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 2015

DONGXIANG

CONTENTS

Vision & Mission	3
Corporate Information	6
Five-Year Financial Highlights	8
Chairman's Statement	12
Brand Portfolio	14
Management Discussion and Analysis	16
Investor Relations Report	31
Directors and Senior Management	33
Corporate Social Responsibilities	35
Corporate Governance Report	37
Report of the Directors	46
Independent Auditor's Report	55
Consolidated Income Statement	57
Consolidated Statement of Comprehensive Income	58
Consolidated Balance Sheet	59
Consolidated Statement of Changes in Equity	61
Consolidated Cash Flow Statement	63
Notes to the Consolidated Financial Statements	64

VISION & MISSION

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
ITALIA KOMBAT
EST.1916
Sports
EST 1916


Kappa
KAPPA
ITALIA KOMBAT
EST.1916
Sports
KAPPA
Sports
EST. 1916
ITALIA KAPPA KOMBAT

Corporate Information

Executive Directors	Mr. Chen Yihong (Chairman & Chief Executive Officer) Ms. Chen Chen
Independent Non-Executive Directors	Mr. Gao Yu Dr. Xiang Bing Mr. Xu Yudi
Auditor	PricewaterhouseCoopers Certified Public Accountants
Legal Advisers	Norton Rose Fulbright Hong Kong Conyers Dill & Pearman (Cayman) Limited East & Concord Partners (Beijing)
Authorised Representatives	Mr. Gao Yu Ms. Wai Pui Man
Company Secretary	Ms. Wai Pui Man
Principal Share Registrar and Transfer Office	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of Business in Hong Kong	Office Unit 9, 13/F Tower Two, Lippo Centre No. 89 Queensway Hong Kong
Head Office in People's Republic of China	Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China
Principal Bankers	Morgan Stanley Asia International Limited Industrial and Commercial Bank of China
Website	www.dxsport.com


METZ
Kappa
MITTAL
FORTIS
FORTIS
CAPITALIA TEAM
CAPITALIA
CHALLENGER 2007
17
kik

Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

		Year ended 31 December				
	Note	**2015**	2014	2013	2012	2011
Sales		**1,469**	1,262	1,414	1,772	2,742
Operating profit		**1,005**	989	225	89	99
Profit before income tax		**1,021**	975	275	271	228
Profit attributable to equity holders		**803**	915	210	177	102
Non-current assets		**4,701**	5,378	3,747	1,565	1,557
Current assets		**5,880**	5,931	5,221	5,764	5,895
Current liabilities		**974**	939	311	360	621
Net current assets		**4,906**	4,992	4,910	5,404	5,274
Total assets		**10,581**	11,309	8,968	7,329	7,452
Total assets less current liabilities		**9,607**	10,370	8,657	6,969	6,831
Equity holders' equity		**9,531**	10,340	8,609	6,923	6,795
Gross profit margin (%)		**56.2**	50.7	48.2	47.5	55.0
Net profit margin (%)		**54.7**	72.5	14.9	10.0	3.7
Earnings per share						
— basic (RMB cents)		**14.56**	16.61	3.82	3.19	1.82
— diluted (RMB cents)		**14.56**	16.61	3.82	3.19	1.82
Total assets per share (RMB cents)	1	**191.94**	205.21	162.80	132.33	132.92
Debt to equity holders' equity ratio	2	**0.11**	0.09	0.04	0.06	0.10

Notes:

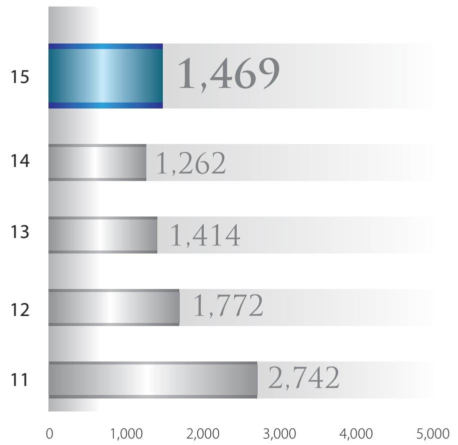
(1) The number of ordinary shares used in the calculation for the year ended 31 December 2015, 2014, 2013, 2012 and 2011, are 5,512,580,000 shares, 5,511,030,000 shares, 5,508,643,000 shares, 5,538,588,000 shares and 5,623,497,000 shares, which were the weighted average number of shares for the years.

(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.

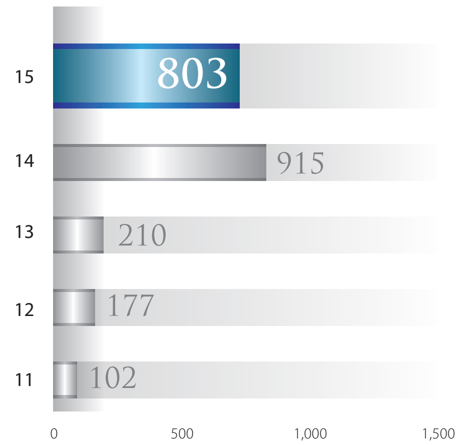
Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

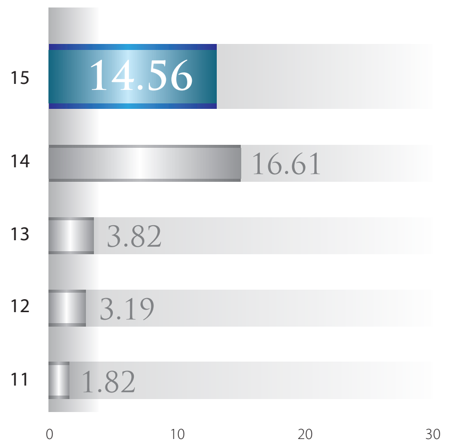
SALES



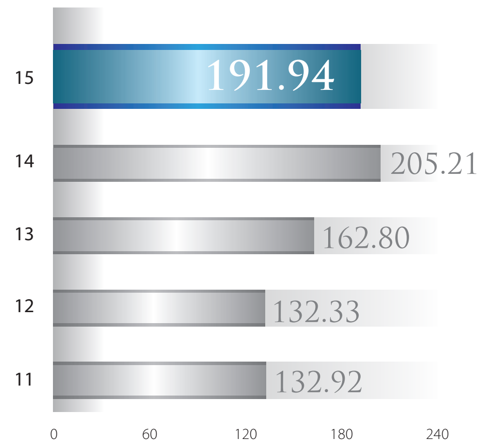
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



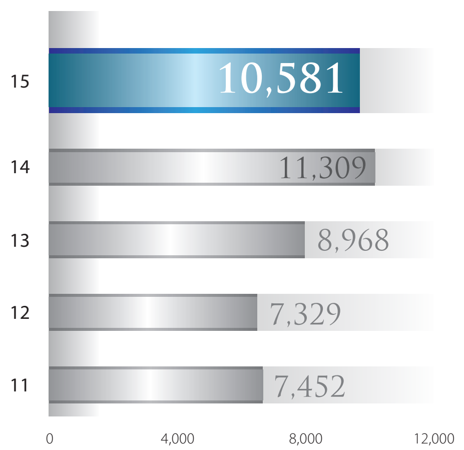
EARNINGS PER SHARE — BASIC (RMB CENTS)



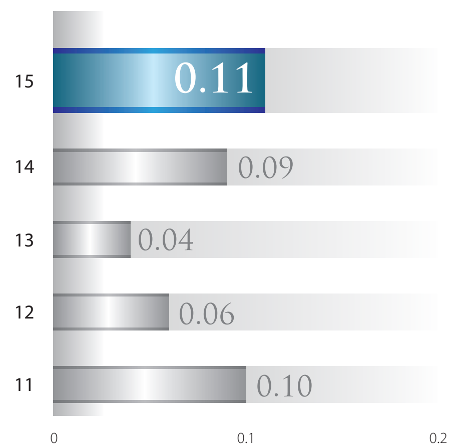
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)




ITALIA
'84


Kappa
Kappa
LA '84

Chairman's Statement

Dear Shareholders,

In early spring of 2016, on behalf of the Board, I am pleased to present our annual results for the year ended 31 December 2015.

The past year saw lacklustre growth in the global economy, while the Chinese economy sustained steady development. Under persistent downside pressure, GDP and total retail sales of consumer goods were increased by 6.9% and 10.6% respectively compared to 2014. With the supporting of the government and the introduction of relevant policies, a growing number of investors and cross industry leaders have been tapping into the sporting industry, as its potential for driving the economy growth has become increasingly evident against the backdrop of China's economic transformation and the ongoing downside of the real economy. It was in this context that our people worked in concerted effort and progressed in a judicious manner to enhance the capacity of management, clarify brand positioning, identify and produce suitable products for the market. As entrepreneurship and innovation become important motivators for Chinese economy under the appeal of "public entrepreneurship and innovation" in recent years, management over financial investments has also been strengthened. On top of assuring sound development for our primary business, we have also cooperated with famous investment institutions, made full use of our capital to seize more rarely investment opportunities, and reaped considerable benefits.

The Group's revenue for the reporting period grew by 16.4% to RMB1,469 million. For Kappa China, revenue increased by 25.8%, year-on-year, to RMB1,030 million, while gross profit margin grew by 6.5 percentage points to 67.0% thanks to increased sales of new products, further improvements in the gross profit margin for new products and the percentage share of self-owned retail sales. While operating profit excluding investment gain increased by 170.8% to RMB260 million. Profit attributable to equity holders for the reporting period decreased by 12.2% to RMB803 million, basic earnings per share declined by 12.3%, year-on-year, to RMB14.56 cents. To reward shareholders for their support, the Board of Directors has proposed to distribute 30% and 30% of the net profit attributable to equity holders for the year ended 31 December 2015 as final dividend and special dividend, total dividend payout ratio will be 60%.

The Group has persisted in the business strategy of "engaging in direct competition while making surprise moves". We firmly believe that reforms that are able to pull off successes with surprise moves must be set in the right direction and implemented in a practicable manner. The Group continued to consolidate the business models of "brand + product" and "brand + retail" and drive strategic initiatives focused on brand positioning, operation model, marketing pattern and supply chain.

In connection with "brand + product", the Group adopted a dual approach. First of all, all products were designed to meet consumers' preferences and needs, as target consumer groups were identified through analysis and applications of retail data generated from retail end. Secondly, ongoing efforts were made to reinforce our brand image and develop a unique brand tonality by procuring stronger market penetration of the brand sound bite — "passionate, rebellious and outgoing" — in a bid to enhance the influence of the centenary Kappa name while assuring its product quality. In connection with brand publicity, other than full-scale, multi-dimensional advertising placements in media conducted on an ongoing basis, the Group also sponsored a number of offline marketing activities. It is also worth noting that Kappa products featured prominently in the hit movie Detective Chinatown (《唐人街探案》) and gained considerable exposure as a result of the huge popularity of the movie. The brand exposure and reputation of Kappa has been substantially enhanced through advertising placements with a much wider dimension, and consumers' perception of Kappa has been enriched with the style traits of trendiness, youthfulness and uniqueness.

Under the new business model of "brand + retail", the Group made dedicated efforts in detailed channel development. On the back of meticulous analyses and surveys in an in-depth research on the prospects of the domestic market for retail consumption, we focused our marketing efforts on prefecture-level cities and achieved notable results. As at the end of December 2015, the Group had a total of 1,267 Kappa stores, representing a net increase of 57 stores compared to the end of last year. These included 397 self-owned retail stores run by subsidiaries. Meanwhile, the Group acted swiftly to replace certain underperforming stores, resulting in improved quality and efficiency for its sales channel and effective enhancement of profitability on the retail end.

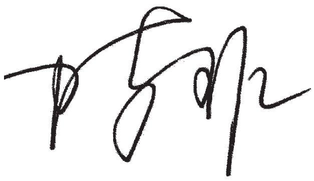
The Internet economy has now become an essential component of the economy as a whole. With exceptional market insight, our management commenced full-scale e-commerce operations some years ago, and the business is now reaping lucrative reward. Following the successful transformation of the Group's e-commerce operations with an optimised merchandise mix, revenue from off-season items as a percentage of total sales declined substantially, as the online shopping platform was selling new-season products instead of serving as an outlet for destocking off-season items. In the meantime, the Group was making strong efforts to develop exclusive products for the online channel, with a view to ensuring healthy channel development. Retail discounts were generally improved to the extent that substantial increase in sales revenue was assured. There was stable growth in gross profit margin, as profitability improved substantially as compared to the previous year. In the November 11th sales initiative in 2015, e-commerce sales doubled as compared to the same period of the previous year.

Chairman's Statement

For a brand-oriented business model, the support of a strong supply-chain system is essential. On the basis of analyses conducted by our product operations team and through means such as building raw material reserves, strategic cooperation with suppliers, and utilisation of trading company resources, the supply chain's response to production requirements was accelerated and the ability to execute speedy replenishment in response to additional orders was generally improved, subject to reasonable control over production costs. The optimised supply chain has provided a solid foundation for the expansion of our sales business.

"A new Dongxiang calls for a new strategic layout." Confronted with the overall picture of the global economic downside and economic slowdown in China, the Group was engaged in constant rethinking about new business models and operational practices in 2015 in response to market developments, with a view to achieving further progress on top of assuring stable growth of its principal business of sports and leisure apparel. On the back of experience gained beforehand and contributions of dedicated personnel, the Group has gradually formed a brand new business profile featuring a two-pronged growth driver comprising the principal sportswear operations and the supplementary investment operations. Through a diverse range of investment projects, prudent risk management and control and effective investment planning, the Investment and Fund Management Department was investigating approaches to secure balance between fund security and reasonable income. The Group will leverage its existing resources and strengths to enhance cooperation with its investment partners, seeking to broaden opportunities for development by identifying and exploring projects with sound potential and strategic significance.

With an open mind and a strong commitment to progress in the pursuit of excellence, the Group will explore and innovate in a composed manner amidst such volatile economic conditions and embrace challenges with diversified approaches and thinking. Our solid foundation, professional design team, well-defined market positioning and century-old brand ethos of Kappa have been some of the invaluable assets underpinning the Group's development. Now, we can add to this list a two-pronged business profile that adds new driving force for the further enhancement of our enterprise value. Looking ahead, it's true that global economic uncertainties will continue to prevail. But then, success often emerges from difficulties and constraints. Hence we will continue to venture forward with courage and be relentless in our endeavor to build a better future for Dongxiang!



Chen Yihong
Chairman

22 March 2016

Brand Portfolio

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

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

- 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

Brand Portfolio

phenix

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

X-nix

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

inhabitant

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

Management Discussion and Analysis

MACROECONOMIC REVIEW

Global economic growth continued to slow down in 2015, notably underpinned by low levels of business growth, trade turnover and inflation coupled with a high level of debts. The impending normalisation of the U.S. monetary policy, continuous instability in the Eurozone, potential spillover of geo-political conflicts and intractable flaws in emerging economies interacted upon one another and contributed to sluggish economic growth across the globe. Upheavals in the commodities market was matched by multiple significant corrections in the international financial market, although improvements in the financial landscapes of and the increase in investments by certain major emerging countries somewhat alleviated the downside.

The Chinese economy reported smooth and stable progress during the past year in the midst of ongoing downside pressure. While there was a notable slowdown in the growth of traditional industries and industrial manufacturing, GDP contributions were markedly higher from a financial sector driven by developments in the capital markets. Retail consumption in the country sustained stable growth as the middle-class population continued to expand in the new normal phase of China's economic development, while the spending mix was underpinned by a shift from low-end goods and daily necessities to high-end goods and services. Retail consumption in 2015 as a percentage of overall GDP increased by 9.9 percentage points as compared to 2014.

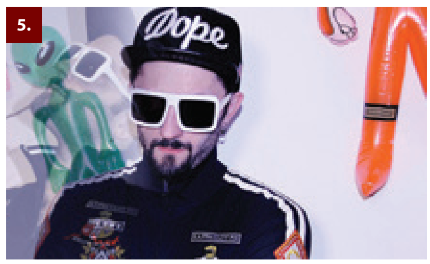
INDUSTRY OVERVIEW

The sporting industry has been at the tip-top of economic growth, driven by the demand for a healthy lifestyle in tandem with rising living standards. With the promulgation of "Several Opinions of the State Council on Expediting the Development of the Sportswear Industry and Encouraging Sports Consumption" and other government documents adding assurance for the development of the sporting industry, investors across the board have been committing themselves to the sector, resulting in successive annual growth in the sector as a percentage of GDP.

The potential of the domestic sporting industry and its inherent opportunities for development is simply beyond imagination. In this connection, the following major trends of development have been particularly noteworthy: 1. Convergence with the sporting service sector to build a more complete sporting industry chain and integrated sporting platform; 2. Convergence with the Internet industry to drive end-to-end development of the sporting industry with the application of new technologies; 3. Convergence with the upgrade and transformation of China's industrial sector in general to manufacture smart products. Enormous opportunities for adding value are present in various specific sub-segments, such as sports tourism, sportswear operators and others. As such, the sportswear industry is set to grow further and make progress in specialised areas such as e-commerce and smart applications.

BUSINESS REVIEW

In 2015, the Group sustained a secure and healthy business network with sound financial income as it proactively adjusted the pace of its business development, improved its sales channels and conducted effective promotion of its brand and product reputation.



1. Haoran Liu in Kappa 15 cotton and down feather product on the cover of SIZE Life (《SIZE潮流生活》)

2. Gemini, Chinese rock band, participates in Kappa X Taihe “Celebration of Sounds” (眾音贊放) Music Tour

3,6. Placement advertising of our products in the movie Detective Chinatown (《唐人街探案》)

4,5. Gemini, Chinese rock band, wears the Kappa X Clot joint products

7. Kappa X Feige Arena darts and foosball tournament season

Kappa x Feige Arena darts and foosball tournament season

Brand Building and Marketing

PRC — Kappa brand

In addition to brand-building through a combination of online and offline activities, the Group also made vigorous efforts to enhance publicity for the collaborated products and its brand name in active collaboration with fashion and sports media during the second half of 2015. Furthermore, brand exposure and reputation has been significantly enhanced by product placements in hit movies.

During the second half of 2015, massive media advertisements were placed mainly for the presentation of Kappa's brand history and promotion of key products, such as cotton and down feather products. Our partners in graphic media included mainstream sporting and fashion magazines with dominant market shares, such as YOHO!® (《YOHO!潮流誌》), SIZE Life (《SIZE潮流生活》), Milk, RayLi and ViVi. The one-of-a-kind trendy sporting style of the brand was further manifested, as the "passionate, rebellious and outgoing" Kappa character was unmistakably conveyed to consumers through these placements.

In connection with offline initiatives, we attempted at blending the character and tonality of the Kappa brand into popular sporting games among young people, such as darting and billiard, through activities in the Kappa X Feige Arena tournament season. Based on the attributes of the tournament season, multi-faceted promotional activities across different platforms was frequently conducted. More than 10 tournaments were organised at the Black & White Bar of Beijing and AEC CAFÉ 751 at the centre of the Beijing bar culture. The influence of the Kappa brand was enhanced as fans of trendy sports across different professional sectors were attracted to the occasions.

Elsewhere, the Kappa x Taihe "Celebration of Sounds" (眾音贊放) Music Tour started off with a bang in the second half of 2015. Through the proprietary music crowdfunding platform of Taihe Rye Music, we secured live house performance opportunities for domestic rock & roll bands and musicians and tried to identify new idols with a genuine spirit for music-making. These activities were in perfect tandem with the character of Kappa as a rebellious trendsetter, providing a lively elucidation of the Kappa spirit that highlighted its uniqueness.

Soft-sell advertising of Kappa Q4 down feather products in magazine

It is worth noting that, in a year that saw increasing influence of the television and the cinema, Kappa embarked on visionary joint campaigns with leading video websites, as well as blockbuster movies and TV dramas. At a viewing season activity of Tudou (土豆網) held in August 2015, Kappa showcased the Kappa x CLOT joint products. The said activity was a PR and brand-building extravaganza on the subject of youth culturedrawing on online and offline resources, aiming to present first-hand knowledge on the essence of youth culture through in-depth investigation of youth culture and sub-culture. Elsewhere, Kappa apparel and footwear also featured in the high-grossing and favourably reviewed movie *Detective Chinatown* (《唐人街探案》) which was released in December 2015. The film remained a subject of avid discussion across all walks of life while on show in theatres and concluded with a staggering box-office revenue of RMB800 million, while the costumes of the leading cast in the movie were also closely followed. The youthful and passionate spirit depicted in the movie was a fine match with the Kappa brand spirit.

Japan — Kappa brand

To coincide with the landmark of Kappa's 100th anniversary, marketing in Japan was focused on increasing consumers' understanding and reshaping their recognition of the brand to enhance its image. To adapt itself to information access in the digital age and expose the brand to more diversified means of publicity, Kappa Japan opened a facebook account and made improvements to the visuals of the brand's website during the year. The brand culture was enhanced through the adoption of a popular Italian slogan—"PEOPLE ON THE MOVE." Joint promotion under the theme of "Italian Impressions" was launched in association with "EVEN," an up-market golf magazine, to show the fashion and functionality of our golf products.

Free gifts upon purchases were offered by the soccer and golf sections to stimulate consumption on the one hand and promote relevant products on the other, in a bid to expose such products to a larger group of potential buyers. Following the conclusion of the GO STYLISH Campaign, the sold-out ratio of campaign-related merchandise improved by 3%. Meanwhile, Kappa continued to sponsor professional sporting groups in the second half of 2015, including J2 soccer teams, the Nitori running team, and selected professional golfers. While highlighting the fundamental positioning of Kappa as a sporting brand, such sponsorships also turned supporters of the sports teams and players into loyal customers of the brand.

Soft-sell advertising of Kappa Q4 down feather products in magazine


phenix

Japan — PHENIX brand

In connection with PHENIX SKI, the publicity function of the FACTORY TEAM was enhanced by the introduction of a mechanism for direct dissemination of information to consumers, in addition to news announcements through the corporate SNS, to strengthen brand communication. Promotion of the PHENIX OUTDOOR series was mainly conducted by way of outdoor activities with effective communication of related information through the press release service. We sought to attract ongoing patronage and additional sales for our online stores through stronger cooperation with media. Facebook subscriptions in 2015 increased tremendously as compared to 2014, as we sought to attract customers by making the most of social media.

Given the prevalence of online shopping in the modern society, our Japanese team renovated its official website and facilitated simultaneous, direct broadcast of information of the Phenix Ski collection on its facebook page and blog. Meanwhile, an online function was installed to allow consumers to choose apparel of different colours, tinker with top/bottom matching, and confirm his/her favourite colours and mix-and-matches, thereby fueling their desire to buy. While sustaining sales for its existing brand, Phenix was also launching new fashion series, such as the FREESTYLE Series, to revive "dormant customers" (those in the 40-50 age group who had once been fans of skiing) by displaying the fashionable side of its image.

A variety of complementary offline and online activities were organized. On 11 September 2015, a presentation under the theme of "Phenix Free Ride Night" was held in Harajuku hosting 105 participants, including members of the media. The event was covered by 9 media, as well as being liked, shared and commented on by many viewers on Facebook. As the sponsor of the national skiing team of Japan, Phenix issued a press release through PR Times at the press conference for the takeoff of the Japanese team, resulting in considerable publicity through enhanced exposure and brand recognition.

Japan — X-niX brand

In view of intense competition, X-niX monitored market developments closely and capitalised on the prevailing trend of "low price fashion" to launch the brand new 2015FW pants, featuring a blend of functionality, substance and fashion with a subtle cultural character, and achieved sales differentiation. The brand was promoted through SNS advertisements, which guided Internet users searching ski-related key words to the online shop. X-niX also cooperated with professional athletes to insert advertising materials in their personal SNS and show the brand logo in relevant activities, in order to increase consumers' recognition of the professionalism of X-niX.

Japan — Inhabitant brand

Inhabitant conducted its brand marketing primarily through a combination of sponsorships and offline activities. Sponsorships included the J-WAVE Day organised by FM Network on 13 August, the Niigata bicycle race and the "JAPAN OPEN Skateboard Contest Series" in Miyagi organised by the roller-ski skate federation of Japan on 23 September. In addition to the supply of professional outfits for participants, inhabitant also offered tailor-made services for special items to increase consumers' brand loyalty.

Moreover, the brand hosted a snow festival (大雪切願祭) starting 28 August and launched relevant promotional initiatives. To commemorate the launch of "inhabitant" on 18 March 1999, the 18th day of each has been designated as "Inhabitant Day," on which marketing activities such as free gifts through redemption of points, gift cards, and free trials. These activities have further enhanced publicity for the products and contributed to stronger consumers' desire to buy.

Product Design and Research and Development

Apparel Series

ESSENTIAL Series

As the name suggests, the ESSENTIAL Series is a highly versatile classic, for Kappa has never ceased to attempt at constant reinterpretations of its classical models. For the Fall/Winter season of 2015, softer materials and more adaptable cuttings have added a freshness to the ESSENTIAL Series, while contrasting colour patches between the upper and the lower, spectacular long-stitch designs, moderate lengths and slim splicing have instilled the energy of the sporting youth and the dynamism of flamboyant colours to part ways with clumsy and gloomy winter wear. Trends change fast but a classic stands the test of time. The Kappa design team constantly find themselves at the forefront of fashion trends with an astute sense of the avant-garde, remembering always that the brand is all about good taste and comfort.

KOLOR Series

To be young is to dare to clash, to be passionate and to break rules. Inspired by the chic and carefree city boy, the KOLOR Series featured bold colour clashes and ultimate retro tri-colour patches. Based on the signature minimalist design of the brand, the series tracked the style of U.S. campus attire and made a case for overlaps, ensuring comfort and aesthetical qualities while providing an excellent leisure dress. The light and soft fabric has heat retention properties while highlighting the purpose of the design. This has been KOLOR's most spectacular season so far, as a classical series of Kappa. In a word, character matters most for the KOLOR Series.

Kappa KOMBAT Series

The understated but solid KOMBAT Series is unique among all Kappa series. The horizontal long-stitches inside premium two-sided knit materials have substantially enhanced the functional value of the KOMBAT Series. The exceptional upside-down triangular cutting produced a broad but sturdy, smart-looking profile with a wonderful shaping effect, making it a combat gear in its truest sense. The brand heritage of the KOMBAT Series was evident even in its details, such as the exquisite embroidered logo and the retracted hem and sleeves which produced a balanced visual effect while identifying with the history and tradition of the brand.

K-Star Series

The K-Star Series has given a new lease of life to its customary baseball outfit through basics such as colour clashes, splices and creative profiling. The street sports identity was reinforced by the signature large-digit numbers embroidered on the shirt, while the lively use of large-prints and stripes provided additional retro features for the overall design. The variety in length and materials, meanwhile, provided fashionistas with enriched choices. There is no shortage of the fun of matching, as each item in the series can serve either as a basic gear perfect for free matching, or a fashion in itself.

Shoes Series

The Kappa Shoes Series, who enjoys a strong reputation in the footwear sector, has always excelled in its ability to strike a perfect balance between functionality and aesthetic appearance, as well as its meticulous emphasis on details. In close tandem with popular trends, the brand created a number of versatile models for style gurus. Designs of the 1970s and 1980s were reinvented using current trendy elements, as Kappa's unrivaled craftsmanship was manifested in features such as the combination of nylon and leather, random colour matching, and miniature reflective materials. The style of Kappa as a leading sporting brand was further showcased in its relentless effort to assure maximum comfort, as evidenced by the development more ergonomically-friendly designs, complemented by rubber materials with stronger anti-abrasion properties and Phylon materials noted for shock absorption.

Accessories Series

The fashionista's outfit cannot be complete without the right accessories. Accessories are nothing less than a personal fashion statement, an important clue that tells about your ability to mix and match. The Kappa brand does not only emphasise the design of a product in itself: we always take heed of what effect this product creates in light of the overall image of the person who puts it on. Be it the highly identifiable K-Star Series, or the ESSENTIAL Series which emphasises the mix-and-match function of individual products, convenience in use always constitutes, without exception, another important criterion in design, in addition to the neat capture of trendy elements. The flapped backpack with multiple internal partitions is just one example of the perfect combination of youthful energy, dignity, functionality and aesthetics. Splicing and bold tones, meanwhile, brilliantly express the passionate and flamboyant qualities of the Kappa brand. The full range of Kappa accessories offers a wide variety of choices for the fashion-conscious community with their supreme functionality and distinctive fashionable appearance.

Upgrading our retail network

During the period under review, the Group continued to optimize its retail network, enhance store performance, assess its store network and make adjustments accordingly, with the aim of consolidating its business model of "brand + retail." There were notable improvements in the efficiency of new stores as compared to closed ones after the replacement of certain underperforming stores. As at 31 December 2015, the Group had a total of 1,267 Kappa retail stores, representing a net increase of 57 stores as compared to the end of last year. The comparable store performance of Kappa brand of the China segment for 2015 increased by 12.2% as compared to the same period of last year.

Under the Group's model of overall product management and thanks to the concerted effort of the operating teams of our subsidiaries, a total of 397 retail stores were operated by our subsidiaries in 2015. Our self-owned retail network was further expanded to cover additional prefecture-level cities.

On the e-commerce front, the Group has successfully completed the transformation of its e-commerce operations following proactive realignments to its sales mix and further optimization of its sales channels. Substantial improvements in both revenue and gross profit margin of sales generated from e-commercial terminals were reported, as there was a notable decline in revenue from off-season items as a percentage of total sales, while strong efforts were made to develop products available for online sales only. In the November 11th sales initiative in 2015, e-commerce sales were doubled as compared to the same period of the previous year.

Increasing the contributions of Group projects

Against less than favourable macro-economic conditions underpinned by downside pressure, the Group nevertheless achieved steady progress in its principal operations in 2015. On the back of experience gained before and contributions of dedicated personnel, the Group has gradually formed a brand new business profile featuring a two-pronged growth driver comprising the principal sportswear operations and the supplementary investment operations, and has reaped satisfactory reward for 2015. Through a diverse range of investment projects, prudent risk management and control and effective investment planning, the Investment and Fund Management Department was investigating approaches to secure balance between fund security and reasonable income. Looking to the future, the Group will continue to leverage its existing resources and strengths to enhance cooperation with its investment partners, with a view to generating long-term stable income for shareholders in a risk-proof approach.

Management Discussion and Analysis

OUTLOOK

In 2015, we welcomed a booming period in the development of the sporting industry, although it was followed by setbacks such as the warm winter and lacklustre global economy. Nevertheless, our prudent business model, distinctive brand ethos and increasingly stable investment business has enabled us to stand tall in the fast-changing market for sporting goods and maintain a high ratio of return to shareholders.

In 2016, China Dongxiang will continue to focus on enhancing its brand value and introduce product innovation with reasonable application of resources. The business model of "Brand + Retail" will be further extended to cover channel management, with a view to procuring effective growth and long-term network development of terminal channels. We will continue to identify talents with the right calibre and skills in line with our belief in the recruitment of talents without boundaries. We will also develop a more practical system for communication and collaboration to enhance the working efficiency and comprehensiveness of our operational plans.

2015 is now a page in history. In retrospect, we have conducted ourselves in great composure, giving way to neither complacency nor disheartened feelings. Looking to the new year, we are prepared to embark on a new journey with passion and motivation. The full integration of operations in China and Japan, the re-introduction of Phenix, which is the undisputable leader in ice sports, the eminent relaunch of the kids business, and the centenary of the Kappa brand. In 2016, there will be more mountains to conquer and more challenges to overcome for the people of Dongxiang, who will continue to chart new heights with broader prospects in full determination, striving to reward every loyal shareholder with strong returns.

FINANCIAL REVIEW

The sales of the Group in 2015 was RMB1,469 million, increased by 16.4% as compared to RMB1,262 million in 2014. Profit attributable to equity holders in 2015 was RMB803 million, decreased by 12.2% as compared to RMB915 million in 2014.

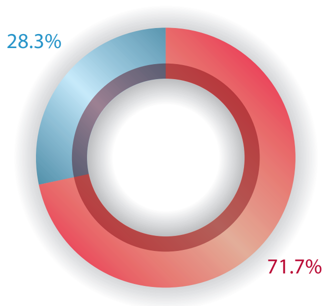
Sales Analysis

Sales analyzed by geographical segments, business segments and product categories

	Year ended 31 December						
	2015			2014			
	RMB million	**% of product/ brand mix**	**% of Group sales**	RMB million	% of product/ brand mix	% of Group sales	**Change**
CHINA SEGMENT							
Kappa Brand							
Apparel	**737**	**71.6%**	**50.2%**	583	71.2%	46.2%	26.4%
Footwear	**268**	**26.0%**	**18.2%**	210	25.6%	16.6%	27.6%
Accessories	**25**	**2.4%**	**1.7%**	26	3.2%	2.1%	−3.8%
Kappa Brand total	**1,030**	**100.0%**	**70.1%**	819	100.0%	64.9%	25.8%
International business, RDK and others	**23**		**1.6%**	9		0.7%	155.6%
CHINA SEGMENT TOTAL	**1,053**		**71.7%**	828		65.6%	27.2%
JAPAN SEGMENT							
Phenix Brand	**274**	**65.9%**	**18.6%**	294	67.7%	23.3%	−6.8%
Kappa Brand	**142**	**34.1%**	**9.7%**	140	32.3%	11.1%	1.4%
JAPAN SEGMENT TOTAL	**416**	**100.0%**	**28.3%**	434	100.0%	34.4%	−4.1%
THE GROUP TOTAL	**1,469**		**100.0%**	1,262		100.0%	16.4%

Sales analyzed by geographical segments

THE GROUP



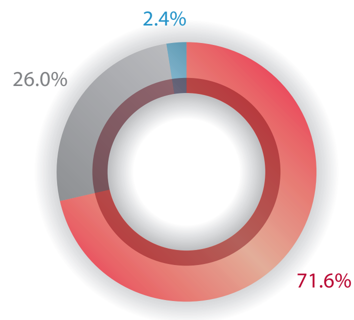
71.7% China Segment

28.3% Japan Segment

Sales analyzed by product categories

KAPPA BRAND

(China Segment)



71.6% Apparel

26.0% Footwear

2.4% Accessories

China Segment

Total sales of the Kappa brand business, the core business of the Group, in 2015 was RMB1,030 million, increased by RMB211 million from RMB819 million in 2014.

In the reporting period, the Group continued to make dedicated efforts in consolidating the business models of "brand + product" and "brand + retail". In terms of "brand + product", we engaged in product development with clear brand positioning, further elevating the quality and style of our products in a bid to satisfy the needs of the target consumer groups well; in terms of "brand + retail", we continue to optimize and apply a model in control and management based on the product life cycle, maximizing consumers' satisfaction by relying on the quick response of the supply chain system for timely stock replenishment. As the sportswear industry steadily rebounded, the Group also optimized and moderately expanded our retail channels. As a result we had a net increase of 57 retail stores with improved store performance, representing 1,267 Kappa retail stores in total as compared to 1,210 at the end of 2014. The comparable store performance also increased by 12.2% as compared to last year.

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

	Year ended 31 December				
	2015		2014		**Change**
	Sales RMB million	**% of sales of Kappa brand**	Sales RMB million	% of sales of Kappa brand	
Wholesale	**628**	**61.0%**	534	65.2%	17.6%
Retail	**402**	**39.0%**	285	34.8%	41.1%
Total of Kappa brand	**1,030**	**100.0%**	819	100.0%	25.8%

Sales of Kappa brand products via wholesale channel in China segment increased by RMB94 million to RMB628 million in 2015 from RMB534 million in 2014, representing 61.0% of the total sales of Kappa brand in China segment in 2015 as compared to 65.2% in 2014.

As at 31 December 2015, the number of self-owned retail stores under Kappa brand operated by our subsidiaries in China reached 397. Sales via retail channel increased by RMB117 million to RMB402 million in 2015 from RMB285 million in 2014, representing 39.0% of the total sales of Kappa brand in China segment in 2015 (2014: 34.8%).

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

	Year ended 31 December					
	2015		2014		**Change**	
	ASP	**Total units sold**	ASP	Total units sold	**ASP**	**Total units sold**
	RMB	**in '000**	RMB	in '000		
Apparel	**207**	**3,553**	159	3,564	30.2%	–0.3%
Footwear	**214**	**1,244**	185	1,105	15.7%	12.6%

Notes:

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

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

In 2015 and 2014, average selling prices per unit for apparel products were RMB207 and RMB159 respectively, and average selling prices per unit for footwear products were RMB214 and RMB185 respectively. Significant increases in average selling prices of apparel products and footwear products were mainly due to remarkable increase in share of sales of seasonal new products and increase in share of revenue from self-owned retail business.

Total units sold for apparel products in 2015 were substantially parallel to the same period last year, which were primarily due to lower purchase orders target made by our Group and the difference of timing of sales recognition between retail and wholesale businesses. Total units sold for footwear products in 2015 significantly increased by 12.6%, as compared to the same period last year, which were primarily due to wide acceptance of our footwear new arrivals and classic footwear collection by the market.

Japan Segment

Sales from Japan segment in 2015 slightly decreased by RMB18 million to RMB416 million from RMB434 million in 2014. The decrease in sales of Japan segment was mainly due to recession in retail market remained in Japan.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group has risen by RMB22 million to RMB643 million in 2015 (2014: RMB621 million).

In 2015, our gross profit before provision for/reversal of impairment losses of inventories has increased by RMB186 million to RMB826 million (2014: RMB640 million). Our overall gross profit margin before provision for/reversal of impairment losses of inventories in 2015 rose by 5.5 percentage points to 56.2% from 50.7% in 2014.

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

	Year ended 31 December		
	2015	2014	**Change**
	Gross profit margin	Gross profit margin	% pts
China Segment	**64.5%**	59.8%	4.7
Kappa Brand:			
Apparel	**69.5%**	62.2%	7.3
Footwear	**60.1%**	55.2%	4.9
Accessories	**66.1%**	63.1%	3.0
Kappa Brand overall	**67.0%**	60.5%	6.5
Japan segment	**35.3%**	33.4%	1.9
Group overall	**56.2%**	50.7%	5.5

Gross profit margin of Kappa Brand in China segment in 2015 rose by 6.5 percentage points to 67.0% from 60.5% in 2014. Such rise was mainly due to higher profit margin of new products achieved in 2015, with such new products taking up a higher proportion of the sales. Also, our self-owned retail business has kept an increased proportion of our sales.

Gross profit margin of Japan segment in 2015 is rebounded by 1.9 percentage points to 35.3% from 33.4% in 2014 after years of decrease in gross profit margin.

Other Gains, Net

Other gains net in 2015 was RMB800 million (2014: RMB910 million).

Investment segment

Revenue from investment segment of the Group in 2015 was RMB791 million (2014: RMB893 million), the revenue consisted of gains on interests of banking treasury products and borrowings of RMB277 million, gains on disposal of certain investments of RMB477 million and investment income from available-for-sale financial assets of approximately RMB142 million.

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, brand promotion expenses, sales operating expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses in 2015 was RMB576 million (2014: RMB602 million), constituting 39.2% of the Group's total sales, decrease of 8.5 percentage points as compared with that in 2014. The Group has further optimized resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

As a result of necessary adjustments made in internal organizational structure and human resources of China segment and Japan segment, efficiency of all staff members has increased but overall staff costs have maintained substantially at the same level in 2014 due to our proper control of staff costs. Our overall staff costs slightly increased by RMB9 million to RMB152 million in 2015 from RMB143 million in 2014;

In 2015, brand promotion expenses increased by RMB26 million to RMB107 million from RMB81 million last year. The increase was attributable to the increase in Kappa brand promotion expenses during the period to increase our brand value and consumers' awareness of our brands;

As a result of the Group's growth of sales, the sales operating expenses slightly increased by RMB11 million to RMB145 million in 2015 as compared to RMB134 million in 2014;

In 2015, logistics fee increased by RMB7 million to RMB73 million as compared to RMB66 million in 2014. The increase was also attributable to the growth of sales;

In 2015, the Group continued to take a more cautious but effective approach in investment in product development. Our design and product development expenses was RMB42 million (2014: RMB45 million).

Operating Profit

In 2015, the operating profit of the Group was RMB1,005 million (2014: RMB989 million) and the operating profit of the Group, net of gain on investments, was RMB260 million (2014: RMB96 million). In 2015, the operating profit margin was 68.4% in 2015 (2014: 78.4%) and the operating profit margin, net of gain on investments, was 17.7% (2014: 7.6%).

Finance Revenue, Net

In 2015, net financial income of the Group amounted to RMB19 million (2014: net finance cost of RMB14 million), which consisted of interest income from bank deposit of RMB11 million (2014: RMB7 million) and foreign exchange gains, net of RMB13 million (2014: foreign exchange losses, net of RMB18 million) in the reporting period.

Taxation

In 2015, income tax expense of the Group amounted to RMB219 million (2014: RMB62 million). The effective tax rate was 21.5% (2014: 6.3%).

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

Profit attributable to equity holders of the Company in 2015 was RMB803 million (2014: RMB915 million), and net profit margin of the Group was 54.7% (2014: 72.5%).

Earnings Per Share

The basic and diluted earnings per share were both RMB14.56 cents in 2015, decreased by 12.3% against the basic and diluted earnings per share of RMB16.61 cents in 2014.

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

Final Dividend and Final Special Dividend

The Company has paid an interim dividend and interim special dividend for the six months ended 30 June 2015 of RMB1.57 cent and RMB2.10 cent per ordinary share, respectively, with a total amount of RMB203,186,000.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB2.78 cents and RMB2.25 cents per ordinary share, respectively (totalling RMB5.03 cent per ordinary share) for the year ended 31 December 2015.

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 18 May 2016, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.83594 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2016. The dividend will be paid on or about 2 June 2016 to shareholders whose names appear on the register of members of the Company on 26 May 2016.

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 24 May 2016 to 26 May 2016 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2015 final dividend and final special dividend. In order to qualify for the 2015 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 23 May 2016.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days in 2015 and 2014 were 61 days and 96 days. Decrease in number of average trade receivable turnover days was mainly due to a decrease in average balance of trade receivable and an increase in sales.

Average trade payable turnover days in 2015 and 2014 were 83 days and 76 days, respectively.

Average inventory turnover days in 2015 and 2014 were 132 days and 141 days respectively, and the average inventory turnover days in the two periods were substantially flat.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 115 days and 97 days, respectively in 2015 as compared to 91 days and 104 days, respectively in 2014. Average inventory turnover days were 105 days in 2015 as compared to 104 days in 2014.

Liquidity and financial resources

As at 31 December 2015, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB1,209 million, a decrease of RMB1,337 million as compared to a balance of RMB2,546 million as at 31 December 2014. This decrease was mainly due to:

1) disposal of financial assets at fair value through profit or loss of RMB793 million and acquisition of the same of RMB2,022 million;

2) payment of 2014 final dividend and final special dividend and 2015 interim dividend and interim special dividend for an aggregate amount of equivalent to approximately RMB776 million;

3) cash inflow from operating activities of approximately RMB318 million;

4) investment in available-for-sale financial assets of approximately RMB708 million; cash inflow from disposal of certain available-for-sale financial assets of approximately RMB892 million; and cash outflow of RMB609 million caused by decrease in other financial liabilities;

5) increase in bank borrowings of an amount of equivalent to RMB455 million;

6) interest income and gains apportioned from all other financial assets of approximately RMB301 million;

7) other cash inflow of approximately RMB19 million in total.

As at 31 December 2015, net assets attributable to our equity holders was RMB9,531 million (31 December 2014: RMB10,340 million). The Group's current assets exceeded current liabilities by RMB4,906 million (31 December 2014: RMB4,992 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2015 was 6.0 times (31 December 2014: 6.3 times).

Investments in Available-For-Sale Financial Assets

As at 31 December 2015, our balance of investments in available-for-sale financial assets was approximately RMB3,911 million, representing a decrease of RMB669 million as compared with the balance of RMB4,580 million as at 31 December 2014. Such decrease was mainly due to decrease in price of shares in Alibaba Group Holding Limited (NYSE: BABA) which the Group has invested in.

Pledge of assets

As at 31 December 2015, the Group had approximately RMB68 million (31 December 2014: RMB53 million) in banks as, among others, guarantee deposit for the issue of letters of credit.

As at 31 December 2015, the Group had 2 million shares in Alibaba Group Holding Limited (NYSE: BABA) as collateral for securing bank borrowings of USD70 million.

Capital commitments and contingencies

In May 2013, the Group entered into a limited partnership agreement with Yunfeng Fund USD II, pursuant to which the Group subscribed a capital contribution commitment of USD20 million. In May 2014, the Group entered into a capital contribution transfer agreement with another limited partner of Yunfeng Fund USD II, increasing the Group's capital contribution commitment to USD30 million. In 2015, the Group paid a capital contribution of USD17.9 million with remaining balance of USD12.1 million (equivalent to approximately RMB78.6 million) as capital commitments.

Foreign Exchange Risk

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

The major operations of the Group were mainly carried out in the PRC and transacted in Renminbi. 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 2015.

Investor Relations Report

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

For the year 2015, we summarize the investor relations achievements as below:

1. Results Announcement and Investment Summits:

Right after the announcements of the 2014 annual results and the 2015 interim results in April and September 2015 respectively, the Group announced the latest business performance, future development direction and strategies in a timely manner. In addition, we launched post result NDRs in Hong Kong and Japan after each results announcement. Meanwhile, information in relation to our results was available on the company website in the same day, for investors' further inspection.

In addition, our top managements and investor relations team took part in investment summits, which held by investment banks, aim to enhance our interaction and communications with global investors.

2. Ongoing Daily Communication

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

- Company Visits and Telephone Conferences:

  In 2015, a total of 284 face-to-face meetings and telephone conferences were conducted with investors and analysts.

- Investors Store Visits:

  In 2015, based on the needs of our investors and analysts, and for them to better understand our operation, we arranged more than 20 stores visits in Beijing, Sichuan, Shanghai, Shenyang, Shenzhen, Guangzhou, and etc.

Interaction and communications with investors by the management of China Dongxiang

Reverse roadshow

- Company Website:

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

- Phone Inquiry Services for Investors and Media:

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

3. AGM

In accordance with the Listing Rules of the Hong Kong Stock Exchange, we organize annual general meeting, to discuss the Group'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 2015, the Group was accredited for "Listed Company with the Most Investment Value" at the China Securities "Golden Bauhinia Awards".

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

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

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)	57	Chairman, Chief Executive Officer and Executive Director
Ms. Chen Chen (陳晨)	29	Executive Director
Mr. Gao Yu (高煜)	42	Independent Non-Executive Director
Mr. Xu Yudi (徐玉棣)	64	Independent Non-Executive Director
Dr. Xiang Bing (項兵)	53	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 57, is our founder, chairman, chief executive officer and executive director. Mr. Chen is primarily responsible for our overall corporate strategies, planning and business development. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. Mr. Chen had completed an executive Master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002. Mr. Chen had completed "China CEO Program" of Cheung Kong Graduate School of Business (長江商學院) in 2009. Mr. Chen serves as an independent director of Huayi Brothers Media Corporation (華誼兄弟傳媒股份有限公司), a company listed on the Shenzhen Stock Exchange, since 30 December 2014.

Ms. Chen Chen (陳晨), aged 29, has been appointed as an executive director and a member of the executive committee of the Company with effect from 4 December 2014. Ms. Chen joined the Company in 2012. Ms. Chen is primarily responsible for overseeing the marketing and design of Kappa products of the Company. Ms. Chen served as product planning representative in the apparel planning team of the Company from 2012 to 2013. Ms. Chen was promoted as the manager of the marketing department and apparel design department and the vice president of the brand department in 2013. Ms. Chen obtained her bachelor's degree in Fashion Design Technology — Surface Textiles from University of the Arts — London College of Fashion, London, United Kingdom in 2010.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gao Yu (高煜), aged 42, is our independent non-executive director. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is an independent non executive director of Belle International Holdings Limited (百麗國際控股有限公司) and a non-executive director of Sparkle Roll Group Ltd (耀萊集團有限公司), two companies listed on the main board of Hong Kong Stock Exchange. 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.

Mr. Xu Yudi (徐玉棣), aged 64, an independent non-executive director of the Company. Mr. Xu obtained qualifications as a certified public accountant and senior auditor in the PRC. He is a senior member of the Chinese Institute of Certified Public Accountants. He obtained his master's degree in economics from the Institute for Fiscal Science Research under the State Ministry of Finance (財政部財政科學研究所). For the period between 2006 and 2011, Mr. Xu was a director of China Citic Group (中國中信集團公司), and for the period between 2009 and 2011, Mr. Xu was also the consultant of Group Strategy and Planning Department. For the period between 1994 and 2009, Mr. Xu was the vice president and general accountant of China Leasing Company Limited (中國租賃有限公司), president and chairman of Citic International Cooperation (中信國際合作公司), vice president and vice chairman of Citic Constructions Co. Ltd. (中信建設有限責任公司). Prior to that, he was a lecturer of Tianjin Commercial School (天津財貿學校) and also the officer, division chief, deputy director, deputy delegate and director of National Audit Office. He was also an intern at the Office of the Auditor General of Canada from 1983 to 1985.

Dr. Xiang Bing (項兵), aged 53, is our independent non-executive director. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 18 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院).

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

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

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

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

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

SENIOR MANAGEMENT

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

ENVIRONMENTAL PROTECTION

As a responsible global corporate citizen, the Group is profoundly aware of the importance of environmental protection to the achievement of social and business sustainability. Therefore, we have made dedicated efforts in reducing environmental pollution caused by daily business operations through a variety of measures.

A range of measures for energy efficiency and emission reduction have been continuously taken. Through the use of energy efficient lights and the installation of the internal automatic lighting control system, which turns off office lighting automatically during non-business hours to avoid lights staying on all night long, we have saved up hundreds of thousands of Kwh each year. We have also installed water conservation valves in our internal water supply equipment and our annual water consumption has reduced by 25% as a result. During winter and summer, the room temperature of the air-conditioning system is set at a reasonable level to increase air-conditioning efficiency and avoid unnecessary waste of electric power. Automatic controls have also been installed to significantly reduce the loading of electricity consumption. The Group has also conducted a general stock-taking in respect of its fixed assets, whereby idle assets have been reallocated for use and unnecessary acquisitions of new assets have been minimized to enhance effective utilisation of assets and realise resource conservation. The Group has also persisted in battery sorting and recycling to avoid secondary pollution of soil.

Employees are encouraged to use the Group's shuttle bus and public transportation instead of driving their private cars in their daily commuting, so as to reduce the impact of tailpipe emission on the environment.

STAFF DEVELOPMENT

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.

OPTIMIZATION OF GROUP ORGANIZATION AND STRUCTURE

China Dongxiang has continuously taken actions to optimize its internal organization and structure as well as streamline its business processes in timely response to market changes. Staff headcount has been increased for key businesses while streamlined for back-office functions through optimization of corporate organization and structure and implementation of the Company's development strategy, in a bid to enhance efficiency and improve our operating results.

IMPROVEMENT OF PERFORMANCE MANAGEMENT SYSTEM

In its practice of performance management, China Dongxiang Group seeks in a proactive manner to draw lessons from past experiences, correct any shortcomings and optimize its performance management policy. While meeting the needs of business development, we also aim to practice succinct, pragmatic and highly efficient management, such that our performance management system embodies appraisal concerns which are results-oriented, while providing effective incentives in organization management.

STAYING FOCUSED ON PERSONNEL TRAINING AND DEVELOPMENT

China Dongxiang Group has placed a particularly strong emphasis on the internal cultivation of high-calibre staff by improving its selection, appointment and retention mechanisms. Appropriate personnel have been deployed to key positions to ensure comprehensive management succession for the Company's core businesses. The Group has developed an on-going management trainee programme, whereby outstanding university graduates are recruited by selection to join specialized training regimes of the Company, in a move to stock and cultivate high-calibre personnel for all departments. Some personnel trained through this system every year are making outstanding contributions after their appointment to key positions.

ORGANIZATION OF EMPLOYEE ENGAGEMENT ACTIVITIES

The Group has been advocating active and healthy lifestyle, encouraging our staff members to establish and join social clubs in various forms for employees in their spare time. In addition, the Company organizes different kinds of activities for staff members from time to time and participates inter-corporate sports tournament with an aim to improve physical fitness as well as living quality of our employees, and hence awaking their passion for work and promoting our solidarity.

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 2015, except for the following deviations from the code provisions:

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

(ii) Provision 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. Dr. Xiang Bing (independent non-executive director) could not attend the annual general meeting of the Company held on 20 May 2015 due to important business appointments. However, the executive directors and the other independent non-executive directors attended the annual general meeting to ensure 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 2015.

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 2015.

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 42 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

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

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

Independent Non-Executive Directors:
Mr. Gao Yu
Dr. Xiang Bing
Mr. Xu Yudi

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

The composition of the Board is well balanced with each director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Group. All directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Group. The Company has formal letter of appointment with each Directors setting out the key terms and conditions of his/her appointment. The 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 Dr. Xiang Bing shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forth coming Annual General Meeting ("AGM").

Ms. Chen Chen (re-elected as an executive Director on 20 May 2015), Mr. Gao Yu (re-elected as an independent non-executive director on 20 May 2015), Mr. Xu Yudi (re-elected as an independent non-executive director on 20 May 2015) shall hold office until they are required to retired in accordance with the Company's articles of association.

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

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

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

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

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

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

In August 2015, the Company, together with Norton Rose FulBright Hong Kong, organized a training session to provide the Directors with an update on the Listing Rules.

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

	Attending seminars relating to rules and regulations	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Directors		
Chen Yihong	√	√
Chen Chen	√	√
Independent Non-executive Directors		
Gao Yu	√	√
Xiang Bing	√	√
Xu Yudi	√	√

BOARD AND COMMITTEES MEETINGS

In 2015, the Board held 5 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings and Annual General Meeting ("AGM") held in 2015 is set out in the table below.

	Board meetings in 2015	Audit committee meetings in 2015	Attendance of Remuneration committee meeting in 2015	Nomination committee meeting in 2015	AGM in 2015
Executive Directors					
Chen Yihong	5/5	N/A	1/1	1/1	1/1
Chen Chen	5/5	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Gao Yu	5/5	3/3	N/A	1/1	1/1
Xiang Bing	5/5	3/3	1/1	1/1	0/1
Xu Yudi	5/5	3/3	1/1	N/A	1/1

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

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

With respect to financial information of the Company, the Audit Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. Apart from considering issues arising from the audit, the Audit Committee discusses any matters that auditor may wish to raise either privately or together with executive Directors and any other persons. The Audit Committee is also required to review the effectiveness of the Company's financial controls, internal control and risk management 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 2015. The major work performed by the Audit Committee in 2015 included:

(i) Review and recommend the Board's approval of the 2015 external audit plan and 2015 internal audit plan;

(ii) Review and recommend the Board's approval of the 2014 annual financial statements and 2015 interim financial statements;

(iii) Review of the 2015 external audit report and internal audit report;

(iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the 2015 audit.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee met one time in the year of 2015. The major work performed by Remuneration Committee in 2015 included reviewing and determining the Directors' remuneration for the year ending 31 December 2016.

NOMINATION COMMITTEE

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

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

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

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

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

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

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

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

The Nomination Committee met one time in the year of 2015. The major work performed by Nomination Committee in 2015 included reviewing the structure, size, composition and diversity of the board, assess the independence of independent non-executive directors of the company.

BOARD DIVERSITY POLICY

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

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Ms. Chen Chen, Mr. Sun Ming, Ms. Tang Lijun, Ms. Bu Jianjun and Mr. Meng Yongli.

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.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board and the Audit Committee are responsible for developing and maintaining the system of internal controls of the Group to protect shareholders' interest and to safeguard the Group's assets by setting appropriate policies and reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management areas. The Board and the Audit Committee have reviewed the effectiveness of the Group's system of internal controls on all major operations, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial function, and their training programs and budget, by reviewing the internal control reports prepared by the Internal Audit and Control Department (the "IAC") and management letters submitted by external auditors. Also, the Board and the Audit Committee met with the internal auditors, the external auditors and the management to discuss findings from their works and resolution. The Board and the Audit Committee considered that the system of internal controls was operating effectively for the year ended 31 December 2015.

The IAC is responsible for assisting the Board and the Audit Committee in maintaining effective internal controls by evaluating their effectiveness and efficiency and by ensuring their continuous improvement. The IAC reported to the Audit Committee and aimed at providing reasonable assurance to the Board and the Audit Committee by ensuring the existence and effectiveness of Group's internal controls. The IAC adopted the globally recognised framework outlined by the Committee of Sponsoring Organisations of The National Commission of Fraudulent Financial Reporting (COSO) for establishing the system of internal controls and formulates an annual internal audit plan for the coming year in December each year. Audit work programs are developed based on understanding of the operations obtained from interviews with the management.

The Audit Committee reviews and approves the annual audit plan and all subsequent major changes to the plan, if any. The IAC is responsible for carrying out internal control reviews based on the approved annual audit plan. Prior to the commencement of each audit assignment, audit planning meetings are arranged with process owners to communicate the scope. Through execution of the audit work programs, the IAC inspects, monitors and evaluates the design effectiveness and the operating effectiveness of the key controls associated with the processes under review. Duties of the IAC also include regular reviews on the implementation and procedures of financial and operational activities and the system of internal controls of the Group. The IAC has unrestricted access to any information relating to the Group's risk management, control and governance processes. The IAC submits the audit findings together with rectification and improvement plans to the Audit Committee and the management and maintains regular communication. It regularly tracks all audit findings and performs follow-up to ensure all matters are implemented in accordance with the rectification and improvement plans.

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:

	2015 **RMB'000**
Statutory audit	**2,475**
Non-audit services	**1,107**
Total	**3,582**

The non-audit services mainly comprised tax compliance, interim review services and certain agreed upon procedure work. The responsibilities of the independent auditor with respect to the 2015 consolidated financial statements are set out in the section "Independent Auditor's Report" on pages 55 to 56.

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an Investor Relations ("IR") Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on pages 31 to 32 to provide a more comprehensive overview of the work performed by the IR Department in 2015.

SHAREHOLDERS' RIGHT

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

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

The Company Secretary
China Dongxiang (Group) Co., Ltd. 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 2015, 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 2015.

PRINCIPAL ACTIVITIES

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in Mainland of People's Republic of China, Macau and Japan.

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 2015 is set out in the consolidated income statement on page 57 of this annual report.

DIVIDENDS

An interim dividend of RMB1.57 cents and an interim special dividend of RMB2.10 cents in respect of the 6 months ended 30 June 2015 were declared to Shareholders on 19 August 2015 and paid in September 2015.

The directors recommend a final dividend of RMB2.78 cents and final special dividend of RMB2.25 cents per ordinary share of the Company, amounting to approximately RMB153,949,000 and RMB124,606,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 18 May 2016 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.83594 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 21 March 2016.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

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

FIVE-YEAR SUMMARY

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

SHARE CAPITAL

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

RESERVES

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2015 amounted to approximately RMB11,757,040,000, which is the total of the share premium account and reserves of the Company calculated in accordance with Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

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

MATERIAL CONTRACT

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

DIRECTORS

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

Executive Directors:

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

Independent Non-Executive Directors:

Mr. Gao Yu
Dr. Xiang Bing
Mr. Xu Yudi

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

Ms. Chen Chen (re-elected as an executive Director on 20 May 2015), Mr. Gao Yu and Mr. Xu Yudi (re-elected as an independent non- executive director on 20 May 2015) shall hold office until they are required to retired in accordance with the Company's articles of association.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent. Particulars of the directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 37 to the consolidated financial statements.

DIRECTORS' 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 2015 and up to and including the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors are set out on pages 33 to 34 of this annual report.

SHARE OPTION SCHEMES

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

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

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

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

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

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

(iii) the nominal value of the shares.

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

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

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

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 December 2015. There was no share option outstanding under the Share Option Scheme as at 31 December 2015.

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 and vice chairman of the Board) (the "Administration Committee") may, subject always to the Scheme Rules, from time to time, determine the number of Restricted Shares to be granted and at its absolute discretion select any selected participant (excluding any excluded employee of the Group as provided under the Scheme Rules) to be a selected participant under the Share Award Scheme.

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

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

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

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

For the year ended 31 December 2015, 1,132,000 Restricted Shares were granted to 2 eligible participants pursuant to the Restricted Share Award Scheme. 1,132,000 Restricted Shares were vested during the year. As at 31 December 2015, the number of Restricted Shares granted under the scheme amounted to 6,544,000 Shares, representing approximately 0.12% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2015 are as follows:

	Number of Restricted Shares[1]		
Date of grant	**granted during the year**	**vested during the year**	**lapsed during the year**
1/4/2015	632,000	632,000	—
3/6/2015	500,000	500,000	—
	1,132,000	1,132,000	—

Note:

(1) As at 1/1/2015, the number of restricted shares are 24,588,000 shares. As at 31/21/2015, the number of restricted shares are 23,456,000 shares.

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

RETIREMENT SCHEMES

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

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2015, the interests and short positions of the directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules are as follows:

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

		Number and class of securities		
Name of Directors	**Nature of interest**	**Long position**	**Short position**	**Approximate percentage of total issued Shares**
Mr. Chen Yihong	Interest of a controlled corporation[1]	2,227,081,000 Shares	—	40.23%
Ms. Chen Chen	Interest of a controlled corporation[2]	93,803,100 Shares	—	1.69%

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 Trust Company (Jersey) 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.

(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 2015, none of the directors and chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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: Long position	Number of Shares: Short position	Approximate percentage of shareholding (%)
Poseidon Sports Limited	Corporate interest	2,227,081,000	—	40.23%
Talent Rainbow Far East Limited(1)	Interest in a controlled corporation	2,227,081,000	—	40.23%
Harvest Luck Development Limited(1)	Interest in a controlled corporation	2,227,081,000	—	40.23%
Prime Capital Management Company Limited(2)	Investment manager	279,190,706	—	5.04%
Morgan Stanley(3)	Interest in a controlled corporation	319,302,246		5.76%
			193,624,976	3.49%

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 Trust Company (Jersey) 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.

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

(3) As stated in the form of disclosure of shareholder's interests submitted by Morgan Stanley on 1 January 2016 (the date of relevant event set out in the form was 30 December 2015), these Shares were held by Morgan Stanley and/or its affiliates.

Save as disclosed above, as at 31 December 2015, the directors are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTION

On 30 April 2015 (U.S. Eastern Time), Brilliant King Group Ltd. ("Brilliant King"), a wholly-owned subsidiary of the Company, entered into a shareholders' agreement (the "Shareholders' Agreement") with Talent Rainbow International Limited ("Talent Rainbow", a company wholly owned by Mr. Chen Yihong, a connected person of the Company) and Mengfa International Resources Inc., ("Mengfa International") an independent third party, in relation to the establishment of Boundary Bay Investment LLC ("Boundary Bay"), for the purpose of acquiring 100% partnership interests in a Washington limited partnership which is the owner and operator of a marina located at Washington, U.S.

Pursuant to the Shareholders' Agreement, the total investment contributed by Talent Rainbow, Brilliant King and Mengfa International of US$15,950,000, US$10,150,000 and US$2,900,000 respectively, representing 55%, 35% and 10% of the total issued capital of Boundary Bay, respectively.

In consideration of Brilliant King's investment in Boundary Bay, Talent Rainbow irrevocably undertakes to Brilliant King that if the corresponding loss, as shown in the audited annual financial statements of Boundary Bay, attributable to Brilliant King exceeds 20% of the amount of capital invested by Brilliant King in Boundary Bay, Brilliant King shall have the right to request Talent Rainbow to acquire Brilliant King's entire shareholding interest in Boundary Bay.

Talent Rainbow is wholly-owned by Mr. Chen Yihong (a Director and the controlling shareholder of the Company) and is therefore an associate of Mr. Chen Yihong and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the establishment of Boundary Bay between Talent Rainbow, Brilliant King and Mengfa International constituted a connected transaction of the Company.

CONTINUING CONNECTED TRANSACTION

The related party transactions are set out in Note 35 to the consolidated financial statements. Apart from the 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 2015, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 7% and 27% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 13% and 27% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout 2015, the Company has complied with all the code provisions, except two deviations from code provisions A.2.1 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 37 to 45 of this report.

AUDITOR

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

On behalf of the Board
Chen Yihong
Chairman

22 March 2016

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)

We have audited the consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries set out on pages 57 to 140, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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羅兵咸永道

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2016

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Consolidated Income Statement

Year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	5	**1,468,891**	1,261,905
Cost of sales	6	**(643,288)**	(621,458)
(Provision for)/reversal of impairment losses of inventories	6	**(10,609)**	41,107
Gross profit		**814,994**	681,554
Distribution expenses	6	**(462,010)**	(428,429)
Administrative expenses	6	**(114,191)**	(174,028)
Other gains — net	7	**800,160**	909,518
Provision for impairment losses of available-for-sale financial assets	17	**(34,117)**	—
Operating profit		**1,004,836**	988,615
Finance income	9	**30,451**	6,961
Finance expenses	9	**(11,430)**	(20,705)
Finance expenses — net	9	**19,021**	(13,744)
Share of (loss)/profit of investments accounted for using the equity method	12(b)	**(2,876)**	256
Profit before income tax		**1,020,981**	975,127
Income tax expense	10	**(219,364)**	(61,718)
Profit for the year		**801,617**	913,409
Profit attributable to:			
— Owners of the Company		**802,901**	915,351
— Non-controlling interests		**(1,284)**	(1,942)
		801,617	913,409
Earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	11	**14.56**	16.61
Diluted earnings per share	11	**14.56**	16.61

The notes on pages 64 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year	**801,617**	913,409
Other comprehensive income that may be reclassified to profit or loss:		
Change in fair value of available-for-sale financial assets	**(1,041,826)**	966,332
Currency translation differences	**201,446**	(4,758)
Other comprehensive income for the year, net of tax	**(840,380)**	961,574
Total comprehensive income for the year	**(38,763)**	1,874,983
Attributable to:		
— Owners of the Company	**(37,479)**	1,876,925
— Non-controlling interests	**(1,284)**	(1,942)
Total comprehensive income for the year	**(38,763)**	1,874,983

The notes on pages 64 to 140 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Assets			
Non-current assets			
Lease prepayments	14	**11,437**	11,722
Property, plant and equipment	13	**75,402**	71,595
Intangible assets	15	**238,807**	247,512
Investments accounted for using the equity method	12(b)	**144,617**	15,621
Deferred income tax assets	18	**73,423**	90,846
Available-for-sale financial assets	17	**3,911,487**	4,580,210
Financial assets at fair value through profit or loss — non-current portion	22	**219,252**	271,520
Prepayments, deposits and other receivables — non-current portion	21	**25,921**	88,643
Total non-current assets		**4,700,346**	5,377,669
Current assets			
Inventories	19	**225,809**	206,492
Trade receivables	20	**294,189**	318,210
Prepayments, deposits and other receivables	21	**3,893,494**	2,860,742
Financial assets at fair value through profit or loss	22	**257,897**	—
Cash and cash equivalents	23	**1,141,562**	2,492,586
Restricted cash	23	**67,648**	53,094
Total current assets		**5,880,599**	5,931,124
Total assets		**10,580,945**	11,308,793
Equity			
Equity attributable to owners of the Company			
Share capital	24	**53,589**	53,589
Share premium account	24	**940,705**	1,714,319
Reserves	25	**8,536,812**	8,572,160
		9,531,106	10,340,068
Non-controlling interests		**17,584**	18,868
Total equity		**9,548,690**	10,358,936

Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	18	**58,041**	10,804
Current liabilities			
Other financial liability	29	**—**	609,020
Trade payables	27	**157,966**	155,711
Accruals and other payables	28	**196,705**	130,210
Current income tax liabilities		**140,133**	23,514
Borrowings	30	**454,552**	—
Provisions	31	**24,858**	20,598
Total current liabilities		**974,214**	939,053
Total liabilities		**1,032,255**	949,857
Total equity and liabilities		**10,580,945**	11,308,793

The notes on pages 64 to 140 are an integral part of these consolidated financial statements.

The financial statements on pages 57 to 63 were approved by the Board of Directors on 22 March 2016 and were signed on its behalf.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014		53,589	1,863,919	1,468,200	5,223,490	8,609,198	14,626	8,623,824
Comprehensive income								
Profit for the year		—	—	—	915,351	915,351	(1,942)	913,409
Other comprehensive income								
Available-for-sale financial assets		—		966,332	—	966,332	—	966,332
Currency translation differences		—	436	(5,194)	—	(4,758)	—	(4,758)
Total other comprehensive income, net of tax		—	436	961,138	—	961,574	—	961,574
Total comprehensive income		—	436	961,138	915,351	1,876,925	(1,942)	1,874,983
Transactions with owners,recognized directly in equity								
Disposal of a subsidiary		—	—	—	—	—	6,184	6,184
Dividends relating to 2013 final and 2014 interim		—	(150,036)	676	—	(149,360)	—	(149,360)
Shares vested under Restricted Share Award Scheme	26	—	—	3,305	—	3,305	—	3,305
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(150,036)	3,981	—	(146,055)	6,184	(139,871)
Appropriation to statutory reserves	25	—	—	2,311	(2,311)	—	—	—
Total transactions with owners, recognised directly in equity		—	(150,036)	6,292	(2,311)	(146,055)	6,184	(139,871)
Balance at 31 December 2014		53,589	1,714,319	2,435,630	6,136,530	10,340,068	18,868	10,358,936

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium account RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		53,589	1,714,319	2,435,630	6,136,530	10,340,068	18,868	10,358,936
Comprehensive income								
Profit for the year		—	—	—	802,901	802,901	(1,284)	801,617
Other comprehensive income								
Available-for-sale financial assets		—	—	(1,041,826)	—	(1,041,826)	—	(1,041,826)
Currency translation differences		—	2,774	198,672	—	201,446	—	201,446
Total other comprehensive income, net of tax		—	2,774	(843,154)	—	(840,380)	—	(840,380)
Total comprehensive income		—	2,774	(843,154)	802,901	(37,479)	(1,284)	(38,763)
Dividends relating to 2014 final and 2015 interim	32	—	(776,388)	3,329	—	(773,059)	—	(773,059)
Shares vested under Restricted Share Award Scheme	26	—	—	1,576	—	1,576	—	1,576
Total contributions by and distributions to owners of the Company, recognised directly in equity		—	(776,388)	4,905	—	(771,483)	—	(771,483)
Appropriation to statutory reserves	25	—	—	5,937	(5,937)	—	—	—
Total transactions with owners, recognised directly in equity		—	(776,388)	10,842	(5,937)	(771,483)	—	(771,483)
Balance at 31 December 2015		53,589	940,705	1,603,318	6,933,494	9,531,106	17,584	9,548,690

The notes on pages 64 to 140 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2015

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**359,695**	103,810
Interest received		**11,743**	13,496
Income tax paid		**(53,438)**	(84,762)
Net cash generated from operating activities		**318,000**	32,544
Cash flows from investing activities			
Purchase of property, plant and equipment		**(14,044)**	(3,965)
Purchase of intangible assets		**(3,356)**	(4,750)
Proceeds from disposal of property, plant and equipment	33	**367**	299
Redemption of/(investment in) term deposits with initial terms of over three months and long term bank deposits	23	**534,322**	(2,450)
Purchase of financial assets (exclude available-for-sale financial assets)		**(2,021,605)**	(1,017,515)
Sale of financial assets (exclude available-for-sale financial assets)		**792,858**	1,471,186
Dividends received from the investment in available-for-sale financial assets		**99,721**	37,153
Interest received from financial assets (exclude available-for-sale financial assets)		**202,042**	209,352
Investments in available-for-sale financial assets	17	**(707,531)**	(789,908)
Proceeds from disposal of available-for-sale financial assets		**891,674**	1,662,066
Payment of financial liabilities		**(609,020)**	—
Investments in associates		**(62,082)**	—
Net cash (used in)/generated from investing activities		**(896,654)**	1,561,468
Cash flows from financing activities			
Borrowings	30	**454,552**	—
Dividends paid	32	**(776,388)**	(150,036)
Net cash used in financing activities		**(321,836)**	(150,036)
Net (decrease)/increase in cash and cash equivalents		**(900,490)**	1,443,976
Cash and cash equivalents at beginning of the year		**1,726,567**	280,852
Exchange gains on cash and cash equivalents		**83,788**	1,739
Cash and cash equivalents at end of the year	23	**909,865**	1,726,567

The notes on pages 64 to 140 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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"), Macau and Japan.

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendment to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

- Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

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

- Amendments from annual improvements to IFRSs — 2010–2012 Cycle, on IFRS 8, 'Operating segments', IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' and IAS 24, 'Related party disclosures'.

- Amendments from annual improvements to IFRSs — 2011–2013 Cycle, on IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement' and IAS 40, 'Investment property'.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning on 1 January 2015 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
IFRSs (Amendments)	Annual improvements 2012–2014 cycle	1 January 2016
IAS 1 (Amendment)	Disclosure initiative	1 January 2016
IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IAS 27 (Amendment)	Equity method in separate financial statements	1 January 2016
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16 (Amendment)	Leases	1 January 2019

The Company is in the process of making an assessment of the impact of these new standards and amendments to standards upon initial application but is not yet in a position to state whether these new standards and amendments to standards would have any significant impact on its results of operations and financial position.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(c) New Hong Kong Companies Ordinance

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Subsidiaries

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

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

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

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

(c) Disposal of subsidiaries

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also 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 dividends 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, for a prolonged period, exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Joint arrangements

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

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances

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

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

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

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

(c) Group companies

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment

Property, plant and equipment 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 income statement 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	2–15 years or overlease term, whichever is shorter

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Leasehold land use right

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

2.9 Intangible assets

(a) Trademarks

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

(b) Computer software

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

2.10 Impairment of non-financial assets

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

2.11 Financial assets

2.11.1 Classification

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

2.11.1 Classification (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'deposits and other receivables' and 'cash and bank balances' in the balance sheet (Note 2.15 and 2.16).

(c) Available-for-sale financial assets

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

2.11.2 Recognition and measurement

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (Continued)

(b) Assets classified as available-for-sale

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

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

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

2.14 Inventories

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

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

2.18 Trade payables

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

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

2.19 Borrowings

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

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

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

2.20 Borrowings costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax (Continued)

(c) *Offsetting*

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

2.22 Employee benefits

(a) *Pension obligations*

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

Past-service costs are recognised immediately in income statements.

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

(b) *Bonus plans*

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

(c) *Termination benefits*

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

(d) *Employee leave entitlements*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a share option scheme ("Share Option Scheme") (Note 26(a)). Under the Share Option Scheme, the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based payment transactions among group entities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Share-based payments (Continued)

(c) Restricted Share Award Scheme

The Company adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 26(b)) 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, a trust (Note 26) was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market. The total amount paid to acquire the shares was financed by the Company by way of contributions made to the trust. As the financial and operational policies of the trust are governed by the Group, and Group benefits from the trust's activities, the trust is consolidated in the Group's financial statements as a special purpose entity.

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

2.24 Provisions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue recognition

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

(a) Sales of goods — wholesale

The Group manufactures and sells a range of sport-related apparel, footwear 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 does not occur 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 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 or credit card.

(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 income statement on an accrual basis in accordance with the substance of the relevant agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Interest income

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

2.27 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 income statement over the period necessary to match them with the costs that they are intended to compensate.

2.28 Leases

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

2.29 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2015, if RMB had strengthened/weakened by 5% against the USD/HKD with all other variables held constant, post-tax profit for the year would have changed mainly as a result of foreign exchange losses/gains on translation of USD and HKD denominated cash and bank balances.

	2015 **RMB'000**	2014 RMB'000
Year ended 31 December:		
Post-tax profit for the year (decrease)/increase		
— Strengthened 5%	**(29,562)**	(59,677)
— Weakened 5%	**29,562**	59,677

(ii) Cash flow and fair value interest rate risk

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

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

For the year ended 31 December 2015, fair value change of investment in ordinary shares of Alibaba Group Holding Limited ("Alibaba")(Note 17 (a)) amounting to RMB 689,283,000 (2014: RMB 973,352,000) were recognized in other comprehensive income. Alibaba is a leading group in the Chinese e-commerce industry whose shares were listed in US in September 2014. As at 31 December 2015, if the share price of Alibaba had risen/fallen by 1% while all other variables had been held constant, the Group's other comprehensive income would have increased/decreased by approximately RMB6,893,000 (2014: RMB9,734,000).

(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 and at credit periods of 30 to 60 days.

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 2015 all the bank deposits and treasury products are deposited in high quality financial institutions without significant credit risk. The table below shows the bank deposit and treasury products balances of the Group in the banks as at 31 December 2015 and 2014. Management does not expect any losses from non-performance of these banks.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

	As at 31 December	
Rating (i)	**2015 RMB'000**	2014 RMB'000
Cash and bank balances		
A-1	**912,863**	1,606,251
A-2	**157,124**	807,985
B	**70,121**	59,311
Others	**69,102**	72,133
	1,209,210	2,545,680
Treasury products		
A-1	**206,889**	725,165
A-2	**2,881,260**	1,354,740
	3,088,149	2,079,905

(i) The source of the credit rating is from Standard & Poor's as at 31 December 2015

The Group's other financial assets with credit risk as at 31 December 2015 mainly include the investments in limited partnership funds established for the purpose of making equity investments and loans receivable. In addition, management periodically assess the credit risk of these investments and make provision when necessary.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

	RMB'000
At 31 December 2015	
Borrowings (Note 30)	**454,552**
Trade payables (Note 27)	**157,966**
Accruals and other payables (Note 28)	**108,496**
	721,014
At 31 December 2014	
Trade payables (Note 27)	155,711
Accruals and other payables (Note 28)	69,189
Other financial liabilities (Note 29)	609,020
	833,920

All the balances are due within one year.

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 Group 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 2015 and 2014, the Group has no net debt.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that were measured at fair value at 31 December 2015 and 2014:

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

At 31 December 2014	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets (Note 17)	—	3,229,119	1,351,091	4,580,210
Financial asset at fair value through profit or loss (Note 22)	271,520	—	—	271,520
	271,520	3,229,119	1,351,091	4,851,730

(a) *Financial instruments in level 1*

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

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value such financial instrument are observable, the instrument is included in Level 2. Instrument included in level 2 as at 31 December 2014 mainly includes the Group's investment in a US listed company and it was transferred to level 1 in March 2015 (Note 17(a)).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices, fund's net assets value provided by fund administrators for unlisted investment funds or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, valuations performed by external valuation specialists, recent arm's length transactions or reference to other instruments that are substantially the same, for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year end 31 December 2015 and 2014:

Available-for-sale financial assets in level 3	2015 RMB'000	2014 RMB'000
At 1 January	**1,351,091**	3,201,109
Exchange differences	**11,606**	24
Additions	**659,354**	789,908
Change in fair value	**52,998**	32,037
Impairment losses recognised in profit or loss	**(34,117)**	—
Disposal	**(342,000)**	(244,201)
Transfer to level 2 (Note a)	**—**	(2,427,786)
At 31 December	**1,698,932**	1,351,091
Total losses for the year included in profit or loss for assets held at the end of the year, under provision for impairment losses of available-for-sale financial assets	**(34,117)**	—
Total gains (losses) for the year as in "Other gains-net" included in profit or loss for assets held at the end of the year	**(68,153)**	29,625
Change in unrealised gains for the year included in other comprehensive income for assets held at the end of the year	**121,151**	2,412

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(c) Financial instruments in level 3 (Continued)

The level 3 instruments mainly include the investments in funds managed by external parties. Such investment funds are stated with reference to the fund's net asset value provided by the respective administrators of the investment funds. If the net asset value of the investment funds is not available or the Group considers that such net asset value is not reflective of fair value, the Group may exercise its judgement and discretion to determine the fair value of the investment funds. There were no changes in valuation techniques during the period.

Note a:

Investment in Yunfeng E-Commerce Funds were transferred to level 2 because the funds was established for the purpose of making investment in equity interest of Alibaba, whose shares were listed on New York Stock Exchange ("NYSE") in September 2014 (Note 17(a)).

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) 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.

(b) Fair value of financial assets

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Income taxes

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

(d) 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.

(e) Sales returns and discounts provision

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

(f) Impairment of investments in subsidiaries

Where there are indicators for impairment, the carrying value of the parent entity's investment in the subsidiaries in the parent's separate financial statements should also be reviewed for impairment. The recoverable amount has been determined based on the higher of fair value less costs to sell and value-in-use calculations. These calculations require the use of estimates.

Besides, the Group assesses at each reporting date whether there is any indication that an impairment loss recognised in a previous period for investments in subsidiaries either no longer exists or has decreased. If there is any such indication the Group should estimate the recoverable amount of the aforesaid investments in subsidiaries. These calculations require the use of estimates.

According to the value-in-use calculations, an impairment charge of RMB3,332,440,000 arose in year 2012, resulting in the carrying amount of the investment in subsidiaries being written down to its recoverable amount. No further impairment arose in year 2014 and 2013. In year 2015, according to the updated value-in-use calculations, an impairment charge of RMB3,332,440,000 was reversed.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(h) Inventory provision

Management makes provision for inventories based on historical experience and estimation of future market condition and sales. This requires significant judgment. As at 31 December 2015, the Group made a provision for impairment loss of out-season inventories of RMB10,609,000 (2014: reversal of RMB41,107,000).

5. SEGMENT INFORMATION

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

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

- China — includes distribution and retail of sport apparel under Kappa Brand and other brands and international business which includes the provision of Kappa Brand products for other Kappa licenses 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 income statement.

5. SEGMENT INFORMATION (CONTINUED)

The segment results and other material income statement items provided to the chief operating decision maker for the reportable segments are as follows:

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2015					
Total revenue before inter-segment elimination	1,068,624	418,521	—	—	1,487,145
Inter-segment revenue	(15,864)	(2,390)	—	—	(18,254)
Revenue from external customers	1,052,760	416,131	—	—	1,468,891
Cost of goods sold	(374,149)	(269,139)	—	—	(643,288)
Provision for impairment losses of inventories	(7,133)	(3,476)	—	—	(10,609)
Segment gross profit	671,478	143,516	—	—	814,994
Other gains-net	4,246	5,150	790,764	—	800,160
Segment operating profit/(loss)	295,849	5,721	744,828	(41,562)	1,004,836
Finance income	27,851	6	—	2,594	30,451
Finance expense	(9,177)	(9,727)	—	7,474	(11,430)
Share of (loss)/profit of investments accounted for using the equity method	—	54	(2,930)	—	(2,876)
Profit/(loss) before income tax	314,523	(3,946)	741,898	(31,494)	1,020,981
Income tax expense	(97,658)	(1,196)	(120,510)	—	(219,364)
Profit/(loss) for the year	216,865	(5,142)	621,388	(31,494)	801,617
Material items of income and expense					
Depreciation and amortisation	20,660	2,219	—	—	22,879
Provision for impairment losses of available-for-sale financial assets	—	—	(34,117)	—	(34,117)
Provision for/(reversal of) impairment losses of trade and other receivables	(43,027)	672	—	—	(42,355)
Advertising and selling expenses	211,355	41,142	—	—	252,497

5. SEGMENT INFORMATION (CONTINUED)

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2014					
Total revenue before inter-segment elimination	847,521	436,855	—	—	1,284,376
Inter-segment revenue	(19,734)	(2,737)	—	—	(22,471)
Revenue from external customers	827,787	434,118	—	—	1,261,905
Cost of goods sold	(332,426)	(289,032)	—	—	(621,458)
Reversal of/(provision for) impairment losses of inventories	41,963	(856)	—	—	41,107
Segment gross profit	537,324	144,230	—	—	681,554
Other gains-net	14,993	2,009	892,516	—	909,518
Segment operating profit/(loss)	142,244	(1,076)	892,516	(45,069)	988,615
Finance income	4,666	7	—	2,288	6,961
Finance expense	2,980	(9,365)	—	(14,320)	(20,705)
Share of profit of investments accounted for using the equity method	—	256	—	—	256
Profit/(loss) before income tax	149,890	(10,178)	892,516	(57,101)	975,127
Income tax expense	(11,064)	(612)	(50,042)	—	(61,718)
Profit/(loss) for the year	138,826	(10,790)	842,474	(57,101)	913,409
Material items of income and expense					
Depreciation and amortisation	22,238	4,696	—	—	26,934
(Provision for)/reversal of impairment losses of trade and other receivables	43,020	(9,589)	—	—	33,431
Advertising and selling expenses	172,082	42,791	—	—	214,873

The operating loss of RMB41,562,000 (2014: RMB45,069,000) 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.

5. SEGMENT INFORMATION (CONTINUED)

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

	2015 RMB'000	2014 RMB'000
China		
— Distribution of Kappa Brand products	**627,801**	534,008
— Retail of Kappa Brand products	**401,897**	285,510
— International business and others	**23,062**	8,269
	1,052,760	827,787
Japan		
— Distribution and retail of Kappa Brand products	**141,674**	141,061
— Distribution and retail of Phenix Brand products	**274,457**	293,057
	416,131	434,118
Turnover	**1,468,891**	1,261,905

During the year ended 31 December 2015, revenue of approximately RMB192,953,000 (2014: RMB99,299,000) is derived from a single external customer. This revenue is attributable to China segment.

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

5. SEGMENT INFORMATION (CONTINUED)

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

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

5. SEGMENT INFORMATION (CONTINUED)

	China RMB'000	Japan RMB'000	Investment RMB'000	Unallocated RMB'000	Total RMB'000
As at 31 December 2014					
Interests in investments accounted for using the equity method	—	15,621	—	—	15,621
Available-for-sale financial assets — non-current portion	—	—	4,580,210	—	4,580,210
Deferred income tax assets	90,846	—	—	—	90,846
Other assets	3,225,140	339,402	3,101,594	98,445	6,764,581
Total assets before inter-segment elimination	3,315,986	355,023	7,681,804	98,445	11,451,258
Inter-segment elimination	(57,067)	(4,365)	—	(81,033)	(142,465)
Segment assets	3,258,919	350,658	7,681,804	17,412	11,308,793
Deferred income tax liabilities	—	3,192	7,612	—	10,804
Current income tax liabilities	22,591	923	—	—	23,514
Other liabilities	190,202	176,981	609,020	25,203	1,001,406
Total liabilities before inter-segment elimination	212,793	181,096	616,632	25,203	1,035,724
Inter-segment elimination	(4,663)	(56,001)	—	(25,203)	(85,867)
Segment liabilities	208,130	125,095	616,632	—	949,857

As at 31 December 2015, the total non-current assets other than financial instruments and deferred tax assets located in the PRC amounted to RMB303,954,000 (2014: RMB325,852,000) and located in other countries and regions amounted to RMB63,239,000 (2014: RMB58,997,000).

6. EXPENSES BY NATURE

The expenses included in cost of goods sold, reversal of impairment losses of inventories, distribution expenses and administrative expenses are analysed as follows:

	2015 RMB'000	2014 RMB'000
Cost of inventories recognised as cost of goods sold (Note 19)	**643,288**	621,458
Advertising and selling expenses	**252,497**	214,873
Employee salary and benefit expenses (Note 8)	**152,448**	142,693
Logistic fees	**72,813**	65,821
Design and product development expenses	**41,563**	45,069
Operating lease in respect of buildings	**21,019**	21,174
Travelling expenses	**14,512**	14,871
Amortisation of lease prepayments and intangible assets (Note 14, 15)	**12,782**	13,092
Provision for/(reversal of) impairment losses of inventories (Note 19)	**10,609**	(41,107)
Depreciation of property, plant and equipment (Note 13)	**10,097**	13,842
Legal and consulting expenses	**5,716**	4,984
Auditors' remuneration		
— Audit services	**2,475**	2,500
— Non-audit services	**1,107**	2,183
Reversal of/(provision for) impairment losses of trade and other receivables	**(42,355)**	33,431
Others	**31,527**	27,924
	1,230,098	1,182,808

7. OTHER GAINS — NET

	2015 RMB'000	2014 RMB'000
Gain on disposal of available-for-sale financial assets	**476,955**	731,497
Investment income from financial assets	**418,964**	280,304
Change in fair value	**(106,355)**	1,669
Government subsidy income	**4,569**	3,791
Loss recognised in relation to other financial liability	**—**	(119,285)
Others — net	**6,027**	11,542
	800,160	909,518

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

	2015 RMB'000	2014 RMB'000
Wages and salaries	**100,351**	89,335
Pension costs (Note (a))	**20,022**	16,187
Termination benefits	**3,782**	1,613
Restricted Share Award Scheme (Note 26(b))	**1,576**	3,305
Other benefits	**26,717**	32,253
	152,448	142,693

Notes:

(a) PENSIONS — DEFINED CONTRIBUTION PLANS

The employees of the Group participate in defined contribution retirement benefit plans organised by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 13% to 21% (2014: 13% to 22%) in the PRC and 8.90% (2014: 8.56%) 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 two (2014: one) directors whose emoluments are reflected in the analysis shown in Note 37. The emoluments payable to the remaining three (2014: four) individuals during the year are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and others	**6,816**	9,413
Pension costs	**88**	110
	6,904	9,523

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands:		
HKD1,000,001 to HKD2,000,000	**—**	2
HKD2,000,001 to HKD3,000,000	**1**	2
HKD3,000,001 to HKD5,000,000	**2**	—
	3	4

9. FINANCE EXPENSE-NET

	2015 RMB'000	2014 RMB'000
Finance income:		
— Foreign exchange gain	**19,459**	—
— Interest income	**10,992**	6,961
	30,451	6,961
Finance expenses:		
— Foreign exchange losses	**(6,377)**	(17,582)
— Others	**(5,053)**	(3,123)
	(11,430)	(20,705)
Finance expenses-net	**19,021**	(13,744)

10. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	**169,254**	76,647
— Taxation in Japan	**802**	858
Deferred income tax (Note 18)	**49,308**	(15,787)
	219,364	61,718

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 has not been provided as there are no estimated assessable profits arising in or derived from Hong Kong during the year ended 31 December 2015 (2014: Nil).

According to the 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 2015, the Group had provided a deferred tax liability amounted to RMB39,103,000 (2014: RMB30,136,000 reversed) in relation to the profit of the PRC subsidiaries that will be distributed (Note 18).

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the year ended 31 December 2015 applicable to the subsidiary is 30% (2014: 30%) of the assessable profit. The inhabitant tax is determined based on rates on the income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the year ended 31 December 2015 (2014: Nil), the subsidiary was subject to the minimum inhabitant tax payments.

10. INCOME TAX EXPENSE (CONTINUED)

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

	2015 RMB'000	2014 RMB'000
Profit before income tax	**1,020,981**	975,127
Tax calculated at domestic tax rates applicable to profits in the respective countries	**162,083**	80,165
Tax effects of:		
— Tax losses for which no deferred income tax asset was recognised	**35,096**	19,909
— Provision for/(Reversal of) withholding income tax on profits of PRC subsidiaries to be distributed to foreign investors (Note 18)	**39,103**	(30,136)
— Expenses not deductible for tax purpose	**2,108**	2,234
— Utilisation of previous unrecognised tax losses	**(1,244)**	(6,370)
— Others	**(17,782)**	(4,084)
Income tax expense	**219,364**	61,718

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.

	2015	2014
Profit attributable to owners of the Company (RMB'000)	**802,901**	915,351
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,512,580**	5,511,030
Basic earnings per share (RMB cents per share)	**14.56**	16.61

(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 2015, no ordinary share subject to potential dilution (2014: Nil).

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2015:

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 Ltd.	Hong Kong	10,000 ordinary shares of HKD 1 each	100%	—	—	Investment holding, Hong Kong
Dongxiang (Netherlands) Cooperative U.A.	Netherlands	EUR 755,738	100%	—	—	Investment holding, Netherlands
光景集團有限公司 Brilliant King Group Ltd.	British Virgin Island	USD 1	100%	—	—	Investment holding, British Virgin Island
明泰企業有限公司 Bright Pacific Enterprises Ltd.	British Virgin Island	USD 100	100%	—	—	Investment holdings, British Virgin Island
Achilles Sports Pte., Ltd.	Singapore	100,000 ordinary shares of USD 1 each	—	100%	—	Owns trademark, Singapore
Gaea Sports Ltd.	Hong Kong	1 ordinary share of HKD 1	—	100%	—	Investment holding, Hong Kong
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Ltd.	Beijing, 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, 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, PRC	RMB1,500,000	—	100%	—	Design, production and sales of sport-related footwear, apparel and accessories, PRC
上海雷德體育用品有限公司 Shanghai Leide Sporting Goods Co., Ltd.	Shanghai, 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, PRC	USD80,000,000	—	100%	—	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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
赫拉體育用品商貿（上海）有限公司 Hera Sporting Goods Trading (Shanghai) Co., Ltd.	Shanghai, PRC	USD40,000,000	—	100%	—	Sales of sport-related footwear, apparel and accessories, PRC
考伊斯體育用品商貿（上海）有限公司 Coeus Sporting Goods Trading (Shanghai) Co., Ltd.	Shanghai, 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, 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, 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, PRC	RMB4,000,000	—	100%	—	Retailing of sport-related footwear, apparel and accessories, 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
北京達尼亞體育發展有限公司 Beijing Dagnas Sports Development Co., Ltd.	Beijing, PRC	RMB10,000,000	—	100%	—	Design, production and sales of sport-related footwear, apparel and accessories, PRC
北京快樂運動體育用品有限公司 Beijing Happy Sporting Goods Co., Ltd.	Beijing, 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, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC

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

(a) Subsidiaries (Continued)

Company name	Place of incorporation	Particulars of issued/registered capital	Proportion of ordinary shares directly held by the Company (%)	Proportion of ordinary shares held by the Group (%)	Proportion of ordinary shares held by non-controlling interests (%)	Principal activities and place of operation
深圳克瑞斯特體育用品有限公司 Shenzhen Criust Sporting Goods Co., Ltd.	Shenzhen, 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, 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, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
長沙克瑞斯體育用品有限公司 Changsha Crius Sporting Goods Co., Ltd.	Changsha, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC
上海動向體育用品有限公司 Shanghai Dongxiang Sporting Goods Co., Ltd.	Shanghai, PRC	RMB20,000,000	—	100%	—	Retail sales of sports-related products, apparel and sccessories, imports and exports, PRC
杭州克雷斯體育用品有限公司 Hangzhou Crius Sporting Goods Co., Ltd.	Hangzhou, PRC	RMB3,000,000	—	100%	—	Retail sales of sports-related products, apparel and sccessories, imports and exports, PRC
太倉泰坦體育用品有限公司 Taicang Taitan Sporting Goods Co., Ltd	Taicang, PRC	RMB1,500,000	—	100%	—	Design, production and sales of sports-related footwear, apparel and accessories, PRC

Material non-controlling interest

The non-controlling interests as at 31 December 2015 was of RMB17,584,000 for Phenix Co., Ltd., and the proportion held by minority shareholders is 9%.

Set out below are the summarised financial information for Phenix Co., Ltd. that has non-controlling interest that are material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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

(a) Subsidiaries (Continued)

Material non-controlling interest (Continued)

Summarised balance sheet

	Phenix Co., Ltd.	
	2015 RMB'000	2014 RMB'000
Current		
Assets	**313,432**	295,171
Liabilities	**(203,857)**	(175,644)
Total current net assets	**109,575**	119,527
Non-current		
Assets	**53,772**	56,887
Liabilities	**(202,906)**	(193,049)
Total non-current net liabilities	**(149,134)**	(136,162)
Net liabilities	**(39,559)**	(16,635)

Summarised income statement

	Phenix Co., Ltd.	
	2015 RMB'000	2014 RMB'000
Revenue	**418,521**	436,855
Loss before income tax	**(12,992)**	(20,054)
Income tax expense	**(1,270)**	(686)
Post-tax loss	**(14,262)**	(20,740)
Total comprehensive loss	**(14,262)**	(20,740)
Total comprehensive loss allocated to non-controlling Interests	**(1,284)**	(1,866)

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

(a) Subsidiaries (Continued)

Material non-controlling interest (Continued)

Summarised cash flows

	Phenix Co., Ltd.	
	2015 RMB'000	2014 RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	**(32,158)**	6,509
Interest paid	**(2,451)**	(2,778)
Income tax paid	**(723)**	(1,085)
Net cash (used in)/generated from operating activities	**(35,332)**	2,646
Net cash (used in)/generated from investing activities	**(4,975)**	2,301
Net cash generated from financing activities	**25,553**	10,924
Net (decrease)/increase in cash and cash equivalents	**(14,754)**	15,871
Cash and cash equivalents at beginning of year	**74,933**	92,535
Exchange gains/(losses) on cash and cash equivalents	**3,373**	(33,473)
Cash and cash equivalents at end of year	**63,552**	74,933

The information above is the amount before inter-company eliminations.

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

(b) Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2015 RMB'000	2014 RMB'000
Joint ventures (i)	**81,465**	15,621
Associates (ii)	**63,152**	—
At 31 December	**144,617**	15,621

The amounts recognised in the income statement are as follows:

	2015 RMB'000	2014 RMB'000
Joint ventures (i)	**54**	256
Associates (ii)	**(2,930)**	—
For the year ended 31 December	**(2,876)**	256

(i) Investment in joint venture

	2015 RMB'000	2014 RMB'000
At 1 January	**15,621**	15,591
Addition	**65,838**	—
Share of profit	**54**	256
Exchange difference	**(48)**	(226)
At 31 December	**81,465**	15,621

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

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

(i) Investment in joint venture (Continued)

Nature of investment in joint ventures 2015 and 2014

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method	Investment date
Indirectly held:					
Shanghai Phenix Apparel Co., Ltd. （上海菲尼克斯製衣有限公司）	PRC	38.00%	Note (*)	Equity	30 April 2008
Mai Sheng Yue He Sporting Goods Co., Ltd （邁盛悅合體育用品有限公司）	PRC	32.64%	Note (**)	Equity	31 December 2015
ShanXi Mai Sheng Mai Yue He Sporting Goods Co., Ltd （山西邁盛悅合體育用品有限公司）	PRC	30.00%	Note (**)	Equity	31 December 2015
Shenyang Mai Sheng Mai Yue He Sporting Goods Co., Ltd （瀋陽邁盛悅合體育用品有限公司）	PRC	30.00%	Note (**)	Equity	31 December 2015
Tianjin Sheng Mai Sheng Yue He Sporting Goods Co., Ltd （天津邁盛悅合體育用品有限公司）	PRC	30.00%	Note (**)	Equity	31 December 2015
Nanjing Mai Sheng Yue He Sporting Goods Co., Ltd （南京邁盛悅合體育用品有限公司）	PRC	30.00%	Note (**)	Equity	31 December 2015
Zhejiang Mai Sheng Yue He Sporting Goods Co., Ltd （浙江邁盛悅合體育用品有限公司）	PRC	30.00%	Note (**)	Equity	31 December 2015

Note:

(*) Shanghai Phenix Apparel Co., Ltd ("Shanghai Phenix") engages in production of apparel and sportswear for the Group.

(**) In December 2015, through a series of reorganisations of Mai Sheng Yue He Sporting Goods Co., Ltd ("MSYH Beijing"), the Group's shareholding in MSYH Beijing increased from 22.05% to 32.64%. At the same time, the Group acquired 30% equity interests in Shanxi Mai Sheng Yue He Sporting Goods Co., Ltd., Shenyang Mai Sheng Yue He Sporting Goods Co., Ltd., Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd., Nanjing Mai Sheng Yue He Sporting Goods Co., Ltd., and Zhejiang Mai Sheng Yue He Sporting Goods Co., Ltd. (the "other five MSYH companies"). Upon the completion of the reorganisations, MSYH Beijing and the other five MSYH companies respectively became joint ventures of the Group according to shareholders' agreements.

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

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

(i) Investment in joint venture (Continued)

Summarised financial information for joint ventures

Set out below are the joint ventures of the Group as at 31 December 2015 which, in the opinion of the directors, are material to the Group.

Summarised balance sheets:

	MSYH Beijing 2015 RMB'000	Other five MSYH companies 2015 RMB'000	Total 2015 RMB'000
At 31 December			
Current			
Total current assets	316,209	274,884	591,093
Total current liabilities	(204,373)	(193,145)	(397,518)
Non-current			
Total non-current assets	6,047	9,464	15,511
Total non-current liabilities	—	—	—
Net assets	117,883	91,203	209,086

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture:

	MSYH Beijing 2015 RMB'000	Other five MSYH companies 2015 RMB'000	Total 2015 RMB'000
Closing net assets at 31 December 2015	117,883	91,203	209,086
Interest in MSYH Beijing @32.64%	38,477		38,477
Interests in other five MSYH companies @30%		27,361	27,361
Goodwill	—	—	—
Carrying value	38,477	27,361	65,838

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

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

(ii) Investment in associates

	2015 RMB'000
At 1 January	—
Addition	62,082
Share of profit	(2,930)
Exchange difference	4,000
At 31 December	63,152

Nature of investment in associates as at 31 December 2015 and 2014

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

(*) On 30 April 2015 (U.S. Eatern Time) (the "BBI LLC") as a 35% shareholder at a consideration of approximately RMB62 million. BBI LLC is an investment holding company which owned 99.99% of Point Roberts Resort, LP, a Washington limited partnership formed on 22 March 2007. The principal activity of Point Roberts Resort, LP is the overall management of the Point Roberts Marina and surrounding area.

(**) On 15 September 2015, the Group invested in Chengdu Ren Yi Yue Li Tech. Co., Ltd ("Chengdu Ren Yi Yue Li") as a 30% shareholder at a consideration of RMB4 million. ChengDu Ren Yi Yue Li is a technology company focusing in developing of sports related softwares/platforms.

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

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

(ii) Investment in associates (Continued)

Summarised financial information for associates

Set out below is the associate of the Group as at 31 December 2015 which, in the opinion of the directors, is material to the Group.

Summarised balance sheet:

	BBI LLC 2015 RMB'000
At 31 December	
Current	
Total current assets	97,878
Total current liabilities	(4,061)
Non-current	
Total non-current assets	173,502
Total non-current liabilities	(103,942)
Net assets	163,377

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates:

	BBI LLC 2015 RMB'000
Closing net assets at 31 December	163,377
Interest in BBI LLC @35%	57,182
Goodwill	4,900
Carrying value	62,082

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Office furniture and equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2014							
Cost	5,108	86,640	57,384	7,483	21,000	137	177,752
Accumulated depreciation	—	(25,295)	(44,003)	(6,233)	(11,897)	—	(87,428)
Exchange difference	(579)	(77)	(2,036)	—	(1,528)	(137)	(4,357)
Net book amount	4,529	61,268	11,345	1,250	7,575	—	85,967
Year ended 31 December 2014							
Opening net book amount	4,529	61,268	11,345	1,250	7,575	—	85,967
Additions		34	3,134	146	444	207	3,965
Disposals	—	(62)	(929)	(84)	(1,467)	—	(2,542)
Depreciation (Note 6)	—	(3,294)	(8,655)	(452)	(1,441)	—	(13,842)
Exchange difference	(305)	(201)	(628)	—	(819)	—	(1,953)
Closing net book amount	4,224	57,745	4,267	860	4,292	207	71,595
At 31 December 2014							
Cost	5,108	86,482	56,441	6,076	14,561	344	169,012
Accumulated depreciation	—	(28,459)	(49,510)	(5,216)	(7,922)	—	(91,107)
Exchange difference	(884)	(278)	(2,664)	—	(2,347)	(137)	(6,310)
Net book amount	4,224	57,745	4,267	860	4,292	207	71,595
Year ended 31 December 2015							
Opening net book amount	**4,224**	**57,745**	**4,267**	**860**	**4,292**	**207**	**71,595**
Additions	**2,617**	**3,239**	**4,744**	**139**	**2,788**	**517**	**14,044**
Disposals	**—**	**—**	**(344)**	**(31)**	**(102)**	**(273)**	**(750)**
Depreciation (Note 6)	**—**	**(3,319)**	**(5,614)**	**(309)**	**(855)**	**—**	**(10,097)**
Exchange difference	**119**	**61**	**209**	**—**	**210**	**11**	**610**
Closing net book amount	**6,960**	**57,726**	**3,262**	**659**	**6,333**	**462**	**75,402**
At 31 December 2015							
Cost	**7,725**	**89,721**	**58,232**	**5,646**	**16,836**	**588**	**178,748**
Accumulated depreciation	**—**	**(31,778)**	**(52,515)**	**(4,987)**	**(8,366)**	**—**	**(97,646)**
Exchange difference	**(765)**	**(217)**	**(2,455)**	**—**	**(2,137)**	**(126)**	**(5,700)**
Net book amount	**6,960**	**57,726**	**3,262**	**659**	**6,333**	**462**	**75,402**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2015 RMB'000	2014 RMB'000
Administrative expenses	**5,656**	7,927
Manufacturing overheads included in cost of goods sold	**2,654**	2,343
Distribution and selling expenses	**1,787**	3,572
	10,097	13,842

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

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

14. LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000
At 1 January 2014	
Cost	14,262
Accumulated amortisation	(2,254)
Net book amount	12,008
Year ended 31 December 2014	
Opening net book amount	12,008
Amortisation charge (Note 6)	(286)
Closing net book amount	11,722
At 31 December 2014	
Cost	14,262
Accumulated amortisation	(2,540)
Net book amount	11,722
Year ended 31 December 2015	
Opening net book amount	**11,722**
Amortisation charge (Note 6)	**(285)**
Closing net book amount	**11,437**
At 31 December 2015	
Cost	**14,262**
Accumulated amortisation	**(2,825)**
Net book amount	**11,437**

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 2015, the remaining lease periods of the land use right are of 40 to 41 years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

15. INTANGIBLE ASSETS

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2014				
Cost	397,569	8,605	62,656	468,830
Accumulated amortisation	(155,830)	(1,218)	(52,719)	(209,767)
Exchange difference	(2,090)	—	168	(1,922)
Net book amount	239,649	7,387	10,105	257,141
Year ended 31 December 2014				
Opening net book amount	239,649	7,387	10,105	257,141
Additions	—	—	4,750	4,750
Amortisation charge (Note 6)	(7,025)	(425)	(5,356)	(12,806)
Exchange difference	(2,070)	640	(143)	(1,573)
Closing net book amount	230,554	7,602	9,356	247,512
At 31 December 2014				
Cost	397,569	8,605	65,513	471,687
Accumulated amortisation	(163,280)	(1,003)	(56,179)	(220,462)
Exchange difference	(3,735)	—	22	(3,713)
Net book amount	230,554	7,602	9,356	247,512
Year ended 31 December 2015				
Opening net book amount	**230,554**	**7,602**	**9,356**	**247,512**
Additions	**—**	**—**	**3,356**	**3,356**
Amortisation charge (Note 6)	**(7,025)**	**—**	**(5,472)**	**(12,497)**
Exchange difference	**623**	**(215)**	**28**	**436**
Closing net book amount	**224,152**	**7,387**	**7,268**	**238,807**
At 31 December 2015				
Cost	**397,569**	**8,605**	**68,869**	**475,043**
Accumulated amortisation	**(170,305)**	**(1,003)**	**(61,651)**	**(232,959)**
Exchange difference	**(3,112)**	**(215)**	**50**	**(3,277)**
Net book amount	**224,152**	**7,387**	**7,268**	**238,807**

15. INTANGIBLE ASSETS (CONTINUED)

The KAPPA trademarks represent the perpetual rights for the use of "KAPPA" 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 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 income statement.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	Available -for-sale Financial assets RMB'000	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per balance sheet				
As at 31 December 2015				
Available-for-sale financial assets (Note 17)	**3,911,487**	**—**	**—**	**3,911,487**
Financial assets at fair value through profit or loss (Note 22)	**—**	**477,149**	**—**	**477,149**
Trade and other receivables excluding prepayments (Note 20 and 21)	**—**	**—**	**4,200,885**	**4,200,885**
Cash and bank balances (Note 23)	**—**	**—**	**1,209,210**	**1,209,210**
	3,911,487	**477,149**	**5,410,095**	**9,798,731**
As at 31 December 2014				
Available-for-sale financial assets (Note 17)	4,580,210	—	—	4,580,210
Financial assets at fair value through profit or loss (Note 22)	—	271,520	—	271,520
Trade and other receivables excluding prepayments (Note 20 and 21)	—	—	3,254,877	3,254,877
Cash and bank balances (Note 23)	—	—	2,545,680	2,545,680
	4,580,210	271,520	5,800,557	10,652,287

Notes to the Consolidated Financial Statements

Year ended 31 December 2015

16. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Financial liabilities at amortised cost RMB'000
Liabilities as per balance sheet	
As at 31 December 2015	
Borrowings	**454,552**
Trade and other payables (Note 27 and 28)	**266,462**
	721,014
As at 31 December 2014	
Other financial liability	609,020
Trade and other payables (Note 27 and 28)	224,900
	833,920

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 **RMB'000**	2014 RMB'000
Available-for-sale financial assets		
At 1 January	**4,580,210**	3,223,605
Additions	**707,531**	789,908
Disposals-cost	**(484,719)**	(440,834)
Disposals-fair value reclassified to income statement	**(476,955)**	(731,497)
Change in fair value	**(564,871)**	1,727,454
Impairment losses	**(34,117)**	—
Currency translation differences	**184,408**	11,574
At 31 December	**3,911,487**	4,580,210

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

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

	2015 RMB'000	2014 RMB'000
Listed securities		
— Ordinary Shares of Alibaba (a)	**2,531,817**	3,229,119
Unlisted securities		
— CITIC Mezzanine Fund I (b)	**242,222**	237,604
— Hangzhou Yuanxin Dongchao Equity Investment Partnership Enterprise (the "Yuanxin Dongchao") (c)	**227,983**	164,929
— Shanghai Panxin Heyao Investment Management Center (the "Shanghai Panxin")(d)	**200,671**	202,125
— Yunfeng Fund USD II (e)	**160,003**	63,881
— Tebon Innovation Capital (Note (f))	**155,568**	155,500
— Yunfeng Fund RMB II (g)	**150,000**	50,000
— Beijing Sequoia Investment Management Center (h)	**50,356**	25,206
— Jiaxing Daotong Capital (i)	**50,000**	50,000
— Star Capital	**—**	222,000
— Others (j)	**142,867**	179,846
	1,379,670	1,351,091

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

	2015 RMB'000	2014 RMB'000
USD	**2,749,187**	3,311,846
RMB	**1,162,300**	1,268,364
	3,911,487	4,580,210

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

Notes:

(a) In September 2011, the Group entered into limited partnership agreements with Yunfeng E-Commerce Funds, pursuant to which the Group subscribed for limited partnership interests with a total capital commitment of USD 100,000,000 (equivalent to RMB638,080,000 at historical exchange rate), which had been fully paid as at 31 December 2012. The Yunfeng E-Commerce Funds are established for the purpose of making investments in Alibaba, a leading group in the Chinese e-commerce industry. In September 2014, Alibaba was listed on NYSE. Pursuant to Alibaba's Initial Public Offerings ("IPO"), in March 2015 Yunfeng E-Commerce Funds distributed the shares of Alibaba to its limited partners and the Group became the direct holder of Alibaba's common shares. Since the Group planned to hold the shares of Alibaba as a long-term strategy, the Group designated the financial assets as available-for-sale financial assets.

(b) In September 2011, the Group entered into subscription agreements and limited partnership agreements with CITIC Mezzanine Fund I, which is a limited partnership established for the purpose of making equity and debt investments in the PRC.

(c) In September 2014, the Group entered into subscription agreements and limited partnership agreements with Yuanxin Dongchao, which is a limited partnership established for the purpose of investment in manufacturing industry.

(d) In November 2014, the Group entered into subscription agreements and limited partnership agreements with Shanghai Panxin, which was established for the purpose of making equity and debt investments in the PRC.

(e) In May 2013, the Group entered into subscription agreements and limited partnership agreements with Yunfeng Fund USD II, with investments in listed and unlisted companies, including high-tech industry, finance service industry and manufacturing industry.

(f) In August 2014, the Group participated in capital management plan of Tebon innovation capital, and finally the investment was invested to Star Capital through An Jitianbo Fund, which is established for investment in urban complex.

(g) In August 2014, the Group entered into subscription agreements and limited partnership agreements with Yunfeng Fund RMB II, with investments in listed and unlisted companies, including high-tech industry, finance service industry and manufacturing industry.

(h) In December 2014, the Group entered into subscription agreements and limited partnership agreements with Beijing Sequoia Investment Management Center, which is mainly investing energy industry.

(i) In November 2014, the Group entered into subscription agreements and limited partnership agreements with Jiaxing Daotong Capital, which is established mainly investing in high-tech industry.

(j) Other equity investments were stated at fair value at year end and mainly included investments in unlisted investment funds, whose investments were high-tech industry, finance service industry and manufacturing industry.

The above available-for-sale financial assets were stated at fair value as at 31 December 2015 and 2014, respectively.

18. DEFERRED INCOME TAX

	2015 RMB'000	2014 RMB'000
Deferred income tax assets		
— To be recovered after more than 12 months	—	—
— To be recovered within 12 months	**73,423**	90,846
	73,423	90,846
Deferred income tax liabilities		
— To be recovered after more than 12 months	**(57,166)**	(10,190)
— To be recovered within 12 months	**(875)**	(614)
	(58,041)	(10,804)

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 RMB'000	Provision for impairment of inventories RMB'000	Provision for impairment of trade receivables RMB'000	Other accrued expenses RMB'000	Total RMB'000
At 1 January 2014	6,877	29,339	42,322	19,291	97,829
(Charged)/credited to the income statement (Note 10)	(6,675)	(10,490)	9,209	973	(6,983)
At 31 December 2014	202	18,849	51,531	20,264	90,846
(Charged)/credited to the income statement (Note 10)	5,324	1,783	(10,803)	(13,727)	(17,423)
At 31 December 2015	**5,526**	**20,632**	**40,728**	**6,537**	**73,423**

18. DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:

	Withholding income tax on profit distribution of PRC subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	(30,136)	(3,438)	(33,574)
Credited/(charged) to the income statement	30,136	(7,366)	22,770
At 31 December 2014	—	(10,804)	(10,804)
Credited/(charged) to the income statement (Note 10)	(39,103)	7,218	(31,885)
Charged to other comprehensive income	—	(15,352)	(15,352)
At 31 December 2015	**(39,103)**	**(18,938)**	**(58,041)**

As at 31 December 2015, deferred income tax assets of RMB46,610,000 (2014: RMB77,758,000) have not been recognised in respect of the tax losses amounting to RMB186,442,000 (2014: RMB311,033,000) 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 2015, the Group decided to distribute the profit of 2015 of the PRC subsidiaries in the future. Therefore, deferred tax liabilities in respect of those profits of RMB39,103,000 were recognised.

19. INVENTORIES

	2015 RMB'000	2014 RMB'000
Finished goods	**327,768**	302,221
Raw materials	**12,538**	4,155
Work in progress	**3,623**	7,622
Low value consumables	**28**	33
Less: provision for inventory	**(118,148)**	(107,539)
	225,809	206,492

The cost of inventories recognised as cost of goods sold amounted to approximately RMB643,288,000 (2014: RMB621,458,000) (Note 6) for the year ended 31 December 2015.

As at 31 December 2015, the Group made a provision for impairment losses of out-season inventories of RMB10,609,000 (2014: reversed RMB41,107,000).

20. TRADE RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables		
— Third parties	**312,107**	346,250
— Related parties (Note 35(b))	**108,330**	155,720
	420,437	501,970
Less: provision for impairment	**(126,248)**	(183,760)
Trade receivables, net	**294,189**	318,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

20. TRADE RECEIVABLES (CONTINUED)

The Group's sales are mainly made on credit terms ranging from 30 to 60 days. The ageing analysis of trade receivables as at 31 December 2015 and 2014 was as follows:

	2015 **RMB'000**	2014 RMB'000
Within credit terms	**239,027**	270,617
Within 30 days	**88,323**	45,629
31 to 120 days	**53,546**	103,418
Over 120 days	**39,541**	82,306
	420,437	501,970

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

As at 31 December 2015, trade receivables of RMB181,410,000 (2014: RMB231,353,000) were past due, of which RMB126,248,000 (2014: RMB183,760,000) were impaired and fully provided for. The trade receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Movements on the Group's provision for impairment of trade receivables are as follows:

	2015 **RMB'000**	2014 RMB'000
At 1 January	**183,760**	183,664
(Reversed of)/Provision for impairment losses of receivables	**(57,870)**	369
Exchange difference	**358**	(273)
At 31 December	**126,248**	183,760

As of 31 December 2015, trade receivables of RMB55,162,000 (2014: RMB47,593,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

20. TRADE RECEIVABLES (CONTINUED)

The ageing analysis of these trade receivables is as follows:

	2015 RMB'000	2014 RMB'000
Within 30 days	**55,162**	45,629
31 to 120 days	**—**	1,964
	55,162	47,593

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Current portion:		
Treasury products issued by commercial banks (Note (a))	**3,088,149**	2,079,905
Loans receivable (Note (b))	**613,765**	699,926
Advance payments to suppliers	**12,719**	12,718
Interest receivables	**2,670**	3,421
Deposits for operating leases	**11,438**	14,564
Deposits for investment	**80,000**	—
Amounts due from related party (Note 35(b))	**58,651**	15,005
Other receivables	**26,102**	35,203
	3,893,494	2,860,742
Non-current portion:		
Loans receivable (Note (b))	**—**	50,243
Amounts due from related party (Note 35(b))	**15,938**	8,421
Deposits for operating leases	**25,498**	29,979
Less: provision for impairment	**(15,515)**	—
	25,921	88,643

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Note:

(a) The treasury products are unlisted, issued by listed commercial banks in the PRC. The investments are interest bearing at expected rates ranging from 4.8% to 6.0% per annum, denominated in RMB and with maturity periods within one year.

(b) As at 31 December 2015, the current loans receivable held by the Group mainly include:

(i) In June 2015, the Group lent RMB250,000,000 to Yufu Holding Group at the interest rate of 11% per annum with maturity of 12 months.

(ii) In October 2015, the Group lent RMB140,000,000 to Fuchun Holding Group at the comprehensive income rate of 36% per annum with maturity of 3 months.

(iii) In April 2015, the Group lent USD10,000,000 (equivalent to RMB64,936,000) to HomeValue Holding Co., Ltd. at the interest rate of 12% per annum with maturity of 12 months.

(iv) In October 2015, the Group lent RMB50,000,000 to Shanxi New Taohuayuan Culture Tourism Co., Ltd. at interest rate of 12% per annum with maturity of 9 months.

(v) In October 2015, the Group lent RMB45,000,000 to Mr. Xia Du at interest rate of 8.5% per annum with maturity of 24 months.

(vi) In August 2015, the Group lent RMB2,000,000 to Feilisi International Investment Management (Beijing) Co., Ltd. at the interest rate of 15% per annum with maturity of 12 months.

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 RMB'000	2014 RMB'000
Non-current portion (Note (a))	**219,252**	271,520
Current portion (Note (b))	**257,897**	—

Notes:

(a) The non-current portion of financial assets at fair value through profit or loss includes:

i) In November 2014, the Group invested in preferred shares of a company listed on the mainboard of Hong Kong Stock Exchange.

ii) In January 2015, the Group invested RMB150,000,000 in convertible bonds of a Chinese company, The Group designated the convertible bonds as financial assets at fair value through profit or loss. These convertible bonds bear interest rate at 10% per annum with a maturity of 24 months.

(b) The current portion of financial assets at fair value through profit or loss includes investment in equity interests of a company whose shares are traded in over-the-counter market in the US and common stocks of companies listed on the mainboard of Hong Kong Stock Exchange.

23. CASH AND BANK BALANCES

	2015 RMB'000	2014 RMB'000
Cash and cash equivalents	**1,141,562**	2,492,586
Restricted Cash — resticted bank deposits	**67,648**	53,094
	1,209,210	2,545,680

Cash and cash equivalents include the following for the purpose of the statement of cash flow:

	2015 RMB'000	2014 RMB'000
Cash and cash equivalents (inlcuding term deposits with initial term over three months and within one year)	**1,141,562**	2,492,586
Less: Term deposits with initial term over three months and within one year	**231,697**	766,019
Cash and cash equivalents	**909,865**	1,726,567

The restricted bank deposits as at 31 December 2015 comprised deposits held in bank accounts for issue of letters of credit for certain subsidiaries of the Group. As at 31 December 2015, the average interest rate on the restricted bank deposits was 2.08% (2014: 2.25%) per annum.

As at 31 December 2015 and 2014, the cash and bank balances were denominated in the following currencies:

	2015 RMB'000	2014 RMB'000
RMB	**369,015**	881,914
USD	**595,726**	1,262,889
HKD	**193,448**	328,714
JPY	**49,920**	71,227
Others	**1,101**	936
	1,209,210	2,545,680

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 of par value	Nominal value of issued ordinary shares	Equivalent nominal value of issued ordinary shares	Share premium account	Total
	HKD0.01	HKD'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	5,536,401,000	55,365	53,589	1,863,919	1,917,508
Dividends paid (Note 32)	—	—	—	(150,036)	(150,036)
Currency translation difference	—	—	—	436	436
At 31 December 2014	5,536,401,000	55,365	53,589	1,714,319	1,767,908
At 1 January 2015	5,536,401,000	55,365	53,589	1,714,319	1,767,908
Dividends paid (Note 32)	—	—	—	(776,388)	(776,388)
Currency translation difference	—	—	—	2,774	2,774
At 31 December 2015	**5,536,401,000**	**55,365**	**53,589**	**940,705**	**994,294**

No share options had been granted by the Company during the years ended 31 December 2014 and 2015 and there were no outstanding share options granted as at 31 December 2015.

25. RESERVES

	Capital reserve (note a) RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	292,041	3,693	21,838	(623,969)	1,854,072	(79,475)	5,223,490	6,691,690
Profit for the year	—	—	—	—	—	—	915,351	915,351
Change in fair value of available-for-sale financial assets (Note 17)	—	—	—	—	966,332	—	—	966,332
Foreign currency translation reserve (Note (b))	—	—	—	(5,194)	—	—	—	(5,194)
Dividends relating to the shares held for Restricted Share Award Scheme (Note 26(b))	676	—	—	—	—	—	—	676
Appropriation to statutory reserve (Note (c))	—	—	2,311	—	—	—	(2,311)	—
Shares vested under Restricted Share Award Scheme	(8,057)	3,305	—	—	—	8,057	—	3,305
At 31 December 2014	284,660	6,998	24,149	(629,163)	2,820,404	(71,418)	6,136,530	8,572,160
At 1 January 2015	**284,660**	**6,998**	**24,149**	**(629,163)**	**2,820,404**	**(71,418)**	**6,136,530**	**8,572,160**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**802,901**	**802,901**
Change in fair value of available-for-sale financial assets (Note 17)	**—**	**—**	**—**	**—**	**(1,041,826)**	**—**	**—**	**(1,041,826)**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**198,672**	**—**	**—**	**—**	**198,672**
Dividends relating to the shares held for Restricted Share Award Scheme (Note 26(b))	**3,329**	**—**	**—**	**—**	**—**	**—**	**—**	**3,329**
Appropriation to statutory reserves (Note (c))	**—**	**—**	**5,937**	**—**	**—**	**—**	**(5,937)**	**—**
Shares vested under Restricted Share Award Scheme	**(3,288)**	**1,576**	**—**	**—**	**—**	**3,288**	**—**	**1,576**
At 31 December 2015	**284,701**	**8,574**	**30,086**	**(430,491)**	**1,778,578**	**(68,130)**	**6,933,494**	**8,536,812**

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 reorganisation in the year 2007.

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

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

26. SHARE BASED COMPENSATION SCHEMES

(a) Share Option Scheme

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

No share options had been granted by the Company during the years ended 31 December 2014 and 2015 and there were no outstanding share options granted as at 31 December 2015.

(b) Restricted Share Award Scheme

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

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

During the year ended 31 December 2015, 1,132,000 shares out of the 30,000,000 shares purchased from the open market in 2010 as described above, with the fair value of RMB1,576,000 (2014: RMB3,305,000), were granted to two members of senior management under Restricted Share Award Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

27. TRADE PAYABLES

The ageing analysis of trade payables as at 31 December 2015 and 2014 was as follows:

	2015 RMB'000	2014 RMB'000
Within credit terms	**90,403**	107,686
Within 30 days	**58,253**	37,861
31 to 120 days	**1,509**	1,991
Over 120 days	**7,801**	8,173
	157,966	155,711

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

28. ACCRUALS AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Advance receipts from customers	**34,818**	27,285
Salary and welfare payable	**32,766**	21,994
Other taxes and levies payable	**20,625**	11,742
Accruals and other payables	**108,496**	69,189
	196,705	130,210

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

29. OTHER FINANCIAL LIABILITY

	2015 RMB'000	2014 RMB'000
Other financial liability	—	609,020

Balance in 2014 mainly included consideration received and indemnity recognised in relation to disposal of available-for-sale financial assets as at 31 December 2014.

30. BORROWINGS

The Group's bank borrowings of USD70,000,000 (equivalent to RMB454,552,000) were secured by the Group's equity interest in Alibaba, bore interests at 2.51% per annum.

The Group's bank borrowings will mature on 30 March 2016.

31. PROVISIONS

The provision represents provision for sales returns in Japan segment.

The movements in provisions for the year are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**20,598**	17,836
Utilisation	**(38,942)**	(38,018)
Provision	**43,202**	40,780
At 31 December	**24,858**	20,598

32. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Interim dividend paid of RMB1.57 cent (2014: 0.52 cent) per share	**86,921**	28,789
Interim special dividend paid of RMB2.10 cent (2014: 0.70 cent) per share	**116,265**	38,755
Proposed final dividend of RMB2.78 cent (2014: 4.44 cents) per share	**153,949**	245,816
Proposed final special dividend of RMB2.25 cent (2014: 5.91 cents) per share	**124,606**	327,386
	481,741	640,746

The total dividends paid in 2015 amounted to RMB776,388,000 or RMB14.02 cents per share (2014: RMB150,036,000 or RMB2.71 cents per share), comprising 2014 final and final special dividends of RMB573,202,000 and 2015 interim and interim special dividends of RMB203,186,000, of which RMB3,329,000 (2014: RMB676,000) were paid to the shares held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 22 March 2016, the board of directors of the Company proposed a final dividend and final special dividend of RMB2.78 cents and RMB2.25 cents per ordinary share of the Company, amounting to RMB153,949,000 and RMB124,606,000 for the year ended 31 December 2015 from the Company's share premium 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 18 May 2016.

The aggregate amounts of the dividends paid during 2015 and 2014 have been disclosed in the consolidated income statement in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

33. CASH GENERATED FROM OPERATIONS

	2015 RMB'000	2014 RMB'000
Profit before income tax for the year	**1,020,981**	975,127
Adjustments for:		
— Depreciation of property, plant and equipment (Note 13)	**10,097**	13,842
— Loss on disposal of property, plant and equipment	**383**	2,243
— Amortisation of lease prepayments (Note 14)	**285**	286
— Amortisation of intangible assets (Note 15)	**12,497**	12,806
— Provision for/(reversal of) impairment losses of inventories (Note 6)	**10,609**	(41,107)
— (Reversal of)/provision for impairment losses of trade and other receivables (Note 6)	**(42,355)**	33,431
— Share of loss/(profit) of equity investments (Note 12)	**2,876**	(256)
— Interest income from bank deposits (Note 9)	**(10,992)**	(6,961)
— Investment income from financial assets (Note 7, 17)	**(418,964)**	(280,304)
— Foreign exchange losses/(gains), net (Note 9)	**(13,082)**	17,582
— Disposal of investment in available-for-sale financial assets (Note 7)	**(476,955)**	(731,497)
— Loss recognised in relation to other financial liability (Note 7)	**—**	119,285
— Fair value change of financial assets (exclude available-for-sale financial assets) (Note 7)	**106,355**	(1,669)
	201,735	112,808
Changes in working capital:		
— Increase/(decrease) in inventories	**(29,926)**	17,373
— Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	**58,131**	(31,976)
— Increase in trade payables, provisions, accruals and other payables	**144,309**	6,323
— Increase in restricted bank balances	**(14,554)**	(718)
Cash generated from operations	**359,695**	103,810

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

	2015 RMB'000	2014 RMB'000
Net book amount (Note 13)	**750**	2,542
Loss on disposal of property, plant and equipment	**(383)**	(2,243)
Proceeds from disposal of property, plant and equipment	**367**	299

34. COMMITMENTS

(a) Operating lease commitments — Group as lessee

The Group leases certain properties for retail stores, office premises, and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015 RMB'000	2014 RMB'000
No later than 1 year	**28,707**	28,189
Later than 1 year and no later than 5 years	**31,102**	12,705
Over 5 years	**54**	80
	59,863	40,974

(b) Investment commitments

	2015 RMB'000	2014 RMB'000
Contracted but not provided for		
— For investment in Yunfeng Fund USD II	**78,600**	113,218
— For investment in Angel Plus Capital	**70,000**	—
— For investment in Jiayu Fund	**30,000**	—
— For investment in 7 Seas Venture Capital, L.P.	**25,974**	—
— For investment in Archina Capital Fund	**6,494**	—
— For investment in Beijing Sequoia Shangye Investment Management Company LP	**—**	25,000
— For investment in China Momentum Fund	**26,824**	—
	237,892	138,218

(c) Other commitments

The Group provides sponsorship to certain sports teams, mainly in cash payments. The commitments as at the balance sheet dates were as follows:

	2015 RMB'000	2014 RMB'000
No later than 1 year	**7,749**	4,763
Later than 1 year and no later than 5 years	**6,157**	1,040
	13,906	5,803

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman, Executive director and the Chief Executive Officer of the Company. Therefore, close family members of Mr. Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chen Yihong or his close family members are considered to be related parties of the Company as well.

During the years ended and as at 31 December 2015 and 2014, 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

	2015 RMB'000	2014 RMB'000
Sales of goods:		
— MSYH Group (i)	**448,139**	324,982
Purchase of goods:		
— Shanghai Phenix Apparel Co., Ltd.	**22,680**	27,336

(b) Balances with related parties

	2015 RMB'000	2014 RMB'000
Trade Payables		
— Shanghai Phenix Apparel Co., Ltd.	**309**	673
Trade receivables (Note 20):		
— MSYH Group	**108,330**	155,720
Other receivables (Note 21):		
Current portion		
— MSYH Group	**58,651**	15,005
Non-current portion		
— MSYH Group	**15,938**	8,421

35. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	2015 RMB'000	2014 RMB'000
Salaries, bonus and other benefits	**13,519**	15,486
Pension — defined contribution plans	**265**	223
	13,784	15,709

Notes:

(i) Before December 2015, the Group holds 22.05% equity interests in Mai Sheng Yue He Sporting Goods Co., Limited (the "MSYH Group") which owns various companies engaging in the distribution and retail of sport-related products in various provinces in the PRC. Mr Chen Yihong's brother was one of the directors of the MSYH Group and was regarded as having significant influence over the MSYH Group, therefore the MSYH Group was regarded as a related party of the Group. In December 2015, upon the completion of the reorganisations, MSYH Beijing and the other five MSYH companies (Note 12(b)) became joint ventures of the Group respectively.

(ii) The transactions with related companies are conducted based on mutual agreements.

(iii) The receivable and payable balances with related parties are unsecured, interest free and repayable within one year.

36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries (Note 4(f))	**10,237,882**	6,907,017
Fair value through profit or loss	**69,252**	124,664
Amounts due from subsidiaries — non-current portion	**1,876,150**	1,817,141
	12,183,284	8,848,822
Current assets		
Inventory	**—**	1,960
Trade receivables	**45,474**	33,114
Prepayments, deposits and other receivables	**4,340**	4,345
Amounts due from subsidiaries	**163,171**	31,184
Cash and bank balances	**19,726**	483,069
	232,711	553,672
Total assets	**12,415,995**	9,402,494
EQUITY		
Equity attributable to owners of the Company		
Share capital	**53,589**	53,589
Share premium account	**940,705**	1,714,319
Reserves (Note (a))	**10,816,335**	7,386,349
Total equity	**11,810,629**	9,154,257
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries	**603,692**	244,506
Accruals and other payables	**1,674**	3,731
Total liabilities	**605,366**	248,237
Total equity and liabilities	**12,415,995**	9,402,494

The balance sheet of the Company was approved by the Board of Directors on 22 March 2016 and was signed on its behalf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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

Note (a) Reserve movement of the Company

	Capital reserves	Share- based compensation reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	10,052,372	1,342	(692,461)	(1,968,364)	7,392,889
Loss for the year	—	—	—	(15,450)	(15,450)
Foreign currency translation reserve	—	—	8,910	—	8,910
At 31 December 2014	10,052,372	1,342	(683,551)	(1,983,814)	7,386,349
At 1 January 2015	10,052,372	1,342	(683,551)	(1,983,814)	7,386,349
Profit for the year	—	—	—	2,757	2,757
Foreign currency translation reserve	—	—	94,789	—	94,789
Reversal of impairment of interests in subsidiaries (Note 4(f))	—	—	—	3,332,440	3,332,440
At 31 December 2015	10,052,372	1,342	(588,762)	1,351,383	10,816,335

37. BENEFITS 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 2015:

Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2015						
Mr. Chen Yihong (i)	**143**	**1,765**	**236**	**53**	**44**	**2,241**
Ms. Chen Chen (ii)	**143**	**1,454**	**196**	**53**	**44**	**1,890**
Mr. Xu Yudi	**163**	**—**	**—**	**—**	**—**	**163**
Mr. Gao Yu	**163**	**—**	**—**	**—**	**—**	**163**
Mr. Xiang Bing	**163**	**—**	**—**	**—**	**—**	**163**
	775	**3,219**	**432**	**106**	**88**	**4,620**
Year ended 31 December 2014						
Mr. Chen Yihong (i)	139	1,796	236	48	37	2,256
Mr. Qin Dazhong (ii)	128	1,533	203	48	37	1,949
Ms. Chen Chen (ii)	11	109	196	4	3	323
Mr. Xu Yudi	158	—	—	—	—	158
Mr. Gao Yu	158	—	—	—	—	158
Mr. Xiang Bing	158	—	—	—	—	158
	752	3,438	635	100	77	5,002

Note:

(i) Mr. Chen Yihong is also the chief executive of the Group.

(ii) Mr. Qin Dazhong has resigned as chief operating officer, executive director and a member of the executive committee of the Company with effect from 4 December 2014. On the same date, Ms. Chen Chen was appointed as executive director and a member of the executive committee of the Company.

(iii) No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

37. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

No retirement benefits were paid in 2015 to or receivable by any independent director in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2014: Nil).

(c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2014: 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 (2014: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2014: 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 (2014: Nil).

38. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution passed on 22 March 2016, the board of directors of the Company proposed a final dividend and final special dividend of RMB2.78 cents and RMB2.25 cents per ordinary share of the Company, amounting to RMB153,949,000 and RMB124,606,000 for the year ended 31 December 2015 from the Company's share premium 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 18 May 2016.

39. COMPARATIVE FIGURES

Certain comparative figures have been restated to be consistent with current year's presentation and classification.

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

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