange differences	21,148	—	(3,778)	17,370
Acquisitions	1,387,831	—	—	1,387,831
Disposals	(361,000)	—	—	(361,000)
Gains recognised in other comprehensive income	224,728	—	—	224,728
Losses recognised in other income	(85,808)	—	(114,428)	(200,236)
Closing balance 31 December 2016	2,735,831	150,000	(118,206)	2,767,625
Exchange differences	(27,438)	—	3,917	(23,521)
Acquisitions	690,019	—	—	690,019
Disposals	(497,652)	(50,000)	—	(547,652)
Losses recognised in other comprehensive income	(111,274)	—	—	(111,274)
Gains recognised in other income*	119,574	—	98,525	218,099
Closing balance 31 December 2017	2,909,060	100,000	(15,764)	2,993,296

* includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period

2017	(10,544)	—	—	(10,544)
2016	(159,156)	—	—	(159,156)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(iii) Fair value measurements using significant unobservable inputs (level 3) (Continued)

The fair value assessment methods and related key assumptions and judgements adopted by the Group's management ("Management") is as follow:

- Net Assets Valuation Report/Summary ("NAV report") method: NAV report of the private equity funds prepared by management teams of these funds;
- Price of recent investment method: the price of the recent investment and changes subsequent to the relevant transaction date;
- Discounted cash flow method: discount rates and expected future cash flows from these investments.

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 model, etc. To the extent practical, models use 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) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Sales returns and discounts provision

Depending on agreement between the Group's certain subsidiaries and their distributors, selected 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.

(d) 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 2017, the Group made a provision for impairment loss of out-season inventories of RMB121,237,000 (2016: RMB114,937,000) (Note 19).

(e) 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 easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained. As at 31 December 2017, the Group made a provision for impairment of trade and other receivables of RMB70,314,000 (2016: RMB115,917,000) (Note 20, 21).

(f) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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 examines the Group's 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 sales 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

5. SEGMENT INFORMATION (CONTINUED)

The segment information for the year ended 31 December 2017 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 2017					
Total revenue before inter-segment elimination	1,054,769	322,960	—	—	1,377,729
Inter-segment revenue	(18,175)	(6,911)	—	—	(25,086)
Revenue from external customers	1,036,594	316,049	—	—	1,352,643
Cost of goods sold	(389,461)	(203,468)	—	—	(592,929)
Provision for impairment losses of inventories	(573)	(5,727)	—	—	(6,300)
Segment gross profit	646,560	106,854	—	—	753,414
Other gains, net	13,763	3,968	942,133	—	959,864
Segment operating profit/(loss)	187,676	(39,652)	914,342	(35,516)	1,026,850
Finance income	20,990	7	—	6	21,003
Finance expense	(75,451)	(2,055)	—	(22,970)	(100,476)
Share of loss of investments accounted for using the equity method	(9,682)	(1,193)	(6,589)	—	(17,464)
Profit/(loss) before income tax	123,533	(42,893)	907,753	(58,480)	929,913
Income tax expense	(96,620)	(890)	(31,474)	—	(128,984)
Profit/(loss) for the year	26,913	(43,783)	876,279	(58,480)	800,929
Other material items of income and expense					
Depreciation and amortisation	19,271	3,806	—	—	23,077
Reversal of impairment losses of trade and other receivables	(45,250)	(5,382)	—	—	(50,632)
Advertising and selling expenses	310,850	40,005	—	—	350,855

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Year ended 31 December 2017

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 profits/(loss) 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

The operating loss of RMB35,516,000 (2016: RMB39,867,000) (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.

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Year ended 31 December 2017

5. SEGMENT INFORMATION (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
China		
— Distribution of Kappa Brand products	382,503	571,989
— Retail of Kappa Brand products	510,185	442,934
— Kappa kids, international business and others	143,906	114,943
	1,036,594	1,129,866
Japan		
— Distribution and retail of Kappa Brand products	95,266	123,855
— Distribution and retail of Phenix Brand products	220,783	247,756
	316,049	371,611
Sales	1,352,643	1,501,477

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Year ended 31 December 2017

5. SEGMENT INFORMATION (CONTINUED)

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 segments and the physical location of the assets.

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 2017					
Investments accounted for using the equity method	47,214	14,457	59,032	—	120,703
Available-for-sale financial assets	—	—	5,063,380	—	5,063,380
Deferred income tax assets	138,198	—	—	—	138,198
Other assets	2,277,285	295,131	2,833,870	271,282	5,677,568
Total assets before inter-segment elimination	2,462,697	309,588	7,956,282	271,282	10,999,849
Inter-segment elimination	(45,379)	(3,491)	—	(52,161)	(101,031)
Segment assets	2,417,318	306,097	7,956,282	219,121	10,898,818
Deferred income tax liabilities	131,552	3,587	28,148	—	163,287
Current income tax liabilities	105,788	1,133	—	—	106,921
Other liabilities	365,198	151,542	333,168	281,074	1,130,982
Total liabilities before inter-segment elimination	602,538	156,262	361,316	281,074	1,401,190
Inter-segment elimination	(3,477)	(45,177)	—	(52,377)	(101,031)
Segment liabilities	599,061	111,085	361,316	228,697	1,300,159
As at 31 December 2016					
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	108,581	6,338,885
Total assets before inter-segment elimination	2,955,611	335,324	7,851,615	108,581	11,251,131
Inter-segment elimination	(43,712)	(14,661)	—	(47,431)	(105,804)
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	327,964	136,461	570,701	344,664	1,379,790
Total liabilities before inter-segment elimination	472,804	141,363	617,778	344,664	1,576,609
Inter-segment elimination	(15,107)	(44,324)	—	(46,373)	(105,804)
Segment liabilities	457,697	97,039	617,778	298,291	1,470,805

As at 31 December 2017, the total non-current assets other than financial assets and deferred tax assets located in the PRC amounted to RMB473,846,000 (2016: RMB469,208,000) and those located in other countries and regions amounted to RMB61,564,000 (2016: RMB73,513,000).

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Year ended 31 December 2017

6. EXPENSES BY NATURE

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

	2017 RMB'000	2016 RMB'000
Cost of inventories recognised as cost of sales (Note 19)	592,929	650,617
Advertising and selling expenses	350,855	277,422
Employee salary and benefit expenses (Note 8)	157,325	151,044
Logistic fees	71,052	70,232
Design and product development expenses	35,516	39,867
Operating lease in respect of buildings	27,133	25,538
Travelling expenses	18,750	16,151
Amortisation of lease prepayments and intangible assets (Note 14, 15)	11,619	12,985
Depreciation of property, plant and equipment (Note 13)	11,458	11,196
Legal and consulting expenses	13,974	8,474
Auditor's remuneration	4,470	4,108
— Audit services	4,000	3,800
— Non-audit services	470	308
Provision for/(Reversal of) impairment losses of inventories (Note 19)	6,300	(3,211)
Reversal of impairment losses of trade and other receivables (Note 20, 21)	(50,632)	(13,779)
Others	34,908	44,085
	1,285,657	1,294,729

7. OTHER GAINS — NET

	2017 RMB'000	2016 RMB'000
Gain on disposal of available-for-sale financial assets	670,798	967,588
Investment income from financial assets	215,204	115,253
Change in fair value of financial instruments at fair value through profit or loss	55,182	(295,369)
Government subsidy income	14,210	11,876
Royalty income	3,426	3,986
Others-net	1,044	5,640
	959,864	808,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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

	2017 RMB'000	2016 RMB'000
Wages and salaries	98,846	100,511
Pension costs (Note (a))	20,924	20,297
Termination benefits	3,255	1,207
Restricted Share Award Scheme (Note 27(b))	—	447
Other benefits	34,300	28,582
	157,325	151,044

Notes:

(a) Pensions — defined contribution plans

The employees of the Group in the PRC, (including 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 20% (2016: 13% to 21%) in the PRC and 9.15% (2016: 9.10%) 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.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2016: two) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining two (2016: three) individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and others	1,718	2,963
Pension costs	85	81
	1,803	3,044

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands:		
HKD1,000,001 to HKD1,500,000	2	3

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Year ended 31 December 2017

9. FINANCE EXPENSE — NET

	2017 RMB'000	2016 RMB'000
Finance income:		
— Foreign exchange gain	—	38,641
— Interest income	21,003	13,308
	21,003	51,949
Finance expenses:		
— Foreign exchange losses	(74,956)	—
— Interest expense	(21,408)	(18,748)
— Others	(4,112)	(5,348)
	(100,476)	(24,096)
Finance (expense)/income — net	(79,473)	27,853

10. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	147,719	129,513
— Taxation in Japan	1,092	1,011
Deferred income tax (Note 18)	(19,827)	47,566
	128,984	178,090

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 2017 (2016: Nil).

Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2016: 25%) on the assessable income of the group companies, except for Group's subsidiaries incorporated in Tibet Autonomous Region which is subject to preferential tax rate of 9% (2016: 9%).

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Year ended 31 December 2017

10. INCOME TAX EXPENSE (CONTINUED)

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 2017, the Group had provided a deferred tax liability amounting to RMB121,929,000 (2016: RMB82,027,000) in relation to the profit of the Group's 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 at 31 December 2017 and 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 (2016: 15% or 23.4%) 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 2017 (2016: Nil), the subsidiary was subject to the minimum inhabitant tax payments.

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:

	2017 RMB'000	2016 RMB'000
Profit before income tax	929,913	1,047,825
Tax calculated at tax rates applicable to profits in the respective countries	83,219	108,855
Tax effects of:		
— Tax losses and temporary differences for which no deferred income tax asset was recognised	1,546	30,513
— Provision for withholding income tax on profits of PRC subsidiaries to be distributed to foreign investors (Note 18)	39,902	42,924
— Expenses or losses not deductible for tax purpose	8,554	678
— Impact on share of results of joint ventures	2,421	1,367
— Income not subject to tax	(6,658)	(6,247)
Income tax expense	128,984	178,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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.

	2017	2016
Profit attributable to owners of the Company (RMB'000)	804,647	870,306
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	5,545,204	5,513,180
Basic earnings per share (RMB cents per share)	14.51	15.79

(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 2017, no ordinary share subject to potential dilution (2016: Nil).

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Year ended 31 December 2017

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2017:

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%	—	Owens 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

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Year ended 31 December 2017

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
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
哈爾濱克瑞斯體育用品有限公司 Haerbin Crius Sporting Goods Co. Ltd.	Harbin, the PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
Hebe Fashions Pte., Ltd.	Singapore	Singapore Dollar 1	—	100%	—	Investment holding, Singapore
Cronus Sports Pte., 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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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 Criust 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

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Year ended 31 December 2017

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 DongxiangSporting 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
西藏瑞亞體育用品有限公司 Tibet Rhea Sporting Goods Co., Ltd.	Tibet, the PRC	RMB5,000,000	—	100%	—	Purchase for children's garments
上海特提斯體育用品有限公司 Shanghai Tethys Sporting Goods Co., Ltd.	Shanghai, PRC	RMB20,000,000	—	100%	—	Sales company
南京克瑞特斯體育用品有限公司 Nanjing Curetes Sporting Goods Co., Ltd.	Nanjing, PRC	RMB3,000,000	—	100%	—	Retail company
Phenix Ski Europe S.A	Swit	CHF105,000	—	100%	—	Retail company for Phenix

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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

(b) Non-controlling interests

The total non-controlling interests as at 31 December 2017 amounted to RMB13,295,000 (2016: RMB17,013,000). No subsidiary has non-controlling interests that are material to the Group.

(c) Investments accounted for using the equity method

(i) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the group as at 31 December 2017 which, in the opinion of the directors, are immaterial to the group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of the ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2017	2016			2017	2016
		%	%			RMB'000	RMB'000
Shanghai Phenix Apparel Co., Ltd. (上海菲尼克斯製衣有限公司)	PRC	38%	38%	Joint Venture	Equity method	14,457	15,650
Mai Sheng Yue He Sporting Goods Co., Ltd Group ("MSYH") (邁盛悅合體育用品有限公司)	PRC	30%	30%	Joint Venture	Equity method	47,214	53,224
Boundary Bay Investment LLC	US	35%	35%	Associate	Equity method	58,647	67,731
ChengDu RenYi Yue Li Tech. Co, Ltd	China	20%	20%	Associate	Equity method	385	694
Total equity accounted investments						120,703	137,299

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

(c) Investments accounted for using the equity method (continued)

(i) *Interests in associates and joint ventures (continued)*

The Group uses the equity method for accounting these investments. The table below provides the aggregate carrying amount information.

	2017	2016
Opening net assets 1 January	137,299	144,617
Share of (loss)/profit for the year	(17,464)	4,250
Share of other comprehensive income	942	(1,787)
Elimination of unrealised profit	3,672	(18,080)
Exchange difference	(3,746)	8,299
Closing net assets	120,703	137,299

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13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Office furniture and equipment	Vehicles	Leasehold improvements	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016							
Cost	7,725	73,332	74,588	5,642	16,834	588	178,709
Accumulated depreciation	—	(29,839)	(54,354)	(5,059)	(8,367)	—	(97,619)
Exchange difference	(765)	(219)	(2,444)	1	(2,134)	(127)	(5,688)
Net book amount	6,960	43,274	17,790	584	6,333	461	75,402
Year ended 31 December 2016							
Opening net book amount	6,960	43,274	17,790	584	6,333	461	75,402
Additions	178	238	2,952	300	391	—	4,059
Disposals	—	(2)	(600)	(55)	(138)	(510)	(1,305)
Depreciation (Note 6)	—	(3,453)	(5,688)	(206)	(1,849)	—	(11,196)
Exchange difference	272	184	528	—	672	50	1,706
Closing net book amount	7,410	40,241	14,982	623	5,409	1	68,666
At 31 December 2016							
Cost	7,903	73,568	74,279	4,861	17,010	78	177,699
Accumulated depreciation	—	(33,292)	(57,381)	(4,239)	(10,139)	—	(105,051)
Exchange difference	(493)	(35)	(1,916)	1	(1,462)	(77)	(3,982)
Net book amount	7,410	40,241	14,982	623	5,409	1	68,666
Year ended 31 December 2017							
Opening net book amount	7,410	40,241	14,982	623	5,409	1	68,666
Additions	19,149	1,933	4,605	397	1,433	13,562	41,079
Disposals	—	—	(193)	(155)	(10)	—	(358)
Depreciation (Note 6)	—	(3,511)	(5,994)	(146)	(1,807)	—	(11,458)
Exchange difference	(244)	(204)	(158)	—	(155)	—	(761)
Closing net book amount	26,315	38,459	13,242	719	4,870	13,563	97,168
At 31 December 2017							
Cost	27,052	75,501	75,194	2,169	16,706	13,640	210,262
Accumulated depreciation	—	(36,803)	(59,878)	(1,451)	(10,219)	—	(108,351)
Exchange difference	(737)	(239)	(2,074)	1	(1,617)	(77)	(4,743)
Net book amount	26,315	38,459	13,242	719	4,870	13,563	97,168

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2017 RMB'000	2016 RMB'000
Administrative expenses	5,440	5,686
Manufacturing overheads included in cost of goods sold	2,216	2,179
Distribution and selling expenses	3,802	3,331
	11,458	11,196

There is no pledge of property, plant and equipment of the Group as at 31 December 2017 and 2016.

The Group owns freehold land and buildings located in Japan and 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.

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14. LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000
At 1 January 2016	
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
Year ended 31 December 2017	
Opening net book amount	11,151
Amortisation charge (Note 6)	(285)
Closing net book amount	10,866
At 31 December 2017	
Cost	14,262
Accumulated amortisation	(3,396)
Net book amount	10,866

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 2017, the remaining lease periods of the land use right are from 38 to 39 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.

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Year ended 31 December 2017

15. INTANGIBLE ASSETS

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2016				
Cost	408,381	8,605	69,492	486,478
Accumulated amortization	(179,257)	(1,218)	(61,842)	(242,317)
Exchange difference	(4,972)	—	(382)	(5,354)
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	408,381	8,605	71,076	488,062
Accumulated amortisation	(186,774)	(1,433)	(66,809)	(255,016)
Exchange difference	(3,550)	—	(361)	(3,911)
Net book amount	218,057	7,172	3,906	229,135
Year ended 31 December 2017				
Opening net book amount	218,057	7,172	3,906	229,135
Additions	—	—	4,687	4,687
Amortisation charge (Note 6)	(7,504)	(215)	(3,615)	(11,334)
Exchange difference	(411)	—	(14)	(425)
Closing net book amount	210,142	6,957	4,964	222,063
At 31 December 2017				
Cost	408,381	8,605	74,532	491,518
Accumulated amortisation	(194,278)	(1,648)	(69,193)	(265,119)
Exchange difference	(3,961)	—	(375)	(4,336)
Net book amount	210,142	6,957	4,964	222,063

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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

Assets as per balance sheet

	Available- for-sale RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
As at 31 December 2017				
Available-for-sale financial assets (Note 17)	5,063,380	—	—	5,063,380
Financial assets at fair value through profit or loss (Note 22)	—	442,013	—	442,013
Trade and other receivables excluding prepayments	—	—	2,873,550	2,873,550
Cash and bank balances (Note 23)	—	—	1,543,623	1,543,623
	5,063,380	442,013	4,417,173	9,922,566
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	—	—	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

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16. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Liabilities as per balance sheet

	Financial liabilities at amortised cost RMB'000	Derivatives at fair value through profit and loss RMB'000	Total RMB'000
As at 31 December 2017			
Borrowings (Note 31)	503,194	—	503,194
Trade and other payables (Note 28 and 29)	294,370	—	294,370
Derivatives (Note 30)	—	58,672	58,672
	797,564	58,672	856,236
As at 31 December 2016			
Borrowings (Note 31)	750,786	—	750,786
Trade and other payables (Note 28 and 29)	263,118	—	263,118
Derivatives (Note 30)	—	118,206	118,206
	1,013,904	118,206	1,132,110

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17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	Notes	2017 RMB'000	2016 RMB'000
Market value of listed securities			
Alibaba Group Holding Limited ("Alibaba")	(a)	2,159,550	1,986,190
Unlisted equity securities			
Zhongxin Secondary Market Fund	(b)	325,787	—
Panmao (Shanghai) Investment Center LP	(b)	49,473	—
Panxin (Shanghai) Investment Center LP	(b)	30,900	—
Tibet Ruixintong Venture Investment Center LP	(c)	300,467	300,334
Hangzhou Yuanxin Dongchao Equity Investment LP	(d)	272,915	275,184
Yunfeng Fund USD II	(e)	253,906	185,564
Herun Piloting Jiashi Investment Preferred Cornerstone Investment Fund	(f)	197,979	200,000
Yunfeng Fund RMB II	(g)	162,952	324,692
CITIC Mezzanine Fund I	(h)	132,169	247,667
Herun Piloting Jiashi Investment Preferred Phase II Investment No.3 Fund	(i)	104,886	—
Yunfeng Fund RMB III	(j)	100,151	68,100
Shenzhen Chishan Evergreen Equity Investment Center LP	(k)	84,234	64,088
Xiaocun Industry Development Private Placement Investment No. 8 Fund	(l)	80,244	73,286
Jiaxing Daotong Chuangzhi Phase I Investment LP	(m)	75,327	50,000
Beijing Sequoia Yade Equity Investment Management Center LP	(n)	67,852	37,500
Elite International Investment Fund VII LP	(o)	66,000	66,000
Vision Knight Capital (China) Fund	(p)	63,950	60,000
Shenzhen Hongtai Growth Venture Investment Center LP	(q)	62,887	30,000
Herun Piloting Jiashi Investment New Technology Cornerstone Investment Fund	(r)	58,432	50,000
Beijing Jiashi Yuan Xin Investment Center LP	(s)	50,138	50,000
Others	(t)	363,181	637,005
		2,903,830	2,719,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

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 June 2017, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Zhongxin Secondary Market Fund, Panmao (Shanghai) Investment Center LP and Panxin (Shanghai) Investment Center LP, which mainly made equity and debt investments in companies of various industries.
- (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 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.
- (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 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.
- (h) 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.
- (i) In April 2017, the Group subscribed for fund units of Herun Piloting Jiashi Investment Preferred Phase II Investment No.3 Fund, which mainly invested in financial services and high-tech industry entities.
- (j) 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 entertainment industry in the US.
- (k) 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.
- (l) 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.

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Year ended 31 December 2017

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

Notes: (Continued)

- (m) In November 2014, the Group entered into subscription agreements and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Jiaying Daotong Chuangzhi Phase I Investment LP, which mainly invested in high-tech industry.
- (n) In June 2016, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Beijing Sequoia Yade Equity Investment Management Center LP, which mainly invests in energy, technology, media and health care industry.
- (o) 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 the US.
- (p) 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.
- (q) In October 2015, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Shenzhen Hongtai Growth Venture Investment Center LP, which mainly on investments in internet industry, E-commerce industry, entertainment industry, education, environmental protection, health and other fields.
- (r) In July 2016, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Herun Piloting Jiashi Investment New technology Cornerstone Investment Fund, which is mainly focusing on investments in Emerging science and technology health industry.
- (s) In October 2016, the Group entered into subscription and limited partnership agreements, pursuant to which the Group subscribed for limited partnership interests in Beijing Jiashi Yuan Xin Investment Center LP, which principal business is investment on internet finance industry.
- (t) Other equity investments mainly include investments in unlisted investment funds, whose investments are mainly in high-tech industry, finance services industry and manufacturing industry.
- (u) During the year, the following gains/(losses) were recognised in profit or loss and other comprehensive income:

	2017 RMB'000	2016 RMB'000
Gains recognised in other comprehensive income (Note 26)	1,264,397	503,455
Gains recognised in profit or loss as other income, being reclassified from other comprehensive income on sale (Note 7)	670,798	905,555

None of the available-for-sale financial assets are either past due or impaired during 2017.

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18. DEFERRED INCOME TAX

	2017 RMB'000	2016 RMB'000
Deferred income tax assets		
— To be recovered after more than 12 months	25,135	35,794
— To be recovered within 12 months	113,063	33,543
	138,198	69,337
Deferred income tax liabilities		
— To be recovered after more than 12 months	(163,214)	(118,696)
— To be recovered within 12 months	(73)	(73)
	(163,287)	(118,769)

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:

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	Fair value changes of investments in financial assets RMB'000	Unrealised profit on intra-group sales RMB'000	Other accrued expenses RMB'000	Total RMB'000
At 1 January 2016	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
Credited/(charged) to the income statement (Note 10)	5,582	144	(11,359)	—	57,398	16,723	68,488
Credited to the other comprehensive income	—	—	—	373	—	—	373
At 31 December 2017	11,481	19,720	24,435	373	57,398	24,791	138,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

18. DEFERRED INCOME TAX (CONTINUED)

	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 2016	(39,103)	(15,763)	(3,175)	(58,041)
Charged to the income statement (Note 10)	(42,924)	—	(555)	(43,479)
Charged to other comprehensive income	—	(17,249)	—	(17,249)
At 31 December 2016	(82,027)	(33,012)	(3,730)	(118,769)
Charged to the income statement (Note 10)	(39,902)	—	(8,759)	(48,661)
Credited to other comprehensive income	—	4,143	—	4,143
At 31 December 2017	(121,929)	(28,869)	(12,489)	(163,287)

As at 31 December 2017, deferred income tax assets of RMB59,804,000 (2016: RMB38,239,000) have not been recognised in respect of the tax losses amounting to RMB319,390,000 (2016: RMB198,176,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

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 2017, the Group anticipated to distribute the profit of 2017 of the PRC subsidiaries in the future to foreign investors. Therefore, deferred tax liabilities in respect of those profits of RMB39,902,000 (2016: RMB42,924,000) were recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

19. INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	424,570	363,201
Raw materials	2,863	2,609
Work in progress	14,798	4,205
Low value consumables	27	22
Less: provision for inventories	(121,237)	(114,937)
	321,021	255,100

The cost of inventories recognised as cost of sales sold amounted to approximately RMB592,929,000 (2016: RMB650,617,000)(Note 6) for the year ended 31 December 2017.

For year ended 31 December 2017, the Group made a provision of impairment losses of out-season inventories of RMB6,300,000 (2016: reversal for impairment losses of out-season inventories of RMB3,211,000).

20. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables		
— Third parties	258,456	255,229
— Related parties (Note36 (b))	40,934	96,863
	299,390	352,092
Less: provision for impairment	(65,196)	(108,402)
Trade receivables, net	234,194	243,690

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Year ended 31 December 2017

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 2017 and 2016 was as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	102,874	127,133
31 to 180 days	139,834	98,931
Over 180 days	56,682	126,028
	299,390	352,092

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:

	2017 RMB'000	2016 RMB'000
At 1 January	108,402	126,248
Reversal of impairment losses of receivables	(43,150)	(5,779)
Written off impairment losses of receivables	(56)	(12,067)
Exchange difference	—	—
At 31 December	65,196	108,402

As at 31 December 2017, there were no trade receivables which were past due but not impaired (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Current portion:		
Loans receivables (a)	738,078	1,278,773
Wealth management products (b)	1,089,861	1,002,194
Amounts due from related parties (Note 36b)	19,818	21,882
Advance payments to suppliers	28,339	16,581
Interest receivables	6,849	6,018
Deposits for operating leases	18,941	3,941
Others	75,136	73,368
	1,977,022	2,402,757
Non-current portion:		
Loans receivable (c)	700,519	268,110
Deposits for operating leases	28,048	40,642
Amounts due from related parties (Note 36b)	5,118	10,015
Less: provision for impairment	(5,118)	(7,515)
	728,567	311,252

Notes:

(a) As at 31 December 2017, the current loans receivables held by the Group mainly include:

(i) In June 2016, the Group lent USD30,000,000 (equivalent to RMB196,026,000) to China Yufu Payment Group Co., Ltd. ("Yufu Payment") which bears an interest rate of 6.5% per annum with maturity of 12 months. During the year of 2017, Yufu Payment has repaid USD20,000,000 (equivalent to RMB130,684,000) and the residual loan principal has been extended to June 2018 with the same interest rate.

In 26 August 2016, the Group lent RMB150,000,000 to Yufu Holding Group Co., Ltd., with maturity of 12 months and bearing an interest rate of 11% per annum. In June 2017, the maturity date was extended to June 2018 with the same interest rate.

(ii) In April 2015, the Group lent USD10,000,000 (equivalent to RMB65,342,000) to HomeValue Holding Co., Ltd. ("HomeValue") at an interest rate of 10% per annum.

As at 31 December 2017, the loan principal was USD10,000,000 (equivalent to RMB65,342,000) has been fully repaid by HomeValue in March 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Notes (Continued):

(a) (Continued)

(iii) In July 2016, the Group lent RMB200,000,000 to an individual person at an interest rate of 8% per annum. The loan principal was RMB200,000,000 and repayable on 30 March 2018.

(iv) In August 2017, the Group lent RMB230,000,000 to Shanghai Zhongzhuxin Consulting Co., Ltd. at an interest of 9%. The principal of the loan was 230,000,000, which has been fully repaid in February 2018.

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

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

(i) In December 2016, the Group lent USD30,000,000 (equivalent to RMB196,026,000) to Kupono Partners LLC ("Kupono") which bears an interest rate of 7% per annum with maturity of 4 years. According to the loan's agreement, the maturity of the loan can be extended for another 12 months, during which period the interest rate will be 8% per annum. This loan is guaranteed by Kupono's land use right.

(ii) 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, the Group has received an amount of RMB90,000,000 in 2017. For the remaining receivable of RMB10,000,000, the Group was entitled to an annual interest rate of 10% commencing the change of shareholders in Jiashi. The maturity date of this loan is April 2020.

(iii) In April 2017, the Group lent RMB78,171,000 to Shannan Jiashi Fengqiao Venture Capital Partnership ("Shannan Jiashi") with an interest rate of 8%. The maturity date of this loan is April 2020.

(iv) In September 2016, the Group lent RMB280,000,000 to Shanghai Yuhong Co., Ltd. with maturity of 12 months, which is interest-free. This loan has been extended to September 2017.

(v) Save as disclosure in Note 24, on 27 October 2017, the Group lent Mr. Zhang Zhiyong (CEO of the Company) HKD156,957,000 (equivalent to RMB131,202,000) with the interest rate of one month HIBOR+1% per annum.

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 RMB5,118,000 as at 31 December 2017 (2016: RMB7,515,000).

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22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Non-current portion (a)		
— Designated (a)	119,167	72,138
Current portion (b)		
— Held for trading (b)	222,846	271,438
— Designated (a)	100,000	150,000
	322,846	421,438

Notes:

- (a) The non-current portion of financial assets includes preferred shares of a company listed on the Main Board of the Hong Kong Stock Exchange and perpetual bonds which can be freely traded in the secondary market. The current portion of financial assets is convertible bonds of an unlisted company. Both of them are designated at fair value through profit or loss.
- (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

	2017 RMB'000	2016 RMB'000
Restricted cash — restricted bank deposits (a)	390,859	397,492
Term deposits with initial term over three months and within one year (b)	100,899	106,798
Cash and cash equivalents (c)	1,051,865	1,713,464
	1,543,623	2,217,754

Note:

- (a) The restricted bank deposits as at 31 December 2017 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 2017, the average interest rate on the restricted bank deposits was 1.53% (2016: 1.10%) per annum.
- (b) The interest rates on term deposits with initial term over three months and within one year as at 31 December 2017 range from 0.95% to 1.39% (2016: from 0.05% to 2.18%) per annum. The deposits earn interests at fixed rates based on prevailing market rates.
- (c) Cash and cash equivalents include current deposits and term deposits with initial term within three months.

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Year ended 31 December 2017

23. CASH AND BANK BALANCES (CONTINUED)

(d) As at 31 December 2017 and 2016, the cash and bank balances were denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	632,475	713,183
USD	565,535	1,212,191
HKD	272,782	214,831
JPY	46,606	63,494
Others	26,225	14,055
	1,543,623	2,217,754

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 per value HKD0.01	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 2016	5,536,401,000	55,365	53,589	940,705	994,294
Dividends paid (Note 33)	—	—	—	(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
At 1 January 2017	5,536,401,000	55,365	53,589	659,018	712,607
Issuance of ordinary shares (Note a)	138,410,025	1,384	1,179	147,379	148,558
At 31 December 2017	5,674,811,025	56,749	54,768	806,397	861,165

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24. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (CONTINUED)

- (a) Pursuant to the subscription agreement on 9 October 2017, the Company allotted and issued 138,410,025 new ordinary shares with nominal value of HKD0.01 each at a price of HKD1.26 per share to Mr. Zhang Zhiyong, the chief executive officer ("CEO") of the Company, on 27 October 2017.

The total gross proceeds from the issue were approximately HKD174,397,000 (equivalent to approximately RMB148,558,000), of which HKD1,384,000 (equivalent to approximately RMB1,179,000) was credited to share capital, HKD173,013,000 (equivalent to approximately RMB147,379,000) was credited to share premium.

Mr. Zhang Zhiyong has paid 10% of the total consideration and the remaining was settled through a loan from Bright Pacific, a wholly-owned subsidiary of the Company, to Mr. Zhang Zhiyong with the interest rate of one month HIBOR plus 1% per annum. All the shares subscribed by Mr. Zhang Zhiyong was pledged as the collateral of this loans. He needs to comply with the lock-up request of the subscription agreement.

The directors of the Company are of the view that no share based payment expense should be recognised in the consolidated statement of comprehensive income as the consideration for the shares issued were higher than fair value.

25. SHARES HELD FOR EMPLOYEE SHARE SCHEME

Shares held for employee share scheme	2017 Shares	2016 Shares	2017 RMB'000	2016 RMB'000
Shares held for employee share scheme	23,050,071	23,050,071	196	196

These shares are held by the Group's Trust for the purpose of issuing shares under the Group's employee share scheme (see note 27 for further information). Shares issued to employees are recognised on a first-in-first-out basis.

Details	Number of shares	RMB'000
Opening balance 1 January 2016	23,456,000	200
Employee share scheme issue	(405,929)	(4)
Balance 31 December 2016 and 2017	23,050,071	196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

26. 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 2017	283,522	9,021	45,681	(189,417)	1,359,229	(66,755)	7,503,817	8,945,098
Profit for the year	—	—	—	—	—	—	804,647	804,647
Disposals-fair value reclassified to income statement (Note 17)	—	—	—	—	(670,798)	—	—	(670,798)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities	—	—	—	—	1,268,913	—	—	1,268,913
Foreign currency translation reserve (Note (b))	—	—	—	(114,191)	—	—	—	(114,191)
Dividends (Note 33)	—	—	—	—	—	—	(1,509,274)	(1,509,274)
Appropriation to statutory reserves (Note (c))	—	—	14,592	—	—	—	(14,592)	—
Disposal of a subsidiary	—	—	(630)	—	—	—	630	—
At 31 December 2017	283,522	9,021	59,643	(303,608)	1,957,344	(66,755)	6,785,228	8,724,395

	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	(67,930)	6,933,494	8,537,012
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))	—	—	—	241,074	—	—	—	241,074
Dividends (Note 33)	—	—	—	—	—	—	(284,388)	(284,388)
Appropriation to statutory reserves (Note (c))	—	—	15,595	—	—	—	(15,595)	—
Shares vested under Restricted Share Award Scheme (Note 27)	(1,179)	447	—	—	—	1,175	—	443
At 31 December 2016	283,522	9,021	45,681	(189,417)	1,359,229	(66,755)	7,503,817	8,945,098

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

27. 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 2017 and 2016 and there were no outstanding share options granted as at 31 December 2017 and 2016. The share option scheme has expired and terminated on 10 October 2017.

(b) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.18) 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 the 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 2017, no shares out of the 30,000,000 shares purchased from the open market in 2010 as described above, were granted to senior management under the Restricted Share Award Scheme (2016: 405,929 shares with fair value of RMB447,000 were granted to a member of senior management).

	2017	2016
Number of shares issued under the plan to participating employees	—	405,929

(c) Shares issued to CEO

As mentioned in Note 24, on 27 October 2017, the Company allotted and issued 138,410,025 new ordinary shares to Mr. Zhang Zhiyong, no share based payment expense was recognised in the consolidated statement of the comprehensive income during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

28. TRADE PAYABLES

The ageing analysis of trade payables based on goods receipt date as at 31 December 2017 and 2016 was as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	87,687	141,189
31 to 180 days	52,912	13,063
Over 180 days	11,480	9,267
	152,079	163,519

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.

29. ACCRUALS AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Advance from customers	58,308	50,304
Salary and welfare payable	22,537	37,491
Other taxes and levies payable	64,513	33,581
Deposits	47,012	36,663
Accruals	59,470	13,961
Others	35,809	48,975
	287,649	220,975

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

30. DERIVATIVES

	2017 RMB'000	2016 RMB'000
Derivatives	58,672	118,206

During the year 2017, the Group entered certain investment agreements with an investment bank in which the Group would be required to sell and buy certain selected listed shares on the NYSE at a fixed price. Besides, the Group sold call options and put options, of which the underlyings are listed shares on the NYSE. Such investments were designated as derivatives and stated at fair value as at 2017 year end.

All of the derivatives will be settled at a fixed price while the exercise amount of call options is 130,000 shares and the exercise amount of put options is 210,000 shares and the exercise amount of the remaining derivatives ranges from 0 shares to 638,040 shares.

31. BORROWINGS

	The Group As at 31 December	
	2017 RMB'000	2016 RMB'000
Bank Loans		
— Pledged (a)	228,697	459,368
Loans from a company (b)		
— Unsecured and interest free	274,497	291,418
	503,194	750,786

Notes:

- (a) In May 2017, the Group borrowed an amount of USD35,000,000 (equivalent to RMB228,697,000) from China CITIC Bank International Limited at an interest rate of 3 month Libor plus 2.2% 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

31. BORROWINGS (CONTINUED)

- (b) In August 2016, the Group borrowed an amount of USD42,009,000 (equivalent to RMB274,495,000) from a third party, Forchn International Co., Limited with maturity of 12 months, interest-free. The maturity date was extended to August 2019 during the year.

As at 31 December 2017, the Group's borrowings were repayable as follows:

	Bank loans		Other loans	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Within 1 year	228,697	459,368	—	291,418
Between 1 and 2 years	—	—	274,497	—
	228,697	459,368	274,497	291,418

Bank borrowings mature until 2018 and bear average coupons of 3 month Libor plus 2.2% annually (2016: 1 month Libor plus 1.2% annually).

32. PROVISIONS

The provision represents amount provided for sales returns and sales discount in Japan segment and accrued liabilities due to pending litigation.

The movements in provisions are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	20,500	24,858
Utilisation	(22,097)	(38,181)
Provision	29,954	33,823
At 31 December	28,357	20,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

33. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim dividend paid of RMB2.90 cent (2016: 2.59 cent) per share	160,556	143,393
Interim special dividend paid of RMB2.90 cent (2016: 2.59 cent) per share	160,556	143,393
Special dividend paid of RMB17.32 cent (2016: Nil) per share	958,904	—
Proposed final dividend of RMB1.42 cent (2016: 2.13 cent) per share	80,838	117,699
Proposed final special dividend of RMB2.84 cents (2016: 2.13 cent) per share	161,303	117,699
	1,522,157	522,184

The total dividends paid in 2017 amounted to RMB1,515,414,000 or RMB27.38 cents per share (2016: RMB565,341,000 or RMB10.21 cents per share), comprising 2016 final and final special dividends of RMB235,398,000 and 2017 interim and interim special dividends of RMB321,112,000 and special dividend RMB958,904,000, of which RMB6,140,000 (2016: RMB2,398,000) were paid to the shares held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 21 March 2018, the board of directors of the Company proposed a final dividend and final special dividend of RMB1.42 cents and RMB2.84 cents per ordinary share of the Company, amounting to RMB80,838,000 and RMB161,303,000 for the year ended 31 December 2017 from the Company's retained earnings account, 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 2018.

The aggregate amounts of the dividends paid during 2017 and 2016 have been disclosed in the consolidated statement of changes in equity in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

34. CASH GENERATED FROM OPERATIONS

	2017 RMB'000	2016 RMB'000
Profit before income tax for the year	929,913	1,047,825
Adjustments for:		
— Depreciation of property, plant and equipment (Note 13)	11,458	11,196
— Loss on disposal of property, plant and equipment	329	307
— Amortisation of lease prepayments (Note 14)	285	286
— Amortisation of intangible assets (Note 15)	11,334	12,699
— Provision/(Reversal of) for impairment losses of inventories (Note 6)	6,300	(3,211)
— Reversal of impairment losses of trade and other receivables (Note 6)	(50,632)	(13,779)
— Share of loss/(profit) of joint ventures and associates (Note 12)	17,464	(4,250)
— Elimination of unrealised profit of joint ventures	(3,672)	18,080
— Interest income from bank deposits	(831)	(10,122)
— Investment income from financial assets (Note 7)	(215,204)	(115,253)
— Foreign exchange losses/(gains), net (Note 9)	74,956	(38,641)
— Gain on disposal of investment in available-for-sale financial assets (Note 7)	(670,798)	(967,588)
— Change in fair value of financial instruments at fair value through profit or loss (Note 7)	(55,182)	295,369
	55,720	232,918
Changes in working capital:		
— Increase in inventories	(72,221)	(26,080)
— Decrease in trade receivables, prepayments, deposits and other receivables	10,114	37,503
— Increase in trade payables, provisions, accruals and other payables	126,696	50,618
Cash generated from operations	120,309	294,959

In the consolidated cash flow statement, the proceeds from sales of property, plant and equipment comprise:

	2017 RMB'000	2016 RMB'000
Net book amount (Note 13)	358	1,305
Loss on disposal of property, plant and equipment	(329)	(307)
Proceeds from disposal of property, plant and equipment	29	998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

34. CASH GENERATED FROM OPERATIONS (CONTINUED)

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2017 RMB'000	2016 RMB'000
Cash and cash equivalents (Note 23)	1,051,865	1,713,464
Liquid investments (i)	342,013	343,576
Borrowings — repayable within one year (Note 31)	(228,697)	(750,786)
Borrowings — repayable after one year (Note 31)	(274,497)	—
Net debt	890,684	1,306,254
Cash and liquid investments	1,393,878	2,057,040
Gross debt — fixed interest rates	(274,497)	(291,418)
Gross debt — variable interest rates	(228,697)	(459,368)
Net debt	890,684	1,306,254

	Other assets		Liabilities from financing activities		Total RMB'000
	Cash and cash equivalents RMB'000	Liquid investments (i) RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	
Net debt as at 1 January 2016	909,865	327,149	(454,552)	—	782,462
Cash flows	730,853	155,077	(296,234)	—	589,696
Foreign exchange adjustments	72,746	17,194	—	—	89,940
Other non-cash movements	—	(155,844)	—	—	(155,844)
Net debt as at 31 December 2016	1,713,464	343,576	(750,786)	—	1,306,254
Cash flows	(578,085)	20,977	230,671	—	(326,437)
Foreign exchange adjustments	(83,514)	(11,986)	—	16,921	(78,579)
Other non-cash movements	—	(10,554)	291,418	(291,418)	(10,554)
Net debt as at 31 December 2017	1,051,865	342,013	(228,697)	(274,497)	890,684

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's financial assets held at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

35. 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:

	2017 RMB'000	2016 RMB'000
No later than 1 year	28,414	38,227
Later than 1 year and no later than 5 years	20,723	30,957
Over 5 years	1,548	2,347
	50,685	71,531

36. 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 and Executive director 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 2017 and 2016, 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

	2017 RMB'000	2016 RMB'000
Sales of goods to joint venture: — MSYH	162,188	330,766
Purchase of goods from joint venture: — Shanghai Phenix Apparel Co., Ltd.	142	21,076
Interest income — MSYH	1,355	1,463
— Zhang Zhiyong (CEO)	482	—
	1,837	1,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	2017 RMB'000	2016 RMB'000
Trade Payables		
— Shanghai Phenix Apparel Co., Ltd.	—	758
Trade receivables (Note 20):		
— MSYH	40,934	96,863
Other receivables (Note 21):		
Current portion		
— MSYH	19,818	21,882
Non-current portion		
— MSYH	5,118	10,015
— Zhang Zhiyong (CEO)	31,520	—
— Provision	(5,118)	(7,515)
	51,338	24,382

Notes:

- (i) The transactions with related companies are conducted based on mutual agreements.
- (ii) The receivable and payable balances with related parties are unsecured, interest free.

(c) Key management compensation

	2017 RMB'000	2016 RMB'000
Salaries, bonus and other benefits	6,657	7,131
Pension — defined contribution plans	191	175
	6,848	7,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	As at 31 December	
	2017 RMB'000	2016 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	10,240,192	10,239,458
Financial assets at fair value through profit or loss	159,785	347,173
Amounts due from subsidiaries — non-current portion	1,261,706	1,927,736
	11,661,683	12,514,367
Current assets		
Trade receivables	31,193	33,116
Prepayments, deposits and other receivables	32,060	4,547
Amounts due from subsidiaries	132	35,715
Cash and bank balances	219,121	61,153
	282,506	134,531
Total assets	11,944,189	12,648,898
EQUITY		
Equity attributable to owners of the Company		
Share capital (Note 24)	861,165	712,607
Reserves (Note (a))	9,994,061	10,606,165
Total equity	10,855,226	11,318,772
LIABILITIES		
Current liabilities		
Borrowings	228,697	459,368
Amounts due to subsidiaries	840,809	868,356
Accruals and other payables	19,457	2,402
Total liabilities	1,088,963	1,330,126
Total equity and liabilities	11,944,189	12,648,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

The balance sheet of the Company was approved by the Board of Directors on 21 March 2018 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 2016	10,056,710	1,342	(588,761)	1,347,044	10,816,335
Loss for the year	—	—	—	(11,519)	(11,519)
Foreign currency translation reserve	—	—	85,891	—	85,891
Dividends	—	—	—	(289,375)	(289,375)
Fair value change on available-for-sale financial assets	4,833	—	—	—	4,833
At 31 December 2016	10,061,543	1,342	(502,870)	1,046,150	10,606,165
At 1 January 2017	10,061,543	1,342	(502,870)	1,046,150	10,606,165
Profit for the year	—	—	—	953,898	953,898
Foreign currency translation reserve	—	—	(45,786)	—	(45,786)
Dividends	—	—	—	(1,515,414)	(1,515,414)
Fair value change on available-for-sale financial assets	(4,802)	—	—	—	(4,802)
At 31 December 2017	10,056,741	1,342	(548,656)	484,634	9,994,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

38. 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 2017:

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	Total RMB'000
					contributions to a retirement benefit scheme RMB'000	
Year ended 31 December 2017						
Mr. Chen Yihong	168	1,796	236	64	51	2,315
Ms. Chen Chen	168	1,491	196	64	51	1,970
Mr. Zhang Zhiyong (i)	38	689	29	—	4	760
Mr. Chen Guogang	190	—	—	—	—	190
Mr. Chen Johnny (ii)	93	—	—	—	—	93
Mr. Gao Yu	190	—	—	—	—	190
Mr. Xiang Bing (ii)	98	—	—	—	—	98
	945	3,976	461	128	106	5,616

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's	Total RMB'000
					contributions to a retirement benefit scheme RMB'000	
Year ended 31 December 2016						
Mr. Chen Yihong	194	1,767	236	58	47	2,302
Ms. Chen Chen	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

38. BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' emoluments (Continued)

Notes:

- (i) Mr Zhang Zhiyong was appointed as an executive Director and the chief executive officer of the Company for a term of three years with effect from 10 October 2017. Mr. Zhang also was proposed to be appointed as a member of the executive committee of the Company with effect from 10 October 2017.
- (ii) Mr. Xiang Bing has tendered his resignation as an independent non-executive director, chairman of remuneration committee and member of the audit committee and nomination committee of the Company, all with effect from 5 July 2017. On the same day, Mr. Chen Johnny was appointed as an independent non-executive director, chairman of the remuneration committee, member of the audit committee and nomination 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.

(b) Directors' retirement benefits

No retirement benefits were paid in 2017 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 (2016: Nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2016: 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 (2016: Nil).

(e) There is a loan in favour of Mr. Zhang Zhiyong, the CEO, during the year 2017 (Note 21d). (2016: 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 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2017

39. EVENTS AFTER THE BALANCE SHEET DATE

According to the announcement on 19 January 2018, the Company will allot and issue 202,310,000 new ordinary shares with nominal value of HKD0.01 each at a price of HKD1.35 per share to management of the Company.

The total gross proceeds from the allot and issue is approximately HKD273,119,000 (equivalent to approximate RMB224,140,000).

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REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2017.

Final Dividend and Final Special Dividend

The Company has paid an interim dividend of RMB2.90 cents, an interim special dividend of RMB2.90 cents and an additional special dividend of RMB17.32 cents in respect of the six months ended 30 June 2017, with a total amount of RMB1,280,000,000.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB1.42 cents and RMB2.84 cents per ordinary share, respectively (totalling RMB4.26 cent per ordinary share) for the year ended 31 December 2017.

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 2018, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.80636 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 20 March 2018. The dividend will be paid on or about 28 May 2018 to shareholders whose names appear on the register of members of the Company on 18 May 2018.

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 16 May 2018 to 18 May 2018 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2017 final dividend and final special dividend. In order to qualify for the 2017 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 15 May 2018.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 10 May 2018. 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 7 May 2018 to 10 May 2018 (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 2018.

Publication of Results Announcement

This annual results announcement is available for viewing on the Company's website at www.dxsport.com and Hong Kong Stock Exchange's website at www.hkexnews.hk.

On behalf of the Board
China Dongxiang (Group) Co., Ltd.
Chen Yihong
Chairman

21 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Chen Yihong, Mr. Zhang Zhiyong and Ms. Chen Chen, and the independent non-executive directors of the Company are Dr. Chen Guogang, Mr. Chen Johnny and Mr. Gao Yu.