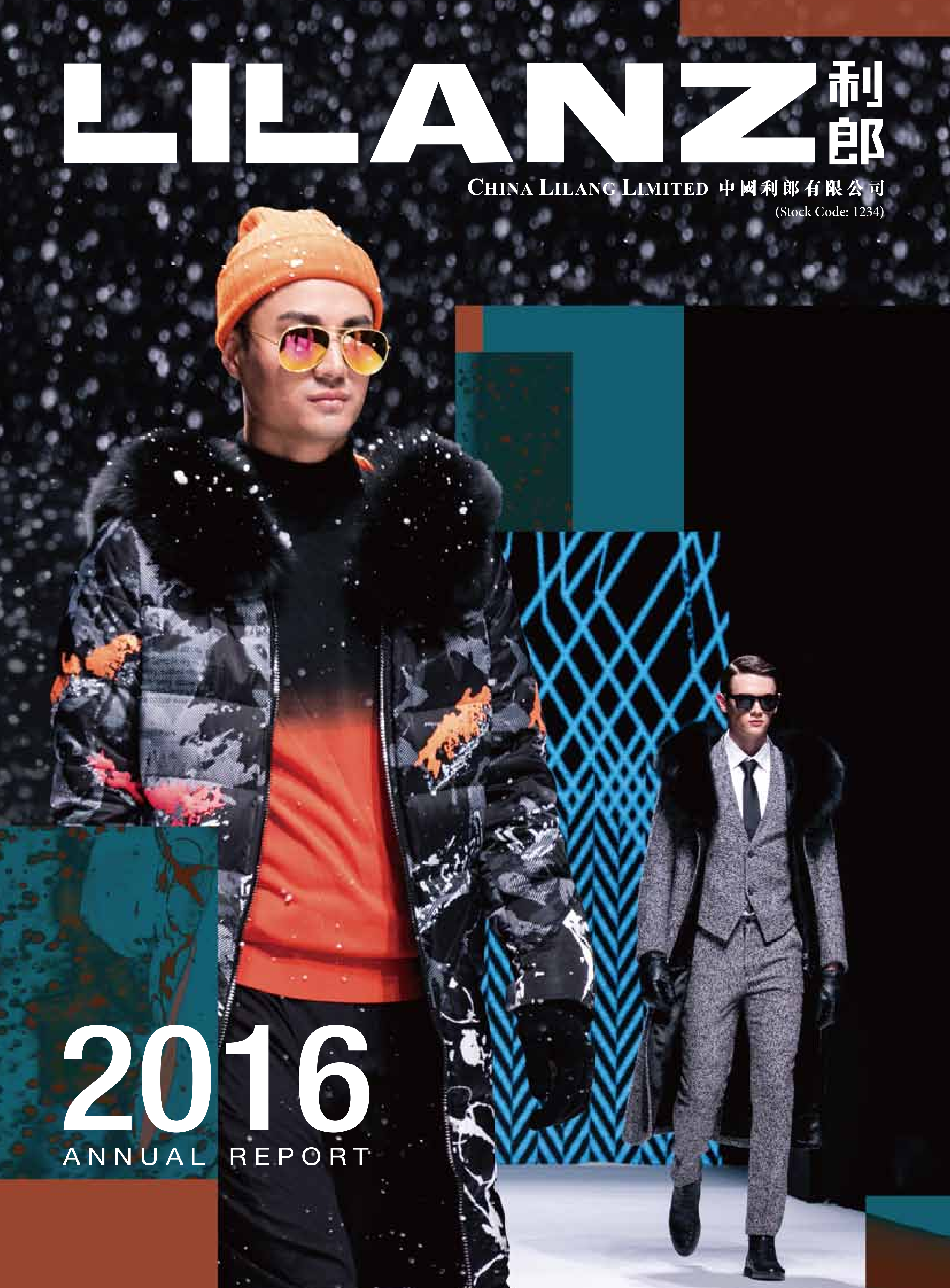
LILANZ 利郎

CHINA LILANG LIMITED 中國利郎有限公司

(Stock Code: 1234)



2016
ANNUAL REPORT

ABOUT
CHINA LILANG

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources and manufactures high-quality business and casual apparel for men and sells under its core brand "LILANZ" and sub-brand "L2" across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Chen Tien Tui (retired on 19 April 2016)
Mr. Nie Xing
Mr. Lai Shixian

BOARD COMMITTEES

Audit Committee

Mr. Nie Xing *(Chairman)*
Dr. Lu Hong Te
Mr. Lai Shixian

Remuneration Committee

Mr. Lai Shixian *(Chairman)*
Mr. Wang Cong Xing
Mr. Nie Xing

Nomination Committee

Mr. Wang Dong Xing *(Chairman)*
Dr. Lu Hong Te
Mr. Nie Xing

Risk Management Committee

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Cong Xing
Mr. Pan Rong Bin

COMPANY SECRETARY

Ms. Ko Yuk Lan

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Ms. Ko Yuk Lan

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3402
34th Floor, Lippo Centre
Tower One
No. 89 Queensway
Hong Kong

HEAD OFFICE IN THE PRC

Lilang Industrial Park
200 Chang Xing Road
Jinjiang City
Fujian Province
The PRC

SHARE REGISTRARS AND TRANSFER OFFICES

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 Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

KPMG, *Certified Public Accountants*

PRINCIPAL BANKERS

Industrial Bank Co. Ltd.
Bank of China Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2016 (RMB million)	2015 (RMB million)	Changes (%)
Revenue	**2,411.6**	2,689.1	-10.3
Gross profit	**995.9**	1,142.8	-12.9
Profit from operations	**663.4**	794.1	-16.5
Profit for the year	**539.9**	625.2	-13.6
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	**44.66**	51.83	-13.8
— Diluted	**44.66**	51.77	-13.7
Shareholders' equity per share	**249.1**	240.8	+3.4
Interim dividend per share	**HK13 cents**	HK13 cents	—
Special interim dividend per share	**HK5 cents**	HK6 cents	-16.7
Final dividend per share	**HK16 cents**	HK17 cents	-5.9
Special final dividend per share	**HK6 cents**	HK7 cents	-14.3
	(%)	(%)	(% points)
Gross profit margin	**41.3**	42.5	-1.2
Operating profit margin	**27.5**	29.5	-2.0
Net profit margin	**22.4**	23.2	-0.8
Return on average shareholders' equity(1)	**18.2**	22.3	-4.1
Effective tax rate	**27.7**	27.6	+0.1
Advertising and promotional expenses and renovation subsidies (as a percentage of revenue)	**8.0**	8.3	-0.3

	Year ended 31 December		Six months ended
	2016	2015	30 June 2016
Average inventory turnover days(2)	**76**	64	57
Average trade receivables turnover days(3)	**92**	79	103
Average trade payables turnover days(4)	**89**	72	78

Notes:

(1) Return on average shareholders' equity is equal to the profit for the year divided by the average of the beginning and closing balance of total shareholders' equity.

(2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the year.

(3) Average trade receivables turnover days is equal to the average of the beginning and closing trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by the number of days in the year.

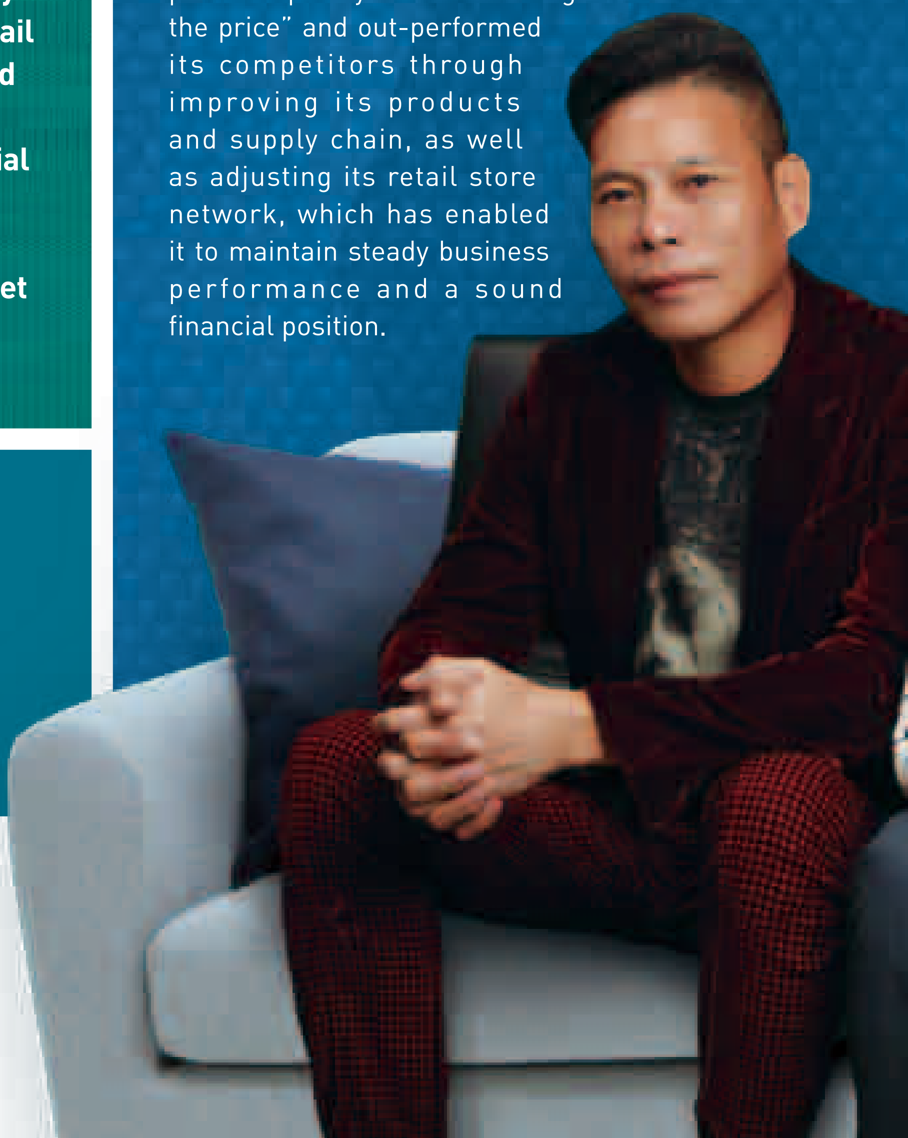
(4) Average trade payables turnover days is equal to the average of the beginning and closing trade and bills payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

"Amid this complex operating environment, China Lilang Limited adhered to the strategy of "improving product quality without raising the price" and out-performed its competitors through improving its products and supply chain, as well as adjusting its retail store network, which has enabled it to maintain steady business performance and a sound financial position. The Group's core brand "LILANZ" has weathered the challenges under different market conditions and has built its strength."

To all shareholders,

The political and economic environment was complex and volatile in 2016. Significant policy adjustments are expected as a result of the passage of the Brexit referendum in the UK and the change in government leadership in the US, and the economic growth continued slowing down in China. All these have considerable impact on the economic and consumer sentiment. Amid this complex operating environment, China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries known as the "Group") adhered to the strategy of "improving product quality without raising the price" and out-performed its competitors through improving its products and supply chain, as well as adjusting its retail store network, which has enabled it to maintain steady business performance and a sound financial position.



CHAIRMAN'S STATEMENT (CONTINUED)

The Group's core brand "LILANZ" has weathered the challenges under different market conditions and has built its strength. In the second half of 2016, the Group expanded and enriched its smart casual collection and opened specialty stores of the collection in cities such as Beijing, Shanghai and Tianjin on a pilot basis. Featuring a diverse range of products with stylish designs and a clear market positioning targeting the first- and second-tier cities, a strategy that taps well into the menswear market, the specialty stores performed satisfactorily within the first year of opening. It is an evidence of the capability of "LILANZ" to expand beyond its current market in third- and fourth-tier cities and set foot in first- and second-tier markets.

In view of the preliminary results of the expansion of "LILANZ" smart casual collection and the anticipated changes in the consumer apparel market, the Board plans to focus on the development of the smart casual collection in the next few years in order to speed up its development in first- and second-tier markets, thereby further strengthening the leading position of "LILANZ" in China's menswear industry. As for the sub-brand "L2", due to intense competition in the youth apparel market, the investment return of the business has been unsatisfactory. Hence, the Group has decided to gradually discontinue this business and focus its resources on developing "LILANZ" smart casual collection which provides greater potential and better returns.

For 2016, both the revenue and profit of the Group dropped. Revenue decreased by 10.3% year-on-year to RMB2,411.6 million and net profit, after provisions for the proposed discontinuation of "L2", decreased by 13.6% to RMB539.9 million. In response to the economic environment, the Group adjusted down distributors' orders for its 2016 fall and winter collections and also continued to adjust its retail store network with a view to ensure a healthy level of channel inventory and maintain its overall competitiveness. Despite weaker results, the Group has strengthened its business and continued outperforming its peers.

The Board recommended the payment of a final dividend of HK16 cents per ordinary share and a special final dividend of HK6 cents per ordinary share for the financial year, which will bring the total dividend for the year to HK40 cents per share.

Looking forward into 2017, as the European countries enter their election year and there are policy changes due to the new US government, the global economic outlook is highly unpredictable. Uncertainties will continue to hurt consumer confidence, therefore the consumer market outlook is not too optimistic. China's menswear industry is yet to gain momentum and it is expected that the industry consolidation will continue.

The Group will continue with its direction over the past few years and adhere to the strategy of "improving product quality without raising the price", with a view to gain popularity among new and existing consumers by insisting on providing originally-designed and quality products, as well as high-standard services at affordable prices. The Board is confident that the Group will continue to outperform other industry peers and targets to gain market share amid the industry consolidation.

The Group will focus its resources on developing "LILANZ". The smart casual collection will be one of the key areas of development of the Group in the coming years, particularly the expansion into first- and second-tier markets with this collection. In order to better promote the overall development of the smart casual collection, the Group plans to establish a separate design and operation centre in Shanghai in 2017, so as to keep the team abreast of market trends and the preferences and responses of consumers, in order to expand its market share more effectively.

CHAIRMAN'S STATEMENT (CONTINUED)

Since the ability to offer quality products is key to the success of a brand, the Group will continue to invest in product research and development, striving to further enhance the originality and value-for-money as well as the overall competitiveness of its products.

For retail network, the Group will maintain a prudent approach to store opening and will continue to focus on store efficiency improvement. The total store number of "LILANZ" is expected to be broadly steady in 2017. The Group plans to continue to open new stores in suitable locations through distributors while closing down low-efficiency stores. In particular, more stores will be added in shopping malls in provincial capitals and prefecture-level cities. The Group expects its retail stores to continue to achieve positive same-store sales growth through better products, effective channel management and optimization of the store network.

In addition to the traditional sales channels, the Group plans to set up a dedicated team for online sales in the second half of 2017, laying the foundation for more aggressive expansion of its online sales business.

The 2017 fall trade fair just ended in early March. We are glad that the number of trade fair orders increased and the Group has recorded a high single-digit growth in order value.

2017 is the thirtieth anniversary of the Group since its founding. With the unyielding efforts to forge ahead in the face of hardships over the last three decades, the Group has developed both craftsmanship and team spirit. These qualities enable China Lilang to build strengths and confidence to achieve breakthroughs, to pursue better results and adhere firmly to our beliefs, and to make "LILANZ" a popular brand with style and elegance. Looking ahead, the Group will continue to adhere to its multi-brand strategy and also proactively enhance the competitiveness and value-for-money of its products to further consolidate China Lilang's leading position in the menswear industry, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support to the Group.

Wang Dong Xing
Chairman
13 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The global economic environment remained complicated in the second half of 2016. The Brexit referendum passed in June had upset the balance of the global economy. In the US, rising expectations of rate hike following the presidential election in November triggered capital flows from emerging markets to the US and led to high volatility in both the equity and currency markets, leaving the economic outlook uncertain. In China, overcapacity faced by the manufacturing industry continued to discourage investments from the private sector, further slowing the economy. The government is committed to reform and dealing with risks and challenges by focusing on the supply-side structural reform with moderate expansion on aggregate demand, which helped sustain a steady economic growth. According to the National Bureau of Statistics of China, GDP increased by 6.7% year on year to RMB74,412.7 billion in 2016, representing a stable growth on a quarterly basis. Income of both urban and rural residents maintained relatively rapid growth rates, and consumer prices recorded a moderate increase.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In view of the uncertain economic outlook, the apparel industry continued to suffer from fragile consumer sentiment. According to the statistics from the China National Commercial Information Center, retail sales of the top 100 domestic large-scale retailing enterprises fell 0.5% year on year in 2016, widening by 0.4 percentage points as compared with last year. Among which, the retail sales of apparel products decreased by 3.3%; and the menswear industry showed no clear signs of recovery.

China Lilang Limited continued to innovate and transform its business. Adhering to the strategy of "improving product quality without raising the price", the Group is committed to improving its competitiveness through enhancing the originality and value-for-money of its products so as to capture the market. The Group also continued to improve its supply chain and retail channel management and, as a result, store efficiency has improved and the healthy development of the channel is maintained. The retail stores continued to achieve mid-single digit same-store sales growth.

Meanwhile, the Group extended the market position of "LILANZ" and focused on developing first- and second-tier markets. Apart from supporting distributors to open stores in shopping malls in first- and second-tier cities, the Group is also optimistic about the growth potential of smart casual apparels in first- and second-tier markets, and has opened specialty stores for "LILANZ" smart casual collection on a pilot basis in cities such as Beijing, Shanghai and Tianjin in the second half of the year, which has received positive response from the market.

However, under the inevitable impact of sluggish consumer demand and fierce competition, with particularly intense competition in fashion apparels for the youth, the business performance of the sub-brand "L2" has been unsatisfactory. After assessing the prospects and investment return of "L2", the Group has decided to discontinue the operation of "L2" from fall 2017, and it will focus its resources on exploring the brand potential of "LILANZ".

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

Revenue for 2016 decreased by 10.3% year on year to RMB2,411.6 million, which was mainly due to the impact of channel inventory of the 2015 fall and winter collections and store closures. Sales of the core brand "LILANZ" decreased by 8.7% to RMB2,238.0 million, which was in line with the trade fairs numbers. Sales of the sub-brand "L2" decreased by 25.2% to RMB173.6 million. The Group repurchased off-season inventories of approximately RMB22.0 million in total from distributors during the year. Sales of "LILANZ" and "L2" accounted for approximately 92.8% (2015: 91.1%) and 7.2% (2015: 8.6%) of the total revenue respectively.

Among the product categories, tops remained the major contributor in terms of sales and accounted for 66.0% (2015: 66.9%) of the total revenue, sales of which decreased by 11.2%. Sales of accessories decreased by 6.9% and accounted for 7.8% (2015: 7.6%) of the total revenue. Among which, footwear, the major item, accounted for 59.5% (2015: 56.5%) of the total sales of accessories.

Revenue by Region

For the year, the North Eastern China region and the South Western China region were most affected by the channel inventory of 2015 fall and winter collections, and their sales decreased by 21.2% and 15.7% respectively. The North Eastern China region also had the highest proportion of store closures, and its store counts decreased by 18.2% during the year. Sales in the Northern China region recorded a decrease of 4.4% for the year. The decline slightly narrowed in the second half of the year as sales in Inner Mongolia jumped after the change of its distributor in the first half of the year, and this partially offset the double-digit drop in the sales in Hebei and Shanxi. Sales in the Eastern China region, Central and Southern China region, and North Western China region all had a high single-digit drop.

The Eastern China region and the Central and Southern China region remained the top contributors to the Group's revenue, and together accounted for 58.6% (2015: 57.1%) of the total revenue. The retail stores in these two regions accounted for 50.6% (2015: 51.3%) of the Group's total number of stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue by region for the year was set out below:

	Year ended 31 December				
	2016		2015		Changes
Region	**RMB million**	**% of revenue**	RMB million	% of revenue	(%)
Northern China[1]	**149.5**	**6.2%**	156.3	5.8%	-4.4%
North Eastern China[2]	**121.0**	**5.0%**	153.6	5.7%	-21.2%
Eastern China[3]	**791.9**	**32.8%**	865.3	32.2%	-8.5%
Central and Southern China[4]	**621.2**	**25.8%**	669.1	24.9%	-7.2%
South Western China[5]	**481.7**	**20.0%**	571.6	21.2%	-15.7%
North Western China[6]	**246.3**	**10.2%**	266.2	9.9%	-7.5%
Others[7]	**—**	**—**	7.0	0.3%	-100.0%
Total	**2,411.6**	**100.0%**	2,689.1	100.0%	-10.3%

[1] Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.

[2] North Eastern China includes Heilongjiang, Jilin and Liaoning.

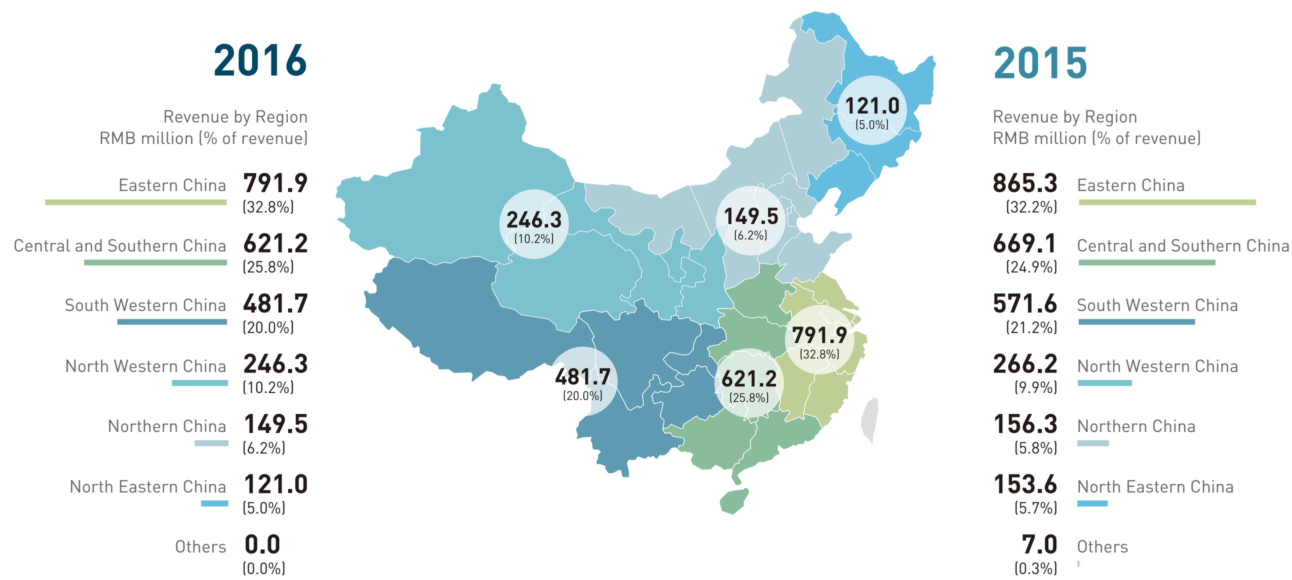
[3] Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.

[4] Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.

[5] South Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.

[6] North Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

[7] Others represent the sales of the trading operation of the Group's subsidiary in Hong Kong.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit and Gross Profit Margin

Gross profit margin was down by 1.2 percentage points to 41.3%, which was mainly due to the more competitive pricing of products under the strategy of "improving product quality without raising the price" and the lower wholesale prices offered to some "LILANZ" distributors in the second half of the year to support their expansion in first- and second-tier markets.

Cost of sales decreased by 8.4% to RMB1,415.7 million (2015: RMB1,546.2 million). Cost of in-house production, including sub-contracting charges, accounted for 61.8% (2015: 55.5%) of the total cost of sales, up by 6.3 percentage points.

Other Net Income

Other net income increased by RMB43.3 million to RMB97.6 million, which was mainly due to the increase of RMB42.1 million in government grants received for the year. The entitlements of these government grants were unconditional and under the discretion of relevant authorities.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 11.7% to RMB252.4 million, and accounted for 10.5% of the total revenue, down by 0.1 percentage point over last year. Advertising expenses and renovation subsidies decreased by RMB30.8 million to RMB192.5 million for the year, and accounted for 8.0% of the total revenue, down by 0.3 percentage point. Renovation subsidies for the year were incurred for the renovation of newly opened stores of "LILANZ", the repairs and maintenance for old stores and the renovation of stores identified for stock clearance purposes in the second half of the year.

Administrative Expenses

Administrative expenses amounted to RMB171.3 million, up by RMB61.8 million over last year and accounting for 7.1% (2015: 4.1%) of the total revenue. The expenses in 2016 included the additional provision for trade receivables of RMB70.6 million. In addition to overdue trade receivables for which full provision was made in accordance with the Group's policy, provision had also been made for trade receivables of "L2" which were considered doubtful in view of the proposed discontinuation of "L2" starting from 2017 fall season.

Profit from Operations

Profit from operations decreased by 16.5% to RMB663.4 million, which was mainly attributable to the decrease in sales, decline in gross profit margin and the provisions made for the proposed discontinuation of "L2". Operating margin decreased by 2.0 percentage points to 27.5%.

Net Finance Income

Net finance income was RMB83.4 million for the year, representing an increase of RMB14.0 million year on year. During the year, foreign exchange gain of RMB39.7 million was recorded from the forward foreign exchange contracts entered into by the Group's subsidiaries in 2015 to hedge their exposures to non-functional currency deposits and loans. This offset the foreign exchange loss of RMB5.4 million and the decrease in interest income due to the lower average interest rate for the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Profit

Net profit was RMB539.9 million, down by 13.6%. Net profit margin decreased by 0.8 percentage point to 22.4%. Net profit attributable to the core brand "LILANZ" amounted to RMB600.5 million (2015: RMB673.7 million), representing a decrease of 10.9% year on year. Net loss attributable to the sub-brand "L2" after provisions for the proposed discontinuation of business, amounted to RMB49.6 million (2015: net profit of RMB10.8 million).

Earnings per Share

Earnings per share was RMB44.66 cents, down by 13.8%.

Final Dividend

The Board recommended payment of a final dividend of HK16 cents (2015: HK17 cents) per ordinary share and a special final dividend of HK6 cents (2015: HK7 cents) per ordinary share in respect of this financial year, representing a total dividend payment of approximately HK$266.0 million (equivalent to approximately RMB239.3 million). The final dividend and special final dividend will be paid in cash on or about 16 May 2017 to shareholders whose names appeared on the register of members of the Company on 4 May 2017.

BUSINESS REVIEW

Retail and Distribution Network

The Group continued to manage the retail and distribution network effectively to enhance the Group's overall competitiveness. During the year, the Group maintained a prudent approach to new store opening and pragmatically supported its distributors in optimizing their retail store networks with a focus on improving store efficiency. Meanwhile, the Group continued to open stores in shopping malls in provincial capitals and prefecture-level cities in view of the change in consumption habit. By the end of 2016, there were over 100 such stores in total, and their sales performance has been in line with expectations. At the same time, the Group is optimistic about the growth potential of smart casual apparels in first- and second-tier markets and has opened specialty stores for its smart casual collection in cities such as Beijing, Shanghai and Tianjin on a pilot basis in the second half of 2016 and the sales performance has been encouraging.

As at 31 December 2016, the Group had a total of 2,575 stores. "LILANZ" had a net decrease of 260 retail stores at 2,400 retail stores, mainly due to the closure of low-efficiency stores in response to the actual operating conditions and the decrease in the number of shop-in-shops in department stores. "L2" had a net decrease of 150 retail stores at 175 retail stores.

Changes in the number of stores in different regions during the year were as follows:

	Number of stores			
Region	**As at 1 January 2016**	**Opened during the year**	**Closed during the year**	**As at 31 December 2016**
Northern China	285	39	84	**240**
North Eastern China	302	19	74	**247**
Eastern China	805	83	221	**667**
Central and Southern China	726	68	157	**637**
South Western China	588	45	109	**524**
North Western China	279	19	38	**260**
	2,985	273	683	**2,575**

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Sales Channel Management

The Group has adopted a distribution model under which its products are sold to end consumers through retail stores operated by distributors and their sub-distributors. Therefore, effective sales channel management would enable the Group to establish its brand presence and improve service quality so as to boost its sales and minimize its exposure to the risk of channel inventory. The Group has established a stable relationship with its distributors, and all distributors of "LILANZ" have maintained business relationships with the Group for over a decade.

The number of stores by operator and by channel was as follows:

	LILANZ		L2	
	As at 31 December 2016	As at 31 December 2015	**As at 31 December 2016**	As at 31 December 2015
By operator:				
Self-operated stores	**2**	2	**0**	0
Stores operated by distributors	**916**	994	**121**	216
Stores operated by sub-distributors	**1,482**	1,664	**54**	109
	2,400	2,660	**175**	325
By channel:				
Street stores and stores in shopping malls	**2,029**	2,186	**79**	250
Shop-in-shops in department stores	**371**	474	**96**	75
	2,400	2,660	**175**	325

As at 31 December 2016, the Group had two self-operated "LILANZ" flagship stores; 916 and 1,482 other "LILANZ" retail stores were operated by 80 distributors and 999 sub-distributors respectively. For "L2", 121 and 54 retail stores were operated by 25 distributors and 52 sub-distributors respectively.

There were a total of 2,400 "LILANZ" retail stores with an aggregate retail area of approximately 289,800 square meters (31 December 2015: 302,500 square meters), representing a decrease of 4.2%. "L2" had 175 stores with an aggregate retail area of approximately 20,800 square meters (31 December 2015: 36,200 square meters), representing a decrease of 42.5%.

The Group continued to provide training to the management teams of its distributors. Training courses provided to the sub-distributors in July 2016 covered team building, concepts and methods of placing orders, store renovation and opening promotion as well as automating and refining the management of stores. Meanwhile, the Group continued to monitor channel inventory through the ERP system, which connects to all stand-alone stores. Distributors were encouraged to place orders based on their own inventory levels and estimated sales performance as well as to operate discount stores prior to store renovation and set up temporary promotion counters in department stores in order to clear inventory.

E-channel Development

The Group sees e-channel as an important business development platform in addition to the traditional sales channels and plans to establish a dedicated team for online sales in the second half of 2017 to explore online sales business more aggressively.

Currently, the Group continues to use "T-MALL" as a major online sales channel to sell "LILANZ" and "L2" products. Except off-season products, the products and prices offered online are the same as those in brick-and-mortar stores. Besides, the Group started developing application systems based on the WeChat platform since last year. A customer relationship management system on the WeChat platform has been launched during the year and VIP customers can now purchase products from local stores through the WeChat platform and enjoy home delivery services.

Product Design and Development

The Group believes that product design and development is the key to success in China's menswear industry. As such, the Group continued to strengthen its design team and enhance product originality while improving the individuality of its products in order to differentiate itself from its peers. When adhering to the strategy of "improving product quality without raising the price", the Group has also been committed to cost control and the enhancement of its products' value-for-money. Original design products accounted for nearly 65% of the Group's products for 2016, of which about 30% adopting the proprietary fabrics developed by the Group. In the medium- to long-run, the Group intends to raise the proportion of original design products to 70%, of which 50% will adopt the proprietary fabrics developed by the Group.

As for product design, the international and domestic research and development teams for the core brand "LILANZ" worked with each other closely and smoothly, which has added an international flavor to the brand, differentiated its products from those of its peers to a larger extent and enriched its accessory product portfolio. Meanwhile, "LILANZ" has expanded and enriched its smart casual collection during the year. Inheriting the simple yet fashionable design concepts of "LILANZ", the collection caters for the enormous market demand for smart casual apparel of high value-for-money in the first- and second-tier markets, which has received encouraging response from these markets.

During the year, the Group set up its domestic design team for womenswear and continued to have a small collection of womenswear for the fall and winter seasons, which were available in large-scale stores so as to boost their sales efficiency.

The sales of the high-end collection continued to increase, with its percentage to total revenue climbing from about 5% a few years ago to about 13% in 2016. This growth in percentage to sales is particularly obvious in the stores in shopping malls in first- and second-tier cities. In 2017, the foreign designer originally transferred from "LILANZ" to "L2" would be re-assigned to take charge of the design of the high-end collection, with an aim to further boost the sales of that collection.

Marketing and Promotion

The Group continues to focus on store image for its brand promotion, therefore upgrading the image of large-scale stores is an integral part of it. From 2015, large-scale stores newly opened in first- and second-tier cities have adopted the sixth-generation store image which uses better quality decoration materials and the design is more elegant and stylish with a better use of retail space. In the second half of 2016 and the full year of 2017, the Group plans to renovate or partially upgrade about 800 stand-alone stores in suitable locations with the sixth-generation store image. Special promotion sales will be held in those stores before renovation work to clear inventories. By the end of 2016, a total of about 350 stores have been renovated.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

To raise the effectiveness of its promotional campaigns, the Group continued to take different opportunities for advertising. In 2016, the Group has started to place advertisements in Electric Multiple Unit (EMU) stations, and also continued to place advertisements through advertising signs in airports and road side billboards as well as soft-sell advertising in magazines and newspapers.

Trade Fairs

The 2017 spring and summer trade fair of "LILANZ" was held in August 2016. Both the total order value and average unit price recorded a high single-digit decrease year on year. Amid this challenging environment, the Group continued to commit itself to maintaining a healthy level of sales channel inventory and implement the strategy of "improving product quality without raising the price", with a view to promote same-store sales growth of its distributors. Shipment of the above orders has commenced in January 2017.

The 2017 fall trade fair just ended in early March. Thanks to the control over the fall and winter orders in 2016, while the retail sales of "LILANZ" continued to outperform other industry peers, the channel inventory for fall and winter products has returned to a healthy level. The distributors have high confidence in the Group's products, which improved the trade fair orders and the Group has recorded a high single-digit growth in order value.

Headquarters, Production and Supply Chain

The construction of the Group's new headquarters commenced in the second half of 2015 and is expected to be completed in early 2018. The estimated construction costs of the project totaling approximately RMB490.0 million will be financed by internal resources of the Group. During the year, total expenditure of RMB120.2 million was paid by the Group for the new headquarters.

The Group maintains good business relationship with its suppliers, which benefits its supply chain management, and enables it to control costs without sacrificing quality by engaging the suitable fabric suppliers and processing plants. Meanwhile, the Group upgraded its computer system for inventory management in the second half of 2016 to better manage its inventory. While reducing the proportion of OEM purchases and increasing the proportion of original design products, the Group adheres to the strategy of "improving product quality without raising the price" and shares the benefits from its improved supply chain management with consumers by offering them products of better value-for-money.

Awards

"LILANZ" received a number of awards during the year. In the first half of 2016, "LILANZ" was named by the Chinese Public Welfare Fund for Brands (中國品牌發展公益基金) and the Organizing Committee of Chinese Chain Brand Development Conference (中國品牌連鎖發展大會組委會) as the "Top 50 Chain Brands in terms of Growth Potential in China in 2015 (二零一五年中國連鎖品牌最具成長潛力50強)". In December, "LILANZ" was elected as one of the "Top 500 Brands in China (中國品牌500強)" by China Trustworthy Brand Laboratory (中誠信品牌實驗室) in accordance with CNISA10000: 2005 Global Brand Value Verification Standards (CNISA10000:2005全球品牌價值驗證標準).

In January 2017, "LILANZ" was named the "Most Internationally-Competitive National Brand in PRC Menswear Industry (中國男裝行業最具國際競爭力民族品牌)" at the second "Innovation and Development for New Model of the Chinese Economy Summit (中國經濟新模式創新與發展峰會)" cum 2016 "Chinese Industry Leading Brands" (「中國行業領先品牌」)TV Festival, which is an event co-hosted by various organizations, including The Enterprise Observer (企業觀察報社), Network Operators Branch of China Association of Small and Medium Enterprises (中國中小企業協會網商分會), "Leaders", a program broadcasted on CCTV's securities information channel, of Central Studio of

News Reels Production of China Central Television (中央電視台所屬中央新聞紀錄電影製片廠《領導者說》欄目) and China Academy of Management Development Science (中國管理科學研究院行業發展研究所). The Group was also named "Top 100 Most Valuable Brands of Listed Companies in China (中國上市公司最具價值品牌100強)".

PROSPECTS

As the new US president has taken office, the Brexit process would kick off and the European countries have entered their election year, the global economic outlook remains uncertain for 2017 and it is difficult to predict the direction of international capital flows. Against this backdrop, China faces rising economic downward pressure as well as increasing difficulties in the country's economic restructuring. The fluctuation of the Renminbi amid the volatility of the currency market has nonetheless affected the Chinese economy to a certain extent. The PRC consumer market outlook is not too optimistic.

There were no clear signs of recovery for China's menswear industry and it is expected that the industry consolidation will continue in 2017. The management believes that a company's ability to survive this operating environment hinges on its capability to innovate as well as the value-for-money of its products. The Group is confident that it will continue to outperform other industry peers.

China Lilang adheres to the strategy of "improving product quality without raising the price", and continues to spare no effort in improving product design, craftsmanship and materials, with the aim of raising the proportion of original designs, enhancing the value-for-money of its products and increasing the competitiveness of its products and brand. The Group plans to leverage on its existing competitive edges to consolidate its existing markets in third- and fourth-tier cities, and at the same time to increase the brand's presence in first- and second-tier cities to boost its overall sales. In view of the satisfactory sales performance of the trial launch of "LILANZ" smart casual collection specialty stores in some first- and second-tier cities, the Group also plans to step up its efforts in product design and market development of such collection. It will establish a separate design and operation centre for the smart casual collection in Shanghai in the second half of 2017, so as to keep the brand abreast of market trends, better promote the holistic development of the collection and expand its market share effectively.

The Group will maintain a prudent approach to store opening and expects its retail stores to continue recording same-store sales growth through better products, improving channel management and optimizing store network. The core brand "LILANZ" targets to maintain the existing number of stores and will continue to optimize its store network. While non-performing stores will be closed down, new stores will be opened in suitable locations through first-tier distributors. In particular, more stores will be added in shopping malls in provincial capitals and prefecture-level cities. As for "L2", which will discontinue its operation from fall 2017, the existing retail stores will gradually be closed down after spring and summer 2017 based on the progress of inventory clearance and operating conditions.

The 2017 fall trade fair just ended in early March. Thanks to the control over the fall and winter orders in 2016, while the retail sales of "LILANZ" continued to outperform other industry peers, the channel inventory for fall and winter products has returned to a healthy level. The distributors have high confidence in the Group's products, which improved the trade fair orders and the Group has recorded a high single-digit growth in order value.

In the long run, China Lilang will adhere to its multi-brand strategy and also proactively enhance the competitiveness and value-for-money of its products to further consolidate its leading position in the menswear industry, so as to sustain a long-term growth and reward its shareholders, employees and customers for their support.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

	Year ended 31 December	
	2016 **RMB million**	2015 RMB million
Net cash generated from operating activities	**445.6**	668.7
Capital expenditure	**(144.5)**	(34.4)
Free cash inflow	**301.1**	634.3
Cash and bank balances (including pledged bank deposits)	**2,671.5**	3,245.6

As at 31 December 2016, the Group's total cash and bank balances were mainly held in Renminbi (78.5%) and Hong Kong Dollars (21.3%).

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB1,613.7 million (placements of fixed deposits and pledged deposits held at banks with maturity over 3 months totalling RMB568.9 million and RMB488.9 million respectively were regarded as investing activities in the consolidated statement of cash flows), representing a decrease of RMB548.0 million as compared with the cash and cash equivalents balance of RMB2,161.7 million as at 31 December 2015. This was mainly attributable to:

— Net cash inflows from operating activities amounting to RMB445.6 million. This compared to RMB668.7 million for last year. The decrease was mainly due to the drop in profit from operations of RMB130.7 million and the higher amount of income tax and dividend withholding tax paid totalling RMB227.6 million for the year (2015: RMB156.9 million).

— Net cash outflows from investing activities amounting to RMB34.2 million, comprising mainly capital expenditure for property, plant and equipment, land use rights and intangible assets totalling RMB144.5 million, increase in deposits held at banks with maturity over 3 months by RMB538.9 million, net of decrease in pledged bank deposits by RMB573.9 million and interest income of RMB74.7 million. During the year, RMB120.2 million was paid for the construction of the new headquarters.

— Net cash outflows from financing activities amounting to RMB962.3 million, mainly attributable to the payments of final dividend and special final dividend totalling RMB243.7 million in respect of the year ended 31 December 2015, and the interim dividend and special interim dividend totalling RMB187.4 million in respect of the year ended 31 December 2016, and the net repayment of bank loans of RMB510.5 million.

Bank Loans

As at 31 December 2016, the Group had bank loans totalling RMB493.5 million (2015: RMB1,004.0 million). The net cash position as at 31 December 2016 was as follows:

	As at 31 December	
	2016 RMB million	2015 RMB million
Cash and bank balances (including pledged bank deposits)	**2,671.5**	3,245.6
Less: Bank loans	**(493.5)**	(1,004.0)
Net Cash	**2,178.0**	2,241.6

As at 31 December 2016, the Group's bank loans were all denominated in Hong Kong Dollars and were secured by pledged bank deposits and repayable within one year or on demand. All the bank loans carried interest at floating rates.

Trade Working Capital Ratios

	Year ended 31 December	
	2016 Days	2015 Days
Average inventory turnover days	**76**	64
Average trade receivables turnover days	**92**	79
Average trade payables turnover days	**89**	72

Inventory Turnover Days

The Group's average inventory turnover days was 76 days. This compared to 64 days for the year ended 31 December 2015.

The total inventory balance increased by RMB2.9 million to RMB294.4 million. Inventory balance for "LILANZ" decreased by RMB11.8 million to RMB257.5 million as the sales orders for 2017 spring and summer collections dropped by high single digit percentage. The inventory of finished goods were mostly the remaining 2016 winter products which were delivered in January and the 2017 spring and summer products.

Inventory balance for "L2" increased by RMB14.7 million to RMB36.9 million. The balance related to 2016 and 2017 spring and summer inventories. As at 31 December 2016, the Group had made full provision for inventories aged over 1 year according to its provision policy.

Trade Receivables Turnover Days

The average trade and bills receivables turnover days was 92 days. This compared to 79 days for 2015 and improved from 103 days for the interim period of the year. The total balance of trade and bills receivables decreased by 11.8% to RMB667.7 million over the year.

For "LILANZ", the balance decreased 5.6% to RMB638.0 million. This partly reflected the drop in sales of winter products year-on-year. As in previous years, additional credits have been granted to some of the distributors to encourage them to open large-scale stores in shopping malls. As at 31 December 2016, full provision had been made for over-due trade receivables totalling RMB9.2 million.

For "L2", as at 31 December 2016, total provisions of RMB71.5 million had been made for trade receivables to cover the over-due balances and the estimated doubtful debts in view of the proposed discontinuation of business after the 2017 spring and summer collections, leaving a net trade receivable balance of RMB29.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trade Payables Turnover Days

The Group's average trade and bills payables turnover days was 89 days. This compared to 72 days for 2015. The balance of trade and bills payables remained at a similar level as that of last year.

PLEDGE OF ASSETS

As at 31 December 2016, deposits with certain banks totalling RMB488.9 million (2015: RMB1,053.9 million) were pledged as securities for bank loans and bills payables. The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payables.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2016, the Group had total capital commitments of RMB472.4 million, primarily related to the construction of the new headquarters, the purchase of a property as office premises of the smart casual collection team in Shanghai, and the development of the ERP system. The construction of the new headquarters is expected to be completed in early 2018.

These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2016, the Group had no material contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company conducted an exercise based on the ERM Framework, as set out in the paragraph headed "Risk Management and Internal Controls" in the Corporate Governance Report on pages 32 to 42 of this Annual Report, to review, assess and control the identified risks facing the Group. The Group's key risk exposures are summarized as follows:

Strategic Risks	(i)	Slow-down of the economy and consumer spending
	(ii)	Deterioration of market competition
Operational Risks	(i)	Ineffective management of the retail operations of distributors
	(ii)	Misjudgement of fashion trends or changes in consumers' demand or failure to respond to such changes in a timely manner
	(iii)	Ineffective brand promotion activities or failure to successfully maintain and promote the brand, particularly in the first-and second-tier cities where the Group targets to expand
Financial Risks	(i)	Distributors' credit risks
	(ii)	Budget over-run in the construction of the new headquarters
Hazard Risks	(i)	Business susceptible to extreme or unseasonable weather conditions

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability and incorporating it in daily operations. Details of the Group's environmental policies and performance are summarized in the Environmental, Social and Governance Report on pages 22 to 31 of the Annual Report.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner. The functional currency of the Company is the Hong Kong Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognized in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant. As at 31 December 2015, financial instruments were employed to hedge the currency risks of the non-functional currency denominated pledged bank deposits and bank loans of the related subsidiaries.

HUMAN RESOURCES

As at 31 December 2016, the Group had 1,960 staff. Total staff costs for the year amounted to approximately RMB156.5 million (2015: RMB139.0 million). Details of the Group's policies on human resources are summarised in the Environmental, Social and Governance Report on pages 22 to 31 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 19 April 2017 to Monday, 24 April 2017 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2017 annual general meeting ("2017 AGM"). In order to qualify for attending and voting at the 2017 AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 18 April 2017.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2017 AGM, the register of members will be closed from Friday, 28 April 2017 to Thursday, 4 May 2017 (both days inclusive) for the purpose of determining shareholders who qualify for the proposed final dividend and special final dividend. In order to qualify for the proposed final dividend and special final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 27 April 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(A) ENVIRONMENT

The Group is committed to achieving environmental sustainability and incorporating it in daily operations, in strict compliance with the Environmental Protection Law of the People's Republic of China (the "PRC"), the Energy Conservation Law of the PRC and other related regulations. As the Group is principally engaged in the design, manufacturing and sales of apparel products, its operating activities do not generate any emissions or wastes that would severely pollute the environment.

This report covers the Group's headquarters in Jinjiang City, Fujian Province (the "Headquarters") and the production facilities for the Group's core brand "LILANZ" in Wuli Industrial Park, Fujian Province (the "Wuli Plant"). The Headquarters is mainly used for the core brand "LILANZ", and comprises office premises, a fabric testing centre, a workshop for samples and small production orders, a "LILANZ" flagship store, staff dormitories (including canteens, a coffee shop and a gym) and also the venue for the three trade fairs held every year.

Aspect A1: Emissions

The Group has formulated a production-plant management manual, setting out measures such as lawful discharge of sewage, reduction of air emissions through efficiency improvement in coal use of the boiler and reduction of non-hazardous wastes generated during the production process.

Air and greenhouse gas emissions generated by the Group's operating activities are limited. The Group does not own vehicle fleets, the transportation of raw materials and products are all outsourced to third-party transportation service providers. In addition, electricity consumed by both the Headquarters and the Wuli Plant are supplied by a hydroelectric power plant. Hydroelectricity transforms the potential energy of water without consuming any fossil fuels, it is therefore widely considered as a clean energy that does not emit any greenhouse gases such as carbon dioxide (CO_2) and methane (CH_4). Coal is only used by the Group for the boiler in the Wuli Plant to boil water to steam-iron apparels. Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. To reduce sulphur emissions, the Group uses low-sulphur coal and has installed desulfurization device in the boiler. Every year the Group commissions a third-party professional organization to audit air emissions from the boiler to ensure compliance with relevant laws and regulations.

The operating activities of the Group do not produce any hazardous wastes. The Wuli Plant has adopted the following measures to reduce non-hazardous wastes generated during the production process:

1) Cinders: premium coal is used to reduce the generation of cinders.

2) Scraps: the following measures are adopted to maximize the utilization rate of fabrics, thereby controlling costs and reducing scraps:

   a) Strictly adhere to the minimal usage of fabrics and optimize cutting layouts with a computer program, based on product designs and respective fabric-waste allowances;

   b) Reduce fabric wastes by providing training to workers to enhance their skills and by introducing templates to improve sewing accuracy; and

   c) Optimize production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added over the past two years to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The Group sells cinders to recyclers regularly, while scraps are regularly collected by recyclers to be converted into or reused in other products (such as gloves).

The operating activities of the Group generates limited amount of industrial sewage which is discharged through the municipal sewage system equipped with filters, ensuring no significant impact on the surrounding environment.

According to the key performance indicators ("KPIs") as set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of air and greenhouse gas emissions and waste generation is summarised as follows:

KPIs		**For the year ended 31 December 2016**
A1.1	Type of emissions and respective emissions data	Total air emissions (particulates, NOx and SO_2) of the boiler (note 1) were 11.08 tonnes (2015: 11.19 tonnes). The intensity (based on the total annual production cost of the Wuli Plant (note 2)) is 0.03 KG/RMB'000 (2015: 0.03 KG/RMB'000). The data is similar to that of 2015.
A1.2	Total greenhouse gas emissions and intensity	As noted above, greenhouse gas emissions generated by the Group's operating activities are limited.
A1.3	Total hazardous wastes produced and intensity	The operating activities of the Group have not produced any hazardous wastes.
A1.4	Total non-hazardous wastes produced and intensity (based on the total annual production cost of the Wuli Plant (note 2))	Cinders of 150.00 tonnes (2015: 160.00 tonnes); intensity of 0.45 KG/RMB'000 (2015: 0.48 KG/RMB'000). Premium coal has been used to reduce the generation of cinders. Scraps of 267.75 tonnes (2015: 182.76 tonnes); intensity of 0.80 KG/RMB'000 (2015: 0.55 KG/RMB'000). In addition to the high single digit percentage increase in production volume, intensity increases because the 2016 figure also included scraps produced in 2015.
A1.5	Measures to mitigate emissions and results achieved	Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. To reduce sulphur emissions, the Group uses low-sulphur coal and has installed desulfurization device in the boiler. The air emissions of the boiler conformed to the requirements of relevant laws and regulations.

KPIs		For the year ended 31 December 2016
A1.6	How hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	The operating activities of the Group have not produced any hazardous wastes. In respect of non-hazardous wastes: (1) Premium coal is used to reduce the generation of cinders. Cinders produced are sold to recyclers on a regular basis. (2) The Group strictly controls the usage of fabrics and reduces scraps through production equipment upgrades, using a computer program to optimize cutting layouts and training workers. Scraps produced are collected by recyclers to be reused in other products.

Note 1: This assumes an average annual total working hours of the boiler is 2,200 hours.

Note 2: Total annual production cost of the Wuli Plant equals to total cost of sales for the core brand "LILANZ" less OEM procurement costs, subcontracting costs and sales tax surcharges.

Aspect A2: Use of Resources

The Group adheres to the "5S management system" and requires all employees to conserve water and electricity. Posters are put up in the office area and across the plants to enhance employees' awareness of energy saving and emission reduction. In respect of the use of electricity, both the Headquarters and the Wuli Plant have switched to LED lighting since late 2015. Security guards in the Wuli Plant check and make sure all production equipment and the lights in production workshops are powered off during lunch hour and after work. In respect of the use of coal, the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. In respect of water usage in production, water used in the boiler in the Wuli Plant is recycled through reflux line to improve water efficiency.

In respect of raw materials of products, the Group strictly controls the usage of raw materials based on the requirements of individual orders and reduces wastes through production equipment upgrades, using a computer program to optimize cutting layouts and training workers. As for the use of packaging materials, the Group avoids excessive packaging and maintains an appropriate balance between cost control, product protection and consumer demand. More environmental-friendly paper bags are used as shopping bags. Certain products are also individually packaged in plastic bags, non-woven bags or paper boxes for the protection against dirt, dust or damp.

The resources used in the Wuli Plant during the past two years are summarised as follows:

		For the year ended 31 December	
		2016	2015
Electricity	Consumption quantity	**2,181,000 units**	2,041,000 units
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**6.50 units/RMB'000**	6.13 units/RMB'000
Coal	Consumption quantity	**968.94 tonnes**	1,038.12 tonnes
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**2.89 KG/RMB'000**	3.12 KG/RMB'000
Water	Consumption quantity	**69,000 m^3**	43,000 m^3
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**0.21 m^3/RMB'000**	0.13 m^3/RMB'000
Packaging materials (note 2)	Purchases (weight)	**1,263.16 tonnes**	1,296.98 tonnes
	Intensity (based on the annual sales of the core brand "LILANZ")	**0.56 KG/RMB'000**	0.53 KG/RMB'000

Note 1: Total annual production cost of the Wuli Plant equals to total cost of sales for the core brand "LILANZ" less OEM procurement costs, subcontracting costs and sales tax surcharges.

Note 2: This includes paper shopping bags, and plastic bags and non-woven bags used for the individual packaging of certain products produced in the Wuli Plant. Packaging materials of individual products purchased from OEM suppliers are excluded.

The consumption of electricity, coal, and water in the Wuli Plant varies, depending on the types of products, nature of fabrics, production processes as well as weather and temperature. The intensity of the weight of packaging materials purchased, which is calculated based on the annual sales of the core brand "LILANZ", has increased. This was mainly due to a decrease in the average unit price of products and an increase in retail sales volume for the year.

The resources used by the Headquarters during the past two years are summarised as follows:

		For the year ended 31 December	
		2016	2015
Electricity	Consumption quantity	**4,922,000 units**	4,228,000 units
	Intensity (based on the annual sales of the core brand "LILANZ")	**2.20 units/RMB'000**	1.73 units/RMB'000
Water	Consumption quantity	**64,000 m^3**	43,000m^3
	Intensity (based on the annual sales of the core brand "LILANZ")	**0.03 m^3/RMB'000**	0.02 m^3/RMB'000

The Headquarters is mainly used for the core brand "LILANZ", and comprises office premises, a fabric testing centre, a workshop for samples and small production orders, a "LILANZ" flagship store, staff dormitories (including canteens, a coffee shop and a gym) and also the venue for the three trade fairs held every year. The electricity and water consumption varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery in the sample workshop (including the embroidery machine and fabric printing machines added in 2016). Starting from August 2016, the Group has installed separate electricity meters to measure the electricity consumption by the fabric testing centre and sample workshop to improve the management of electricity consumption.

According to the KPIs set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of resource utilization is summarized as follows:

KPIs		For the year ended 31 December 2016
A2.1	Electricity consumption and intensity (based on the total annual production cost of the Wuli Plant or the annual sales of the core brand "LILANZ")	7,103,000 units (2015: 6,269,000 units); intensity of 8.70 units/RMB'000 (2015: 7.86 units/RMB'000). The increase in intensity reflects the high single digit percentage increase in production volume and the electricity consumption of the newly acquired embroidery machine and printing machines in the sample workshop located in the Headquarters. In addition, the rise in temperature also increased electricity consumed by air conditioners. According to the statistics, the average temperature in 2016 was 0.81°C higher than that of a normal year nationwide.
	Coal consumption and intensity (based on the total annual production cost of the Wuli Plant)	968.94 tonnes (2015: 1,038.12 tonnes); intensity of 2.89 KG/RMB'000 (2015: 3.12 KG/RMB'000).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs		For the year ended 31 December 2016
A2.2	Water consumption and intensity (based on the total annual production cost of the Wuli Plant or the annual sales of the core brand "LILANZ")	133,000 m^3 (2015: 86,000 m^3); intensity of 0.24 m^3/RMB'000 (2015: 0.15m^3/RMB'000).
A2.3	Energy use efficiency initiatives and results achieved	The Group adheres to the "5S management system" and requires all employees to conserve water and electricity. Both the Headquarters and the Wuli Plant have switched to LED lighting since late 2015. Security guards in the Wuli Plant check and make sure all production equipment and lights in the production workshops are powered off during lunch hour and after work. In respect of the use of coal, the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. The consumption of coal and electricity in the Wuli Plant varies depending on the types of products, nature of fabrics, production processes as well as weather and temperature. The electricity consumption of the Headquarters varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery (including the embroidery machine and fabric printing machines added in 2016).
A2.4	Water efficiency enhancement initiatives and results achieved	Water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency. Staff have been reminded to conserve water.
A2.5	Total packaging materials used for finished products and intensity (based on the annual sales of the core brand "LILANZ")	1,263.16 tonnes (2015: 1,296.98 tonnes); intensity of 0.56 KG/RMB'000 (2015: 0.53 KG/RMB'000). The intensity of the weight of packaging materials purchased has increased, mainly due to a decrease in the average unit price of products and an increase in retail sales volume year-on-year.

Aspect A3: The Environment and Natural Resources

The Group's operating activities have no direct or significant impact on the environment and natural resources.

In respect of the control over the use of natural resources, water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency. In addition, the Group promotes a paperless office and reduces the use of paper by using ERP system, OA system and mobile phone applications.

In respect of the control over the materials used in products, the Wuli Plant has adopted the following measures to maximize the utilization rate of fabrics and reduce wastes:

1) Strictly adhere to the minimal usage of fabrics and optimize cutting layouts with a computer program, based on product designs and respective fabric-waste allowances;

2) Reduce fabric wastes by providing training to workers to enhance their skills and by introducing templates to improve sewing accuracy; and

3) Optimize production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added over the past two years to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out.

In addition, the Group has started using more environmental-friendly fabrics made from bamboo fiber for some of its products since 2015; however, this accounted for a relatively small proportion of the total sales volume, as the current market demand for this kind of product is low.

(B) SOCIAL

Aspect B1: Employment

As at 31 December 2016, the Group had 1,960 staff in total.

All human resources decisions of the Group are based on merits. The Group recruits talents from universities and technical schools to become management trainees every year, and ensures that all of its employees are assigned to appropriate roles, are treated fairly and are provided with development opportunities regardless of age or gender.

The Group also attaches great importance to employees' rights and benefits, and offers competitive remuneration packages to its employees based on factors such as market wage rates, responsibilities, job complexity as well as the Group's performance. Meanwhile, the Group is committed to paying all employees in full on a timely manner, while the contributions to social security funds for its employees are made according to local regulations. The Group has also adopted a share option scheme to recognize and reward the contribution of its employees to the growth and development of the Group. In addition, employees are entitled to maternity leave, marriage leave and other leaves, as well as the rights to apply for other casual leaves in accordance with the Labour Law of the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect B2: Health and Safety

The Group cares about the health, working environment and safety of its employees. The beautiful green areas at the Headquarters and the Wuli Plant offer a cosy working environment to the employees. The Wuli Plant has a basketball field and the Headquarters has a gym for its staff. In mid-2016, the Group organized a "Go Running for Health" event in the Eight Immortals Park in Jinjiang City, Fujian Province in which many directors and employees participated. The purpose of the event was to promote "down-to-earth and diligent spirit" through exercises.

Except for sewing machines, protective features are installed for all other electric or heat-generating manufacturing equipment in the Wuli Plant as well as those in the fabric testing centre and sample workshop at the Headquarters, in order to ensure the safe operation by the employees. For the year ended 31 December 2016, there were no severe injuries or fatalities of the employees of the Group.

Aspect B3: Staff Development and Training

The Group places great emphasis on staff training and provides its employees with pre-employment and on-the-job training and career development opportunities. The training programs cover areas such as production craftsmanship, research and development, customer services, quality control, trade fair planning, workplace ethics and other areas relevant to the industry. Since late 2015, in order to further enhance its design capabilities and craftsmanship, the Group has collaborated with Jiangnan University (江南大學), the Online and Continuing Education College of Fujian Normal University (福建師範大學網絡與繼續教育學院) and two professional education and training companies to provide a state-approved online distance education diploma program to over 100 staff members from its design department and craftsmanship department. The program would last for 2.5 to 5 years and all expenses would be covered by the Group.

The Group also provides annual training to the management team of its distributors, covering areas relevant to retail management, such as retail services, retail data management, market development and trade fair order-placing skills.

Aspect B4: Labour Standards

No one under the age of 16 is employed by the Group for any position.

Aspect B5: Supply Chain Management

As at 31 December 2016, the Group had over 300 OEM product suppliers, raw material suppliers and process sub-contracting suppliers, about 30 of which are located outside the PRC.

In selecting suppliers, the Group puts much emphasis on the legal compliance of their operations in addition to cost consideration. On-site visits are conducted before the commencement of business with suppliers, and followed by one or two such visits annually afterwards, so as to ensure that they have a stable workforce and there are no child labour issues. All major raw material suppliers are required to comply with the Environment Protection Law of the PRC and those with ISO14000 environmental management accreditation will be given the priority in the selection process. For the year ended 31 December 2016, suppliers with ISO14000 accreditation accounted for about 50% of the Group's total purchases of raw materials.

Aspect B6: Product Responsibility

Over the past few years, the Group adhered to the strategy of "improving product quality without raising the price" and spared no effort in improving product design, craftsmanship and materials, with the aim of raising the proportion of original designs, enhancing the value-for-money of its products and increasing the competitiveness of its products and brands.

For product materials, the Group operates a state-approved fabric testing centre equipped with advanced machines to run various tests on fabrics, including their chemical composition (such as methanol and azo), colour fastness to light and perspiration, pilling and abrasion resistance, degree of shrinkage, etc., in order to ensure the fabrics are in compliance with the Group's and also the national standards. All fabrics used in products, whether self-manufactured or OEM purchased or outsourced for processing, are required to pass those tests. In addition, the Group imposes stringent requirements on product quality control. All products must pass the quality control inspection of the Group before packaging for delivery, whether they are produced by the Wuli Plant, OEM suppliers or process sub-contractors.

In accordance with the requirements of the Trademark Law of the PRC, all products bear labels specifying details such as fiber content of the fabrics and its washing method, as well as the national and enterprise product execution standards being adopted. Advertising campaigns in relation to the brands and products are conducted in accordance with the requirements of the new Advertising Law of the PRC.

For the year ended 31 December 2016, the Group had not received any complaints from the regulatory body or consumers regarding product safety, nor had it recalled any product due to product safety or health issues.

Occasionally, the Group may find counterfeit products with LILANZ trademark available in the wholesale market or online. In the event that any such products are found, the Group will report it to relevant authorities.

The Group pays great attention to customer privacy. The information of its VIP customers in the database of retail distributors will only be used towards sales and promotion of the Group's products, and only relevant personnel of the Group and the relevant stores can access such information.

Aspect B7: Anti-corruption

The Group is committed to good corporate governance practices and strictly prohibits its employees from engaging in acts of corruption. A policy has been set up to deal with anti-corruption complaints in a view to prevent corruption, reduce operational risks and protect the legitimate interests of the Group. All complaints regarding alleged corruption cases can be reported through specific channels (including email, telephone or mail) either on a named basis or anonymously, which will then be investigated and handled by the legal department and internal audit department under the guidance of the vice chairman of the Group.

For the year ended 31 December 2016, the Group had not been involved in any litigation related to corruption, and there had been no complaints about the involvement of its employees in corruption cases.

Aspect B8: Community Investment

The Group cares about the need of the community and makes donations to educational associations or charitable organizations to the best of its ability every year. For the year ended 31 December 2016, donations totaling RMB6.2 million were made by the Group to charitable associations approved by the local government to support services for the elderly and schools.

The Group also encourages its staff to participate in charitable activities to help the poor and the needy in the society. For the year ended 31 December 2016, the Group organized its staff to take part in the following charitable events:

(1) A voluntary blood donation activity in Jinjiang City; and

(2) A charitable event organized by the government of the Jinjiang City. The Group has set up the "LILANZ Love Wall" in the Headquarters as a collection point for staff to donate used but 80%-new clothes and products to people in need. Positive response has been received from the staff.

CORPORATE GOVERNANCE REPORT

The Board is firmly committed to compliance of statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing transparency, accountability and integrity. Policies and practices on corporate governance are reviewed on a regular basis and as required to ensure that they remain appropriate and compliance with legal and regulatory requirements.

The Company complied with all code provisions, including new code provisions, of the revised Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2016.

(A) BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The Directors recognize their collective and individual responsibility to the shareholders and perform their duties diligently to achieve positive results for the Company and to maximize returns for shareholders.

The Board currently comprises six Executive Directors and three Independent Non-executive Directors:

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 43 to 47 in the Annual Report. A list of the Directors identifying their role and function and whether they are Independent Non-executive Directors are available on the Company's website.

The principal responsibilities of the Board include the formulation of the Group's business strategies and management objectives, supervision of the management and evaluation of the effectiveness of management strategies. Day-to-day management of the Group's businesses is delegated to the Executive Directors or senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

Matters reserved for the Board include those affecting the Group's overall strategies, budget and plans, publication of financial statements, dividend policy, appointment of members to the various Board Committees and major investments. The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties.

Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request. No such advice was sought during 2016.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. In 2016, no claims under the insurance policy were made.

Directors' Continuous Training and Professional Development

All Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2016 is as follows:

Directors	**Types of continuous professional development programmes**
Executive Directors	
Mr. Wang Dong Xing	A
Mr. Wang Liang Xing	A
Mr. Wang Cong Xing	C
Mr. Cai Rong Hua	A
Mr. Hu Cheng Chu	A
Mr. Pan Rong Bin	A
Independent Non-executive Directors	
Dr. Lu Hong Te	B
Mr. Nie Xing	A
Mr. Lai Shixian	A

Notes:

A: Attending courses/seminars on business management

B: Attending seminar on regulatory updates

C: Reading seminar materials on business management

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of and leadership for the Board and ensuring that good corporate governance practices and procedures are established. He is also responsible to ensure all Directors receive adequate information in a timely manner and are properly briefed on issues arising on board meetings.

The Chief Executive Officer, Mr. Wang Liang Xing, is responsible for managing the day-to-day operations of the Group's business.

The Company has kept these roles separated and distinctive as this ensures better checks and balances and hence better corporate governance.

Independence of Independent Non-executive Directors

The three Independent Non-executive Directors bring with them expertise in different areas. The role of the Independent Non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. The Independent Non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors.

Each Independent Non-executive Director has submitted annual confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the Independent Non-executive Directors are independent.

Board Committees

To cover particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. Each of the Committees is delegated by the Board with specific roles and responsibilities and reports to the Board on matters discussed and their findings. Their terms of reference are available on the Company's website.

All Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Lai Shixian. The Chairman of the Audit Committee is Mr. Nie Xing, whose expertise in financial planning and analysis, management, investment and corporate financing enables him to provide leadership for the Committee.

The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. These include reviewing the Group's interim and annual reports.

The Audit Committee had two meetings during the year ended 31 December 2016. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2015 and the interim report of the Group for the six months ended 30 June 2016, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

(ii) Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Executive Director, namely Mr. Lai Shixian, Mr. Nie Xing and Mr. Wang Cong Xing. Mr. Lai Shixian was appointed as the Chairman of the Remuneration Committee in place of Mr. Chen Tien Tui on 19 April 2016 as Mr. Chen retired as Independent Non-executive Director upon the conclusion of the 2016 annual general meeting.

The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy as well as the specific remuneration packages for the Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No director will take part in any discussion on his own remuneration.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board of Directors, market rates and factors such as each director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2016, the Remuneration Committee held one meeting to discuss and approve for recommendation to the Board the bonus (if any) for the year ended 31 December 2015 and salary adjustments (if any) for the year ended 31 December 2016 of Executive Directors and senior management.

Details of Directors' and senior management's remuneration are set out in notes 8 to 10 to the financial statements.

(iii) Nomination Committee

The Nomination Committee currently comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Dong Xing, Dr. Lu Hong Te and Mr. Nie Xing. Mr. Wang Dong Xing is the Chairman of the Nomination Committee. Mr. Nie Xing was appointed as a member of the Nomination Committee in place of Mr. Chen Tien Tui on 19 April 2016 as Mr. Chen retired as Independent Non-executive Director upon the conclusion of the 2016 annual general meeting.

The Company recognizes the benefits of having a Board that has a balance of experience, skills and diversity of perspectives appropriate to the requirements of the Company's businesses. The Board has adopted a Board Diversity Policy that appointment to the Board should be based on merit that compliments and expands the skills and experience of the Board as a whole, and after due regard to factors which include but not limited to gender, age, educational background, professional experience, skills and knowledge, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board. The Board shall review the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board.

The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and will at the appropriate time set measurable objectives for achieving diversity of the Board. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors.

During the year ended 31 December 2016, the Nomination Committee held one meeting. In the meeting, the Nomination Committee had assessed the independence of Independent Non-executive Directors, considered and recommended to the Board on the retirement by rotation and re-election of Directors at the 2016 annual general meeting. The Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs.

(iv) Risk Management Committee

The Risk Management Committee currently comprises three Executive Directors, namely Mr. Wang Dong Xing, Mr. Wang Cong Xing and Mr. Pan Rong Bin. Mr. Wang Dong Xing is the Chairman of the Risk Management Committee.

The principal responsibilities of the Risk Management Committee are to review the risks facing the Group and to oversee management in the design, implementation and monitoring of the risk management system.

During the year ended 31 December 2016, the Risk Management Committee held one meeting to discuss and assess the principal risks facing the Group and the related control measures to be taken. Key risk exposures of the Group identified are set out in the Management Discussion and Analysis on pages 8 to 21 of the Annual Report.

Board Proceedings

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

Meetings

The attendance of individual Directors at board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting, Risk Management Committee meeting and Annual General Meeting held during the year ended 31 December 2016 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Risk Management Committee Meeting	2016 Annual General Meeting
No. of meetings held during the year ended 31 December 2016	7	2	1	1	1	1
Executive Directors						
Mr. Wang Dong Xing	6	N/A	N/A	1	1	1
Mr. Wang Liang Xing	5	N/A	N/A	N/A	N/A	—
Mr. Wang Cong Xing	7	N/A	1	N/A	1	1
Mr. Cai Rong Hua	5	N/A	N/A	N/A	N/A	—
Mr. Hu Cheng Chu	3	N/A	N/A	N/A	N/A	—
Mr. Pan Rong Bin	4	N/A	N/A	N/A	1	—
Independent Non-executive Directors						
Dr. Lu Hong Te	4	2	N/A	1	N/A	1
Mr. Chen Tien Tui (retired on 19 April 2016)	1	N/A	1	1	N/A	—
Mr. Nie Xing	4	2	1	N/A	N/A	1
Mr. Lai Shixian	4	2	N/A	N/A	N/A	1

To supplement the formal Board meetings, the Chairman held regular gatherings with Directors to consider issues in an informal setting.

During the year, the Chairman had one meeting with the Independent Non-executive Directors without the Executive Directors present.

Appointment and Re-election of Directors

Each of the Executive Directors and Independent Non-executive Directors of the Company has entered into a service contract with the Company for a specific term subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Securities Dealing Code.

Company Secretary

Ms. Ko Yuk Lan, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the financial year, Ms. Ko has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Ms. Ko is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 43 to 47 in the Annual Report.

(B) FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Risk Management and Internal Controls

The Board recognizes its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and to ensure that the Group establishes and maintains effective risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

(i) Enterprise Risk Management ("ERM") Framework

The Company's ERM processes are summarized as follows:

The risk management systems are reviewed annually to ensure appropriateness and effectiveness.

Key risks exposures of the Group are summarized in the paragraph headed "Principal Risks and Uncertainties" in the Management Discussion and Analysis set out on pages 8 to 21 of this Annual Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(ii) Internal Controls

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage risks. Since mid-2016, a designated staff has been appointed to carry out internal control review on a day to day basis. The Group also continues to engage KPMG Advisory (China) Limited as internal control review advisor to assist in the review of the effectiveness of the internal control system. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic rotational basis based on the risk assessments of the operations and controls. The scope of review for the year had been determined and approved by the Audit Committee. No major issues but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited and has adopted an Inside Information Policy to ensure compliance of the Listing Rules. Prior to the announcement of any inside information, all Directors and senior management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Stock Exchange for a trading suspension of its shares.

External Auditor

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year, the fees payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB2,650,000. Fees payable to KPMG for non-audit services in respect of internal control review and tax advisory services for the year amounted to RMB395,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

(C) NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International Limited and Ming Lang Investments Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than the Group) to compete directly or indirectly with the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in the Group's favour on 4 September 2009.

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, the Company has adopted the following corporate governance measures:

(i) the Independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;

(ii) the Company will disclose any decisions on matters reviewed by the Independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through the annual report or by way of announcement;

(iii) the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and

(iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company's articles of association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders.

Each of the Controlling Shareholders has confirmed to the Company that he/it has complied with the non-compete undertaking during the year. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

(D) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

Investors Relations

The Company believes that effective communication with its shareholders and the investment community in a fair and timely basis is essential. Continuous dialogue is held with research analysts and institutional investors by means of roadshows, one on one meetings, conference calls and investors conferences to keep them abreast of the Group's business and development.

Shareholders' Rights

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong or via email to ir@lilanz.com.hk.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail 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 Directors shall be reimbursed to the requisitionist(s) by the Company.

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.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

The attendance record of the Directors at the annual general meeting held during the year is set out under the paragraph headed "Meetings" above.

During the financial year, there were no changes in any of the Company's constitutional documents.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 56, is the chairman and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for formulating operation direction, devising annual plan and financial budget and making recommendations on significant investments of the Group to the Board for approval. He completed a diploma programme for chief executive officers of enterprises (企業總裁高級研修班) from the Economics College of Peking University (北京大學經濟學院), an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a CEO to Lead the Future Programme (引領未來CEO課程) organized by the Shanghai Advanced Institute of Finance at Shanghai Jiao Tong University (上海交通大學上海高級金融學院). Mr. Wang has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is a member of the Fujian Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會), a representative of the Quanzhou Municipal People's Congress (泉州市人民代表大會) and standing vice chairman of the Jinjiang City Sewing and Apparel Association (晉江市紡織服裝協會). He is also vice chairman of the Jinjiang Committee of China Democratic National Construction Association (民主建國會晉江委員會), standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯(總商會)) and chairman of the Quanzhou APEC Business Travel Card Association (泉州市APEC(亞太經合組織)商務旅行卡協會).

Mr. Wang is the elder brother of Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are also executive Directors of the Company. He is the brother-in-law of Mr. Chen Wei Jin, a member of the senior management of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company.

Mr. Wang Liang Xing (王良星先生), aged 54, is the vice chairman, the chief executive officer and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. He has been with the Group since its establishment in April 1995 and is one of the founders of the Group. Mr. Wang is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for the corporate development of the Group and recommending the appointment of senior management to the Board. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), an EMBA programme organised by Xiamen University (廈門大學), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a Global CEO Programme (全球CEO課程) organized by China Europe International Business School (中歐國際工商學院). He has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is the vice-chairman and standing supervisor of the Enterprises Credit Management Association of Quanzhou City (泉州市企業合同信用管理協會第一屆理事會) and a supervisor of the Garment Association of the PRC (中國服裝協會). He was one of 50 persons honoured with a 2005 PRC Enterprises Trademark Award (2005中國企業商標50人) and was accredited as the "Brand China People of the Year 2010" (2010品牌中國年度人物).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Cong Xing, and the brother-in-law of Mr. Cai Rong Hua, who are also executive Directors of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Cong Xing (王聰星先生), aged 48, is the vice chairman and an executive Director of the Company. He was appointed as an executive Director on 2 January 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for finance and information technology management for the Group. He is also responsible for the internal management system of the Group and supervising the implementation of the annual, quarterly and monthly financial plans of the Group. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. He has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Liang Xing, who are also executive Directors of the Company. He is also a director and a shareholder of Ming Lang Investments Limited and Xiao Sheng International Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Cai Rong Hua (蔡榮華先生), aged 48, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for product research and development for the Group. He is also responsible for negotiating with the major suppliers of the Group. Mr. Cai completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) and an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院). He has over 15 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Cai is the brother-in-law of Mr. Wang Liang Xing, who is also an executive Director of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Hu Cheng Chu (胡誠初先生), aged 72, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for brand management and public relation for the Group. Mr. Hu completed part-time professional political engineering course and professional administrative management course from Fudan University in 1988 and 1989, respectively, and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院). He is currently the vice chairman of the Quanzhou Association of Professional Managers (泉州職業經理人協會) and a supervisor of the Association of China Brand Managers of the Brand China Industry Union (品牌中國產業聯盟之中國品牌經理人協會). Mr. Hu was accredited as the top 10 planner for corporate sales and marketing in the PRC for the year 2007 to 2008, and for the year 2009 to 2010 (2007-2008年及2009-2010年中國10大企業營銷策劃人), the top 10 brand manager in China for the year 2010 (2010中國十大品牌經理人), the China Great Wall outstanding advertising personage award for the year 2011 (2011年中國廣告主長城獎 — 人物獎之功勳獎), the excellent chief brand officer in China for the year 2013 (2013中國卓越首席品牌官), and the top 10 planner for brand marketing of China's enterprises (中國企業十大品牌營銷策劃人) in the 2015 award presentation ceremony of the "Summit of China's Influential Brands" (中國影響力品牌高峰論壇) and "CCTV — Outlook: Times Influence" (CCTV — 發現之旅時代影響力). He has been appointed as a lecturer on entrepreneurship (創業導師) by SUFE School of Entrepreneurship and Innovation (上海財經大學創業學院) for a 3-year period ending 15 July 2018.

Mr. Hu is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Pan Rong Bin (潘榮彬先生), aged 43, is an executive Director of the Company. He joined the Group in February 2003 and was appointed as an executive Director on 13 June 2008. Prior to acting as the general manager of the Group's core brand "LILANZ" since March 2011, Mr. Pan was responsible for the marketing and distribution operations of the Group's core brand "LILANZ".

Mr. Pan completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (福建省南平市人民代表大會). From 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (中國人民政治協商會議福建省建陽市委員會). He was honoured with the Award for the Model of Labour in Quanzhou City, Fujian Province (福建省泉州市勞動模範) in May 2006. He has over 15 years of management experience in the menswear industry in the PRC.

Mr. Pan is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Independent Non-executive Directors

Dr. Lu Hong Te (呂鴻德博士), aged 56, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Dr. Lu obtained a bachelor's degree in management from National Cheng Kung University in 1983 and a master's degree and a doctoral degree in business from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Dr. Lu is a professor at the department of business administration at Chung Yuan Christian University in Taiwan, specialising in marketing and sales management and corporate competitive strategies. He also serves as a visiting professor at several institutions, including SGP International Management Academy, Nanyang Technological University's EMBA Centre and Xiamen University's EMBA Centre.

Dr. Lu is an independent non-executive director of three companies in Taiwan, namely Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076), Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245) and Uni-President Enterprises Corporation (統一企業股份有限公司) (stock code: 1216), the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of three other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020) and China SCE Property Holdings Limited (中駿置業控股有限公司) (stock code: 1966), the shares of which are listed on the Stock Exchange. During the last three years, Dr. Lu was also an independent non-executive director of Aiptek International Inc. (台灣天瀚科技股份有限公司) (stock code: 6225), the shares of which are listed on the Taiwan Stock Exchange. He resigned as independent non-executive director of that company on 8 January 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Nie Xing (聶星先生), aged 52, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Mr. Nie is a graduate from Jiangxi University of Finance and Economics (江西財經學院) with a bachelor's degree in economics in 1986 and further obtained a master's degree in business administration from the Open University of Hong Kong (香港公開大學) in December 2000. Mr. Nie is also an independent non-executive director of Time2U International Holding Limited (時間由你國際控股有限公司) (stock code: 1327), the shares of which are listed on the Stock Exchange. Mr. Nie has substantial experience in financial planning and analysis, management, investment and corporate financing. He is currently the chairman of the Audit Committee.

Mr. Lai Shixian (賴世賢先生), aged 42, is an independent non-executive Director of the Company. He joined the Board on 13 December 2012. Mr. Lai is the chief operating officer, an executive director and a vice president of ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), the shares of which are listed on the Stock Exchange, and is primarily responsible for the supply chain and administrative management of that group of companies. Mr. Lai holds an EMBA degree from China Europe International Business School.

SENIOR MANAGEMENT

Ms. Ko Yuk Lan (高玉蘭女士), aged 55, is the chief financial officer and company secretary of the Company. She first joined the Group in January 2008 and worked with the Group until September 2008. She rejoined the Group in May 2010. Ms. Ko graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a Professional Diploma in Management Accountancy. She has over 25 years of experience in financial management and corporate finance. Prior to joining the Group, she had worked in an international accounting firm and other companies listed on the main board of the Stock Exchange. Ms. Ko is a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Cost and Management Accountants. She is currently an independent non-executive director of Hosa International Limited (浩沙國際有限公司) (stock code 2200), the shares of which are listed on the Stock Exchange.

Ms. Shi Mei Ya (施美芽女士), aged 40, is the head of the production management department of the Group's core brand "LILANZ". She completed a programme in fine chemical engineering at Fujian Radio and TV University (福建省廣播電視大學) in 1998 and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. She also completed a programme in project management and a master programme in business administration for senior managers (高級經理工商管理碩士課程) at Xiamen University (廈門大學). Ms. Shi joined the Group on 1 August 1998 and has been the head of production management department of the Group's core brand "LILANZ" since November 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Zhang Yu Feng (章宇峰先生), aged 46, is the head of group strategy development department of the Group. He graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor degree in professional trade and economics in 1992 and completed an EMBA core course from Cheung Kong Graduate School of Business (長江商學院) in 2006. From 1992 to 2007, he had worked in S. C. Johnson & Son, Inc. (美國莊臣父子公司) as sales representative and branch office manager, worked in Coty Inc. (法國科蒂化妝品集團) as regional manager and sales manager in China region, worked in Henkel AG (德國漢高公司) as National Trade Marketing Manager and National Sales Director, worked in Li Ning Company Limited (李寧有限公司) as department head targeting key clients and worked in Puma China (彪馬中國) as regional sales and marketing manager for the eastern, central and western China regions. He joined the Group on 27 August 2007 and was the head of the marketing in the sales and marketing department of the Group's core brand "LILANZ" prior to acting as the head of group strategy development department since January 2016.

Mr. Zhuang Zhi Han (莊志函先生), aged 47, is the deputy financial controller of the Group. He graduated from Faculty of Accountancy from East China Technology University (華東工業大學) with a bachelor's degree in Economics major in accounting in 1994. He obtained an EMBA degree from Xiamen University (廈門大學) in December 2012. Prior to joining the Group, he worked in Xiaxin Electronic Stock Company Limited (夏新電子股份有限公司), responsible for the overall financial affairs. He joined the Group on 1 September 2008.

Mr. Chen Wei Jin (陳維進先生), aged 47, is the head of the group ordering department of the Group. He graduated from Zhangzhou Normal University (漳州師範學院) with a professional diploma in administration in July 2000 and completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 1989 to 2004, he served as the general manager of Jinjiang Weixin Knitters Factory (晉江維信針織廠). From 1996 to 2004, he also worked in the Jinjiang branch office of the China Life Insurance Company Limited (中國人壽保險有限公司晉江支公司) as the general manager of the sales department, where he was recognised as Pioneer of Sales and Marketing (營銷標兵) from 1998 to 2000 and Outstanding Supervisor（優秀理事）for the year 2002. He joined the Group on 1 March 2004 as the manager of the group ordering department of the Group. Mr. Chen is the brother-in-law of Mr. Wang Dong Xing, an executive Director of the Company.

Mr. Huang Ming Hai (黃明海先生), aged 41, is the financial controller of the Group's core brand "LILANZ". He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), a programme in financial management at the Adult Education College of Huaqiao University (華僑大學成人教育學院), an advanced programme in financial leadership development (財務領袖高級研修班課程) at Commerce College of Huaqiao University (華僑大學商學院), and a distance-learning professional programme in accounting (成人高等教育會計學專業函授課程) at the Fujian Agriculture and Forestry University Continuing Education School (福建農林大學成人教育學院). He joined the Group on 24 April 1995.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and has its registered office at Suite 3402, 34/F., Lippo Centre, Tower One, 89 Queensway, Hong Kong. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 33 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 21 of this Annual Report. This discussion forms part of this directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	2016		2015	
	Percentage of the Group's total		Percentage of the Group's total	
	Sales	**Purchases**	Sales	Purchases
The largest customer	**7.5%**		7.7%	
Five largest customers in aggregate	**16.8%**		17.6%	
The largest supplier		**5.0%**		4.1%
Five largest suppliers in aggregate		**16.6%**		14.7%

At no time during the year have the Directors, their associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 112 of the Annual Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 63 to 111 of the Annual Report.

TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB539,864,000 (2015: RMB625,165,000) has been transferred to reserves. Other movements in reserves of the Group are set out in the consolidated statement of changes in equity.

An interim dividend of HK13 cents (2015: HK13 cents) per ordinary share and a special interim dividend of HK5 cents (2015: HK6 cents) per ordinary share were paid on 9 September 2016. The Directors now recommend the payment of a final dividend of HK16 cents (2015: HK17 cents) per ordinary share and a special final dividend of HK6 cents (2015: HK7 cents) per ordinary share in respect of the year ended 31 December 2016.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB6,236,000 (2015: RMB7,413,000).

NON-CURRENT ASSETS

Details of acquisitions and other movements of non-current assets (including property, plant and equipment, lease prepayments, investment property, intangible assets and deposits for purchases of property, plant and equipment and land use rights) are set out in notes 12 to 16 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 21 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25(a) to the consolidated financial statements. Shares were issued during the year on exercise of share options.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2016 and at any time up to the date of this Annual Report.

PRE-EMPTIVE RIGHTS

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

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

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

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Chen Tien Tui (retired on 19 April 2016)
Mr. Nie Xing
Mr. Lai Shixian

Details of the Directors' biographies have been set out on pages 43 to 47 of the Annual Report.

In accordance with article 105(A) of the Company's articles of association, Mr. Wang Liang Xing, Dr. Lu Hong Te and Mr. Nie Xing will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

During their tenure of office, Dr. Lu Hong Te and Mr. Nie Xing have performed as Independent Non-executive Directors to the satisfaction of the Board. The Board is of the opinion that Dr. Lu and Mr. Nie maintain their independence even if they have served the Board for nearly nine years, and believes that their valuable knowledge and experience continue to generate significant contribution to the Board, the Company and the shareholders as a whole.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Listing Rules:

Name of shareholder	Name of Group company/ Associated corporation	Capacity/Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.898%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	26,031,000 shares (L)	2.153%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.898%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%
Mr. Cai Rong Hua	The Company	Beneficial owner	9,010,000 shares (L)	0.745%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US$1.00 each (L)	8.247%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.372%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US$1.00 each (L)	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	2,830,000 shares (L)	0.234%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US$1.00 each (L)	3.093%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.

2. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

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

Save in connection with any share options to subscribe for the shares of the Company which may be granted to any of the Directors or chief executives under the Company's share option scheme as detailed in the paragraph headed "Share Option Scheme" in this report, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	**Capacity/Nature of interest**	**Number and class of securities** (Note 1)	**Approximate percentage of shareholding**
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	54.72%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.20%
Value Partners Group Limited	Interest in controlled corporation	74,386,000 share (L) (Note 4)	6.15%
Value Partners High-Dividend Stocks Fund	Beneficial owner	60,701,000 shares (L) (Note 4)	5.02%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company.

(2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

(3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Mr. Cai Rong Hua, 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

(4) Value Partners High-Dividend Stocks Fund is controlled by Value Partners Group Limited. Interest of Value Partners High-Dividend Stocks Fund were included in the interest of Value Partners Group Limited.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The related party transaction for the year as disclosed in note 30 to the consolidated financial statements also constituted continuing connected transaction under the Listing Rules, which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transaction (as defined under the Listing Rules) are set out below in accordance with the requirements of the Listing Rules:

Tenancy Agreement with Jinlang (Fujian) Investments Co., Ltd ("Jinlang Fujian")

Jinlang Fujian is wholly owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, three of the Executive Directors and controlling shareholders (within the meaning of the Listing Rules) of the Company. Jinlang Fujian is therefore a connected person of the Company under the Listing Rules.

The Group, as lessee, entered into a tenancy agreement with Jinlang Fujian, as landlord, on 19 December 2013 (the "Tenancy Agreement") in respect of the premises of the Company's headquarters at Lilang Industrial Park, 200 Chang Xing Road, Jinjiang City, Fujian Province (the "Premises") with aggregate gross floor area of approximately 27,757 sq.m. for a term commencing from 1 January 2014 to 31 December 2016. The monthly rent payable by the Group to Jinlang Fujian under the Tenancy Agreement was RMB260,000 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the Premises).

During the year ended 31 December 2016, total rental paid or payable by the Group under the Tenancy Agreement amounted to RMB3,120,000 which did not exceed the annual caps for this transaction.

The Group entered into a new tenancy agreement with Jinlang Fujian for the lease of the Premises on 19 December 2016, details of which were disclosed in the Company's announcement dated 19 December 2016.

REPORT OF THE DIRECTORS (CONTINUED)

Opinion from the Independent Non-executive Directors and auditor on the continuing connected transaction

The Directors (including all Independent Non-executive Directors) have reviewed the continuing connected transaction and confirmed that this transaction was entered into:

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

(2) on normal commercial terms or better; and

(3) according to the agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the paragraph headed "Continuing Connected Transaction" above and in note 30 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE

During the year, save as disclosed in note 30 to the consolidated financial statements and in the paragraph headed "Continuing Connected Transaction" in this report, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

COMPETING BUSINESS

Each of Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International and Ming Lang Investments (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 4 September 2009. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2016.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Company adopted a pre-initial public offering share option scheme on 12 September 2008 (the "Pre-IPO Share Option Scheme") and a share option scheme on 4 September 2009 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Pre-IPO Share Option Scheme

Under the Pre-IPO Share Option Scheme, the Company granted options to subscribe for an aggregate of 9,611,100 shares of the Company to its senior management and employees at a nominal consideration of HK$1.00 by each grantee on 4 September 2009. The exercise price was HK$3.12 per share, being 80% of the initial public offering price. There was no individual limit under the Pre-IPO Share Option Scheme. No further option could be granted under the Pre-IPO Share Option Scheme after 4 September 2009.

Options granted under the Pre-IPO Share Option Scheme had vesting periods of 1 to 5 years commencing from 25 September 2009, being the date of listing of the Company on the Main Board of the Stock Exchange.

Details of movements of the options during the year are set out below:

	Options granted by the Company Number of underlying shares		
Name or category of participants	**As at 1 January 2016**	**Exercised**	**As at 31 December 2016**
Employees	105,878	(105,878)	—

There were no outstanding options under the Pre-IPO Share Option Scheme as at 31 December 2016.

Share Option Scheme

Eligible participants of the Share Option Scheme include (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above.

Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 4 September 2009.

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

REPORT OF THE DIRECTORS (CONTINUED)

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

As at the end of reporting period and the date of the approval of this report, the total number of shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which have been or may be granted under the Share Option Scheme and any share option scheme of the Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares of the Company in issue as at 25 September 2009 (the Listing Date) and 9.93% of the shares of the Company in issue as at the end of reporting period and the date of approval of this report. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

On 29 November 2011 (the "Date of Offer"), the Company offered to grant options to subscribe for an aggregate of 1,130,000 shares of the Company to employees of the Group under the Share Option Scheme at an exercise price of HK$6.63 per share. The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK$6.01 and HK$6.63 respectively. The offers were accepted by the grantees within 21 days from the Date of Offer.

Details of movements of the options during the year are set out below:

	Options granted by the Company Number of underlying shares					
Name or category of participants	**As at 1 January 2016**	**Exercised**	**Lapsed**	**As at 31 December 2016**	**Exercise period**	**Exercise price**
Employees	630,000	–	(100,000)	530,000	Note	HK$6.63

Note: The outstanding options are exercisable by the grantee prior to the expiry of the exercise period on 29 November 2018, being the day falling seven years after the Date of Offer, failing which the options will lapse and no longer be exercisable.

The number of shares to be issued upon the exercise of the outstanding options under the Share Option Scheme was 530,000 (representing 0.04% of the issued share capital of the Company) as at 31 December 2016 and the date of approval of this report.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 26 to the consolidated financial statements.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Wang Dong Xing
Chairman

Hong Kong, 13 March 2017

INDEPENDENT AUDITOR'S REPORT

to the shareholders of China Lilang Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Lilang Limited ("the Company") and its subsidiaries ("the Group") set out on pages 63 to 111, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Revenue recognition: Sales to distributors	
Refer to note 3 to the consolidated financial statements and the accounting policies on page 76.	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue from distributors principally comprises revenue from sales of menswear goods, including tops, pants and accessories. Every year, the Group enters into a framework distribution agreement with each distributor and, in accordance with the terms of each agreement, menswear goods manufactured or sourced by the Group are delivered to the location designated by the distributor which is the point at which the risks and rewards of ownership of the menswear goods are considered to have been transferred to the distributor and the point at which revenue is recognised. The Group held a number of trade fairs during the year. A significant percentage of orders from distributors are secured during these trade fairs. We identified recognition of revenue from sales to distributors as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets.	Our audit procedures to assess the recognition of revenue from sales to distributors included the following: • inspecting agreements with distributors, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards; • comparing the Group's revenue from distributors with the orders recorded at the trade fairs held by the Group; • assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period in accordance with the terms of sale as set out in the distribution agreements; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate financial period in accordance with the requirements of the prevailing accounting standards; • inspecting a sample of manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Kai Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	3	**2,411,638**	2,689,093
Cost of sales		**(1,415,732)**	(1,546,244)
Gross profit		**995,906**	1,142,849
Other net income	4	**97,569**	54,309
Selling and distribution expenses		**(252,386)**	(285,671)
Administrative expenses		**(171,287)**	(109,506)
Other operating expenses		**(6,449)**	(7,838)
Profit from operations		**663,353**	794,143
Net finance income	5	**83,423**	69,441
Profit before taxation	6	**746,776**	863,584
Income tax	7(a)	**(206,912)**	(238,419)
Profit for the year		**539,864**	625,165
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		**(8,485)**	(10,012)
Total comprehensive income for the year		**531,379**	615,153
Earnings per share	11		
Basic (cents)		**44.66**	51.83
Diluted (cents)		**44.66**	51.77

The notes on pages 67 to 111 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**394,415**	276,774
Lease prepayments	13	**107,533**	101,145
Investment property	14	**25,145**	—
Intangible assets	15	**5,345**	4,033
Deposits for purchases of property, plant and equipment and land use rights	16	**485**	4,490
Deferred tax assets	23(b)	**20,423**	25,013
		553,346	411,455
Current assets			
Inventories	17	**294,385**	291,465
Trade and other receivables	18	**714,429**	807,149
Pledged bank deposits	19	**488,907**	1,053,852
Fixed deposits held at banks with maturity over three months	20(a)	**568,943**	30,000
Cash and cash equivalents	20(a)	**1,613,658**	2,161,712
		3,680,322	4,344,178
Current liabilities			
Bank loans	21	**493,528**	1,004,017
Trade and other payables	22	**514,057**	603,062
Current tax payable	23(a)	**165,253**	198,638
		1,172,838	1,805,717
Net current assets		**2,507,484**	2,538,461
Total assets less current liabilities		**3,060,830**	2,949,916
Non-current liabilities			
Deferred tax liabilities	23(b)	**46,868**	38,718
Retention payables		**2,400**	—
		49,268	38,718
Net assets		**3,011,562**	2,911,198
Capital and reserves			
Share capital	25(a)	**106,467**	106,458
Reserves		**2,905,095**	2,804,740
Total equity		**3,011,562**	2,911,198

Approved and authorised for issue by the board of directors on 13 March 2017

Mr. Wang Dong Xing	**Mr. Wang Liang Xing**	**Mr. Wang Cong Xing**
Chairman	*Chief Executive Officer*	*Executive Director*

The notes on pages 67 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	Share capital (note 25(a)) RMB'000	Share premium (note 25(d)(i)) RMB'000	Statutory reserve (note 25(d)(ii)) RMB'000	Capital reserve (note 25(d)(iii)) RMB'000	Exchange reserve (note 25(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2015		106,049	9,756	204,590	29,646	(22,827)	2,370,655	2,697,869
Changes in equity for 2015:								
Profit for the year		–	–	–	–	–	625,165	625,165
Other comprehensive income for the year		–	–	–	–	(10,012)	–	(10,012)
Total comprehensive income for the year		–	–	–	–	(10,012)	625,165	615,153
Shares issued under share option scheme	25(a)(i)	409	16,955	–	(4,611)	–	–	12,753
Equity settled share-based payments	25(d)(iii)	–	–	–	(1,260)	–	–	(1,260)
Dividends approved in respect of the previous year	25(c)	–	–	–	–	–	(222,346)	(222,346)
Dividends declared in respect of the current year	25(c)	–	–	–	–	–	(190,971)	(190,971)
Appropriation to statutory reserve		–	–	3,227	–	–	(3,227)	–
At 31 December 2015 and 1 January 2016		**106,458**	**26,711**	**207,817**	**23,775**	**(32,839)**	**2,579,276**	**2,911,198**
Changes in equity for 2016:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**539,864**	**539,864**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(8,485)**	**–**	**(8,485)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(8,485)**	**539,864**	**531,379**
Shares issued under share option scheme	25(a)(i)	**9**	**385**	**–**	**(97)**	**–**	**–**	**297**
Equity settled share-based payments	25(d)(iii)	**–**	**–**	**–**	**(223)**	**–**	**–**	**(223)**
Dividends approved in respect of the previous year	25(c)	**–**	**–**	**–**	**–**	**–**	**(243,683)**	**(243,683)**
Dividends declared in respect of the current year	25(c)	**–**	**–**	**–**	**–**	**–**	**(187,406)**	**(187,406)**
Appropriation to statutory reserve		**–**	**–**	**12,354**	**–**	**–**	**(12,354)**	**–**
At 31 December 2016		**106,467**	**27,096**	**220,171**	**23,455**	**(41,324)**	**2,675,697**	**3,011,562**

The notes on pages 67 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	20(b)	673,138	825,608
PRC corporate income tax paid		(210,452)	(136,257)
PRC dividend withholding tax paid		(17,105)	(20,643)
Net cash generated from operating activities		445,581	668,708
Investing activities			
Payments for purchases of property, plant and equipment		(132,237)	(32,252)
Payments for purchases of land use rights		(8,763)	(350)
Payments for purchases of intangible assets		(3,455)	(1,823)
Proceeds from disposal of property, plant and equipment		644	703
Interest income received		74,719	110,261
(Increase)/decrease in fixed deposits held at banks with maturity over three months		(538,943)	70,000
Decrease/(increase) in pledged bank deposits		573,852	(220,852)
Net cash used in investing activities		(34,183)	(74,313)
Financing activities			
Proceeds from bank loans		1,093,528	1,004,017
Repayment of bank loans		(1,604,017)	(854,590)
Proceeds from issue of shares under share option scheme	25(b)	297	12,753
Interest expense paid		(20,995)	(28,532)
Dividends paid	25(c)	(431,089)	(413,317)
Net cash used in financing activities		(962,276)	(279,669)
Net (decrease)/increase in cash and cash equivalents		(550,878)	314,726
Cash and cash equivalents at 1 January		2,161,712	1,845,179
Effect of foreign exchange rate changes		2,824	1,807
Cash and cash equivalents at 31 December	20(a)	1,613,658	2,161,712

The notes on pages 67 to 111 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at fair value as explained in note 1(v).

The preparation of these financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 31.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is expected, 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. When assessing whether the Group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)*(ii)*).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)*(ii)*).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

No depreciation is provided in respect of construction in progress.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

—	Leasehold improvements	shorter of 5 years or remaining term of the lease
—	Plant and machinery	10 years
—	Motor vehicles	5 years
—	Office equipment	5 years
—	Furniture and fixtures	5 years

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses (see note 1(i)*(ii)*).

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the shorter of the unexpired term of the lease and its estimated useful life, being no more than 40 years after the date of completion.

(f) Lease prepayments

Lease prepayments represent cost of acquiring land use rights paid to the PRC's governmental authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (see note 1(i)*(ii)*). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are 50 years.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)*(ii)*).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Computer software 5 years

Both the useful life and method of amortisation are reviewed annually.

(h) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;
— a breach of contract, such as a default or delinquency in interest or principal payments;
— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— Trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— construction in progress;
— investment property;
— lease prepayments;
— intangible assets; and
— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)*(i)*).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of returns and any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Unconditional discretionary government grants from the local municipal government authorities are recognised in the profit or loss as other net income on a cash receipt basis.

(s) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The functional currency of the Company and its subsidiaries outside mainland China is Hong Kong Dollars and the functional currency of the subsidiaries in mainland China is Renminbi.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies (Continued)

The results of operations outside mainland China are translated into Renminbi at the average exchange rates for the year which approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates ruling at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the year in which they are incurred.

(u) Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(v) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(w) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Related parties (Continued)

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in *(i)*.

(g) A person identified in *(i)*(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, manufacturing and wholesaling of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are manufacturing and wholesaling of branded menswear and related accessories in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes ("VAT").

During the years ended 31 December 2016 and 2015, there was no customer with whom transactions exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from customers are set out in note 28(a).

4 OTHER NET INCOME

	2016 RMB'000	2015 RMB'000
Government grants	95,766	53,685
Others	1,803	624
	97,569	54,309

Government grants of RMB95,766,000 (2015: RMB53,685,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

5 NET FINANCE INCOME

	2016 RMB'000	2015 RMB'000
Interest income	69,720	97,290
Net foreign exchange (loss)/gain	(5,362)	40,275
Change in fair value of forward foreign exchange contracts	39,713	(39,713)
Interest on bank borrowings	(20,648)	(28,411)
	83,423	69,441

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2016 RMB'000	2015 RMB'000
(a)	**Staff costs:**		
	Salaries, wages and other benefits	**152,301**	137,090
	Contributions to defined contribution retirement plans (note 26)	**4,431**	3,133
	Equity settled share-based payment expense reversal (note 27)	**(223)**	(1,260)
		156,509	138,963
(b)	**Other items:**		
	Amortisation of lease prepayments	**2,375**	1,786
	Amortisation of intangible assets	**2,143**	3,032
	Depreciation	**22,518**	24,888
	Auditor's remuneration	**2,650**	2,560
	Cost of inventories (note (i))	**1,415,732**	1,546,244
	Loss on disposal of property, plant and equipment	**963**	9,787
	Operating lease charges in respect of properties	**9,459**	8,700
	Research and development costs	**83,517**	91,383
	Subcontracting charges (note (ii))	**167,430**	182,634
	Provision for doubtful debts (note 18(b))	**70,571**	—
	Inventory write-down (note 17(b))	**—**	5,828

Notes:

(i) Cost of inventories sold includes inventory write-down, research and development costs, subcontracting charges, related staff costs, depreciation and operating lease rental in respect of properties totalling RMB299,802,000 (2015: RMB324,062,000) included in items disclosed above.

(ii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for PRC corporate income tax for the year	**179,956**	218,850
Under-provision/(over-provision) for PRC corporate income tax in respect of prior year	**6**	(719)
PRC dividend withholding tax (notes (iv) and 23(a))	**14,210**	49,426
	194,172	267,557
Deferred tax		
Origination of temporary differences (note 23(b))	**26,950**	20,288
Distribution of dividends (notes (iv) and 23(b))	**(14,210)**	(49,426)
	206,912	238,419

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision for Hong Kong Profits tax has been made as the Group did not have assessable profits subject to Hong Kong Profits tax for the years ended 31 December 2016 and 2015.

(iii) Taxation for the Group's PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries.

(iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

PRC dividend withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group's PRC subsidiaries during the year.

Origination of temporary difference included PRC dividend withholding tax of RMB22,360,000 provided for the year (2015: RMB21,875,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Profit before taxation	**746,776**	863,584
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**185,980**	219,098
Tax effect of non-deductible expenses	**22,921**	6,261
Tax effect of non-taxable income	**(7,649)**	(481)
Tax effect of tax concessions	**(16,706)**	(7,615)
Under-provision/(over-provision) in prior year	**6**	(719)
Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 23(b))	**22,360**	21,875
Actual tax expense	**206,912**	238,419

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2016 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	585	13	136	734
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Chen Tien Tui (retired on 19 April 2016)	60	—	—	—	60
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	660	4,875	65	136	5,736

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2015 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	585	13	123	721
Wang Ru Ping (resigned on 17 March 2015)	—	113	3	—	116
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Chen Tien Tui	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	800	4,988	68	123	5,979

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2015: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining one (2015: one) individual are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,392**	1,319
Discretionary bonuses	**406**	400
Contributions to retirement benefit schemes	**16**	15
	1,814	1,734

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

10 REMUNERATION OF SENIOR MANAGEMENT

Remuneration of senior management of the Group, including amounts paid to the highest paid employee other than directors as disclosed in note 9 is as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	2,655	2,619
Discretionary bonuses	842	914
Contributions to retirement benefit schemes	40	32
	3,537	3,565

Remunerations of the senior management of the Group are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000 (Nil to RMB900,000)	5	6
HK$1,000,001 to HK$1,500,000 (RMB900,001 to RMB1,349,000)	—	—
HK$1,500,001 to HK$2,000,000 (RMB1,349,001 to RMB1,799,000)	—	—
HK$2,000,001 to HK$2,500,000 (RMB1,799,001 to RMB2,249,000)	1	1

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of RMB539,864,000 (2015: RMB625,165,000) and the weighted average number of ordinary shares in issue of 1,208,804,000 (2015: 1,206,228,000).

Weighted average number of ordinary shares

	2016 '000	2015 '000
Issued ordinary shares at 1 January	**1,208,768**	1,203,944
Effect of share options exercised	**36**	2,284
Weighted average number of ordinary shares	**1,208,804**	1,206,228

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of RMB539,864,000 (2015: RMB625,165,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted)

	2016 '000	2015 '000
Weighted average number of ordinary shares	**1,208,804**	1,206,228
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**21**	1,353
Weighted average number of ordinary shares (diluted)	**1,208,825**	1,207,581

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2015	243,612	52,313	41,554	8,699	29,645	8,693	20,886	405,402
Additions	1,447	2,605	6,584	934	1,548	477	17,357	30,952
Transfer from construction in progress	205	8,146	–	–	16	18	(8,385)	–
Transfer to lease prepayments (note 13)	–	–	–	–	–	–	(2,962)	(2,962)
Disposals	–	(5,318)	(2,030)	(706)	(748)	(366)	(9,512)	(18,680)
Exchange adjustment	–	41	–	–	17	5	–	63
At 31 December 2015 and 1 January 2016	245,264	57,787	46,108	8,927	30,478	8,827	17,384	414,775
Additions	6	2,554	14,260	718	2,536	725	146,111	166,910
Transfer from construction in progress	–	2,460	227	–	–	–	(2,687)	–
Reclassify to investment property (note 14)	(30,350)	–	–	–	–	–	–	(30,350)
Disposals	–	(13,630)	(2,942)	(809)	(1,535)	(745)	–	(19,661)
Exchange adjustment	–	45	–	–	19	6	–	70
At 31 December 2016	214,920	49,216	57,653	8,836	31,498	8,813	160,808	531,744
Accumulated depreciation:								
At 1 January 2015	26,528	43,294	18,840	3,730	22,395	6,461	–	121,248
Charge for the year	5,996	8,834	4,478	842	3,422	1,316	–	24,888
Written back on disposals	–	(5,130)	(1,572)	(491)	(673)	(324)	–	(8,190)
Exchange adjustment	–	41	–	–	8	6	–	55
At 31 December 2015 and 1 January 2016	32,524	47,039	21,746	4,081	25,152	7,459	–	138,001
Charge for the year	5,521	5,513	5,979	859	2,847	1,079	–	21,798
Reclassify to investment property (note 14)	(4,485)	–	–	–	–	–	–	(4,485)
Written back on disposals	–	(13,092)	(2,375)	(448)	(1,440)	(699)	–	(18,054)
Exchange adjustment	–	45	–	–	18	6	–	69
At 31 December 2016	33,560	39,505	25,350	4,492	26,577	7,845	–	137,329
Net book value:								
At 31 December 2016	181,360	9,711	32,303	4,344	4,921	968	160,808	394,415
At 31 December 2015	212,740	10,748	24,362	4,846	5,326	1,368	17,384	276,774

(a) The Group's properties and buildings are located in the PRC under medium-term leases.

(b) Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the end of the respective reporting periods.

13 LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	108,803	40,848
Transfer from deposit for land use rights (note 16)	350	64,993
Transfer from property, plant and equipment (note 12)	—	2,962
Additions	8,413	—
At 31 December	117,566	108,803
Accumulated amortisation:		
At 1 January	7,658	5,872
Charge for the year	2,375	1,786
At 31 December	10,033	7,658
Net book value:		
At 31 December	107,533	101,145

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2016, the remaining periods of the land use rights range from 39 to 45 years.

The deposit of RMB64,993,000 and related tax payment of RMB2,962,000 made in prior years for the purchase of the land use rights for 50 years on a piece of leasehold land located in Jinjiang, Fujian Province, the PRC for the construction of the new headquarters were transferred to lease prepayments upon the issue of the land use rights certificate to the Group in 2015.

The amount transferred from deposit for land use rights and the additions for the year related to three small pieces of land adjacent to the new headquarters under construction.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

14 INVESTMENT PROPERTY

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	—	—
Reclassify from property, plant and equipment (note 12)	30,350	—
At 31 December	30,350	—
Accumulated depreciation:		
At 1 January	—	—
Reclassify from property, plant and equipment (note 12)	4,485	—
Charge for the year	720	—
At 31 December	5,205	—
Net book value:		
At 31 December	25,145	—

Investment property is located in the PRC under a medium-term lease and represents a retail outlet that is leased to a distributor for the operation as a "LILANZ" store. As at 31 December 2016, the fair value of the investment property as determined by the directors of the Company by reference to the market price of similar property in the area amounted to RMB69,000,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

15 INTANGIBLE ASSETS

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	17,461	15,638
Additions	3,455	1,823
At 31 December	20,916	17,461
Accumulated amortisation:		
At 1 January	13,428	10,396
Charge for the year	2,143	3,032
At 31 December	15,571	13,428
Net book value:		
At 31 December	5,345	4,033

Intangible assets represent the enterprise resource planning and information technology system software.

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

16 DEPOSITS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Deposits for land use rights (note 13)	—	350
Others	485	4,140
	485	4,490

The deposit for land use rights of RMB350,000 as at 31 December 2015 related to two small pieces of land adjacent to the new headquarters under construction and was transferred to lease prepayments upon the issue of the land use rights certificate to the Group during the year. The total consideration for the land use rights amounted to RMB1,443,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Raw materials	73,755	86,959
Work-in-progress	36,227	5,471
Finished goods	184,403	199,035
	294,385	291,465

As at 31 December 2016, raw materials included materials totalling RMB63,027,000 (2015: RMB64,159,000) held by sub-contractors.

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	1,415,732	1,540,416
Inventory write-down	—	5,828
	1,415,732	1,546,244

18 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	745,864	766,869
Less: Provision for doubtful debts	(80,700)	(10,129)
	665,164	756,740
Bills receivables	2,500	—
Trade and bills receivables (notes (a) and (b))	667,664	756,740
Prepayments to suppliers	10,549	13,279
Prepaid advertising expenses	4,701	4,727
VAT deductible	12,247	3,911
Other deposits, prepayments and receivables	19,268	28,492
	714,429	807,149

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

An ageing analysis of the trade and bills receivables, based on the invoice date and net of provision for doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**532,211**	633,187
Over 3 months but within 6 months	**111,995**	122,697
Over 6 months but within 1 year	**23,458**	856
	667,664	756,740

Trade receivables are due within 90-240 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(i)*(i)*).

The movement in the provision for doubtful debts during the year is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**10,129**	10,129
Provision for the year	**70,571**	—
At 31 December	**80,700**	10,129

At 31 December 2016, the Group's trade receivables of RMB207,891,000 were individually determined to be impaired. The Group has assessed the recoverability of the receivables past due and established a provision of doubtful debts. Consequently, specific provision for doubtful debts of RMB80,700,000 was recognised. The remaining balance of the trade and bills receivables are neither individually nor collectively considered to be impaired and are neither past due nor impaired. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 PLEDGED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Amounts pledged as security for bank loans (note 21)	**480,000**	1,053,852
Amounts pledged as security for bills payable (note 22)	**8,907**	—
	488,907	1,053,852

The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

20 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS

(a) Cash and cash equivalents and fixed deposits held at banks comprise:

	2016 RMB'000	2015 RMB'000
Fixed deposits with banks within three months to maturity when placed	**—**	30,000
Cash at bank and in hand	**1,613,658**	2,131,712
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**1,613,658**	2,161,712
Fixed deposits with banks with more than three months to maturity when placed	**568,943**	30,000
	2,182,601	2,191,712

At 31 December 2016, cash and cash equivalents and fixed deposits with banks in the mainland China amounted to RMB2,130,871,000 (2015: RMB2,156,648,000). Remittance of funds out of the mainland China is subject to exchange restrictions imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**746,776**	863,584
Adjustments for:			
— Depreciation	6(b)	**22,518**	24,888
— Amortisation of lease prepayments	6(b)	**2,375**	1,786
— Amortisation of intangible assets	6(b)	**2,143**	3,032
— Equity settled share-based payment expense reversal	6(a)	**(223)**	(1,260)
— Loss on disposal of property, plant and equipment	6(b)	**963**	9,787
— Interest on bank borrowings	5	**20,648**	28,411
— Interest income	5	**(69,720)**	(97,290)
— Unrealised foreign exchange gain		**(11,310)**	(11,827)
Changes in working capital:			
— Increase in inventories		**(2,920)**	(42,620)
— Decrease/(increase) in trade and other receivables		**87,721**	(150,619)
— (Increase)/decrease in pledged bank deposits		**(8,907)**	13,131
— (Decrease)/increase in trade and other payables		**(116,926)**	184,605
Cash generated from operations		**673,138**	825,608

21 BANK LOANS AND FACILITIES

As at 31 December 2016 and 2015, bank loans were secured by pledged bank deposits (also see note 19) and were repayable within one year or on demand.

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2016 RMB'000	2015 RMB'000
Facility amount	**1,694,780**	2,369,000
Utilised facility amount in respect of:		
— Bank loans	**493,528**	1,004,017
— Bills payable (note 22)	**29,690**	—

22 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**314,022**	342,660
Bills payable	**29,690**	—
Trade and bills payables	**343,712**	342,660
Receipts in advance	**22,087**	35,392
Accrued salaries and wages	**29,864**	23,624
Payables for purchase of property, plant and equipment	**39,502**	8,834
Retirement benefit contribution payable	**25,629**	25,675
VAT payables	**8,318**	19,133
Derivative financial instruments	**—**	39,713
Other payables and accruals	**44,945**	108,031
	514,057	603,062

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Bills payable as at 31 December 2016 were secured by pledged bank deposits as disclosed in note 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

22 TRADE AND OTHER PAYABLES (CONTINUED)

An ageing analysis of trade and bills payables based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**296,914**	315,113
Over 3 months but within 6 months	**26,201**	15,329
Over 6 months but within 1 year	**1,750**	4,112
Over 1 year	**18,847**	8,106
	343,712	342,660

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	2016 RMB'000	2015 RMB'000
At 1 January	**198,638**	87,981
Provision for PRC corporate income tax	**179,962**	218,131
PRC dividend withholding tax for the year	**14,210**	49,426
	392,810	355,538
PRC corporate income tax paid	**(210,452)**	(136,257)
PRC dividend withholding tax paid	**(17,105)**	(20,643)
At 31 December	**165,253**	198,638

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax assets/(liabilities) arising from			
	Accrued expenses and others RMB'000	Impairment on inventories and trade receivables RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2015	11,425	12,001	(66,269)	(42,843)
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income (note 7(a))	130	1,457	(21,875)	(20,288)
Released upon distribution of dividends (note 7(a))	—	—	49,426	49,426
At 31 December 2015 and 1 January 2016	**11,555**	**13,458**	**(38,718)**	**(13,705)**
Charged to consolidated statement of profit or loss and other comprehensive income (note 7(a))	**(4,346)**	**(244)**	**(22,360)**	**(26,950)**
Released upon distribution of dividends (note 7(a))	**—**	**—**	**14,210**	**14,210**
At 31 December 2016	**7,209**	**13,214**	**(46,868)**	**(26,445)**

Reconciliation to the consolidated statement of financial position:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	**20,423**	25,013
Deferred tax liabilities	**(46,868)**	(38,718)
	(26,445)	(13,705)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax liabilities not recognised

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 31 December 2016, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB1,486,127,000 (2015: RMB1,335,876,000) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that those profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities not provided for as at 31 December 2016 and 2015.

24 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in subsidiaries		**142,985**	139,505
Current assets			
Amount due from a subsidiary		**153,825**	325,516
Prepayments and other receivables		**222**	42
Cash and cash equivalents		**2,682**	2,243
		156,729	327,801
Current liabilities			
Amount due to a subsidiary		**2,283**	2,237
Other payables and accruals		**83**	88
		2,366	2,325
Net current assets		**154,363**	325,476
Net assets		**297,348**	464,981
Capital and reserves	25(b)		
Share capital	25(a)	**106,467**	106,458
Reserves		**190,881**	358,523
Total equity		**297,348**	464,981

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2016 HK$'000	2015 HK$'000
Authorised:		
100,000,000,000 shares of HK$0.10 each	**10,000,000**	10,000,000

Movements in the Company's issued share capital are as follows:

	Note	Number of shares '000	Nominal value of ordinary shares HK$'000	 RMB'000
Issued and fully paid:				
At 1 January 2015		1,203,944	120,394	106,049
Issues of shares on exercise of share options	(i)	4,824	483	409
At 31 December 2015 and 1 January 2016		**1,208,768**	**120,877**	**106,458**
Issues of shares on exercise of share options	(i)	**106**	**10**	**9**
At 31 December 2016		**1,208,874**	**120,887**	**106,467**

(i) Issues of shares on exercise of share options

During the year, pursuant to the Company's Pre-IPO Share Option Scheme (note 27), options were exercised to subscribe for 105,878 ordinary shares (2015: 4,823,976 ordinary shares) in the Company at a consideration of RMB297,000 (2015: RMB12,753,000) of which RMB9,000 (2015: RMB409,000) was credited to share capital and the balance of RMB288,000 (2015: RMB12,344,000) was credited to the share premium account. RMB97,000 (2015: RMB4,611,000) has also been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 1(o)*(ii)*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital (note 25(a)) RMB'000	Share premium (note 25(d)(i)) RMB'000	Capital reserve (note 25(d)(iii)) RMB'000	Exchange reserve (note 25(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2015		106,049	9,756	7,466	(53,571)	56,195	125,895
Changes in equity for 2015:							
Shares issued under share option scheme	25(a)(i)	409	16,955	(4,611)	–	–	12,753
Equity settled share-based payments	25(d)(iii)	–	–	(1,260)	–	–	(1,260)
Dividends approved in respect of the previous year	25(c)	–	–	–	–	(222,346)	(222,346)
Dividends declared in respect of the current year	25(c)	–	–	–	–	(190,971)	(190,971)
Total comprehensive income for the year		–	–	–	13,000	727,910	740,910
At 31 December 2015 and 1 January 2016		**106,458**	**26,711**	**1,595**	**(40,571)**	**370,788**	**464,981**
Changes in equity for 2016:							
Shares issued under share option scheme	25(a)(i)	**9**	**385**	**(97)**	**–**	**–**	**297**
Equity settled share-based payments	25(d)(iii)	**–**	**–**	**(223)**	**–**	**–**	**(223)**
Dividends approved in respect of the previous year	25(c)	**–**	**–**	**–**	**–**	**(243,683)**	**(243,683)**
Dividends declared in respect of the current year	25(c)	**–**	**–**	**–**	**–**	**(187,406)**	**(187,406)**
Total comprehensive income for the year		**–**	**–**	**–**	**9,887**	**253,495**	**263,382**
At 31 December 2016		**106,467**	**27,096**	**1,275**	**(30,684)**	**193,194**	**297,348**

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2016 RMB'000	2015 RMB'000
Interim dividend declared and paid of HK13 cents (2015: HK13 cents) per share	**135,349**	130,664
Special interim dividend declared and paid of HK5 cents (2015: HK6 cents) per share	**52,057**	60,307
Final dividend proposed after the end of the reporting period of HK16 cents (2015: HK17 cents) per share	**174,001**	172,609
Special final dividend proposed after the end of the reporting period of HK6 cents (2015: HK7 cents) per share	**65,250**	71,074
	426,657	434,654

The final dividend and special final dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year of HK17 cents (2015: HK17 cents) per share	**172,609**	164,343
Special final dividend in respect of the previous financial year of HK7 cents (2015: HK6 cents) per share	**71,074**	58,003
	243,683	222,346

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase paid-in capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iii) Capital reserve

The capital reserve comprises the following:

(i) Fair value of design consultancy services contributed by the then shareholders and fair rental value of properties owned by the then shareholders but occupied by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange amounting to RMB1,143,000.

(ii) Capitalisation of a loan from then shareholders amounting to RMB139,422,000 in 2008.

(iii) The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(o)*(ii)*.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 1(s).

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$208,050,000 (2015: HK$420,309,000).

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 20% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has two share option schemes namely, the Pre-IPO Employee Share Option Scheme (the "Pre-IPO Share Option Scheme") and the Share Option Scheme, which were adopted on 12 September 2008 and 4 September 2009 respectively.

(a) Pre-IPO Share Option Scheme

On 4 September 2009, the Company granted options to subscribe for an aggregate of 9,611,100 shares of the Company to its senior management and employees under the Pre-IPO Share Option Scheme at an exercise price of HK$3.12, being 80% of the initial public offering price. No further option could be granted under the Pre-IPO Share Option Scheme after 4 September 2009. Options granted had vesting periods of 1 to 5 years commencing from 25 September 2009, being the date of the listing of the Company on the Main Board of the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Pre-IPO Share Option Scheme (Continued)

The number of share options are as follows:

	2016	2015
Outstanding at 1 January	**105,878**	4,948,383
Exercised during the year	**(105,878)**	(4,823,976)
Lapsed during the year	**—**	(18,529)
Outstanding at 31 December	**—**	105,878
Exercisable at 31 December	**—**	105,878

The weighted average closing price immediately before the date on which share options were exercised during the year was HK$4.66 (2015: HK$7.06).

There were no outstanding options under the Pre-IPO Share Option Scheme as at 31 December 2016.

(b) Share Option Scheme

Pursuant to the Share Option Scheme, the directors of the Company may invite, at their discretion, eligible participants, including employees and directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 120,000,000 shares.

On 29 November 2011 (the "Date of Offer"), options were offered by the Company, which were accepted by the employees in December 2011, to subscribe for 1,130,000 shares of the Company under the Share Option Scheme at an exercise price of HK$6.63. The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK$6.01 and HK$6.63 respectively. The options have vesting periods of 1 year to 5 years commencing from the Date of Offer and have a contractual life of 7 years.

The number of share options are as follows:

	2016	2015
Outstanding at 1 January	**630,000**	1,130,000
Lapsed during the year	**(100,000)**	(500,000)
Outstanding at 31 December	**530,000**	630,000
Exercisable at 31 December	**530,000**	590,000

The share options outstanding at 31 December 2016 had an exercise price of HK$6.63 (2015: HK$6.63) and a weighted average remaining contractual life of 1.9 years.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 to 240 days from the date of billing. The Group will also obtain deposits from customers prior to delivery of goods when credit limits granted are temporarily exceeded.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 8.9% (2015: 4.6%) and 13.1% (2015: 10.0%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

At 31 December 2016, the Group had endorsed bank acceptance bills to its suppliers totalling RMB202,100,000 (2015: RMB289,450,000), which were derecognised as financial assets. The transferees have recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. Because these bank acceptance bills mature within six months from issue, the Group's maximum loss in case of default is RMB202,100,000 (2015: RMB289,450,000) before these bills mature by 30 June 2017.

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash requirements. The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables present the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay.

	2016		2015	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount at 31 Dec RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount at 31 Dec RMB'000
Bank loans	**498,125**	**493,528**	1,020,458	1,004,017
Trade and other payables	**514,057**	**514,057**	603,062	603,062
	1,012,182	**1,007,585**	1,623,520	1,607,079

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. The Group's interest rate profiles as monitored by management is set out in *(i)* below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest bearing financial liabilities at the end of the reporting period:

	2016		2015	
	Effective interest rate	Amount RMB'000	Effective interest rate	Amount RMB'000
Fixed rate instruments:				
Bank loans	–	–	4.52%	384,018
Variable rate instruments:				
Bank loans	1.54%	493,528	3.30%	619,999
		493,528		1,004,017

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in bank loans interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB4,935,000 (2015: RMB6,200,000). Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would arise assuming that there is an annualised impact on interest expense by a change in interest rates. The analysis has been performed on the same basis in 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through contractual obligations, bank deposits, pledged bank deposits and bank loans that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong Dollars and Renminbi.

The Group actively monitors foreign exchange rate fluctuations to ensure that its net exposure is kept to an acceptable level.

(i) Exposure to currency risk

The following table details the Group's major exposure as at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in currencies other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of operations outside Mainland China into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi)			
	2016		2015	
	Hong Kong Dollars RMB'000	**Renminbi RMB'000**	Hong Kong Dollars RMB'000	Renminbi RMB'000
Pledged bank deposits	**—**	**480,000**	650,194	—
Bank deposits	**518,943**	**—**	—	—
Bank loans	**—**	**—**	—	(763,999)
Inter-company payables	**(510,407)**	**(648,629)**	—	—
Gross exposure to currency risk	**8,536**	**(168,629)**	650,194	(763,999)
Notional amount of forward foreign exchange contracts	**—**	**—**	(632,357)	770,157
Net exposure to currency risk	**8,536**	**(168,629)**	17,837	6,158

As at 31 December 2015, forward foreign exchange contracts were employed to cover the currency risks of the above non-functional currency denominated pledged bank deposits and bank loans of the related entity.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous changes in the Group's profit after taxation (and retained profits) that would arise if the foreign exchange rates to which the Group has significant exposure as at the end of the reporting period had changed, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates in %	**Effect on profit after taxation and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after taxation and retained profits RMB'000
Hong Kong Dollars	**1**	**67**	1	(1,447)
	(1)	**(67)**	(1)	1,447
Renminbi	**1**	**(1,686)**	1	(314)
	(1)	**1,686**	(1)	314

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's profit after taxation (and retained profits) measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling as at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Mainland China into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment, land use rights and computer system and software outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	107,436	30,415
Authorised but not contracted for	364,937	490,188
	472,373	520,603

(b) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within one year	1,606	1,872

During the years ended 31 December 2016 and 2015, the Group entered into lease agreements for properties in Hong Kong and mainland China. The leases typically run for an initial period of one to five years, certain leases could be terminated by one to three months written notice during the term, and with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTION

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transaction.

On 19 December 2013, the Group entered into a three year lease in respect of certain leasehold properties with Jinlang (Fujian) Investments Co., Ltd. which is wholly owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, three of the executive directors and controlling shareholders of the Company. During the year ended 31 December 2016, total rental paid or payable by the Group under the tenancy agreement amounted to RMB3,120,000 (2015: RMB3,120,000).

The above related party transaction constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transaction" of the Report of the Directors.

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Intangible assets except for those with indefinite lives are amortised on straight line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any, based on the Group's experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

(b) Impairments

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's net asset value.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the net profit in the year and in future years.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Net realisable value of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

(f) Bank acceptance bills

As set out in note 28(a)*(i)*, the Group considers that the credit risk associated with bank acceptance bills issued by major banks in the PRC to be insignificant. The Group monitors the credit risk of issuing banks. The judgement to derecognise bank acceptance bills upon discounting or endorsement is reviewed when the credit risk of issuing banks deteriorates significantly.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements.

These include the following which may be relevant to the Group:

		Effective for accounting periods beginning on or after
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results and financial position.

(Expressed in Renminbi)

33 SUBSIDIARIES

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and operation	Particular of issued and fully paid-up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Lilang Holdings Limited	BVI	US$20,000	100%	100%	–	Investment holding
Lilang (Hong Kong) International Co., Limited	Hong Kong	HK$20,000	100%	–	100%	Trading, investment holding and provision of management services
Lilang (Fujian) Garment Co., Ltd.	The PRC	HK$20,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (China) Co., Ltd. (note b)	The PRC	HK$303,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Xiamen) Garment Co., Ltd.	The PRC	US$30,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Shanghai) Co., Ltd.	The PRC	HK$120,000,000	100%	–	100%	Wholesaling of menswear and accessories
Lilang (Jiangxi) Garment Co., Ltd.	The PRC	HK$10,000,000	100%	–	100%	Wholesaling of menswear and accessories
Xizang Lilang Garment Co., Ltd. ("Xizang Lilang") (note c)	The PRC	RMBNil	100%	–	100%	Wholesaling of menswear and accessories
Xizang Ling Shang Garment Co., Ltd. ("Xizang Ling Shang") (note d)	The PRC	HK$Nil	100%	–	100%	Wholesaling of menswear and accessories

Notes:

(a) Except Xizang Lilang, all entities established in the PRC are wholly foreign owned enterprises. Xizang Lilang is a limited liability company established in the PRC.

(b) The registered capital of Lilang (China) Co., Ltd. was increased to HK$315,000,000 in 2015 and the remaining amount of HK$12,000,000 is required to be contributed on or before 30 June 2017.

(c) The registered capital of Xizang Lilang is RMB20,000,000 which was yet to be contributed by the Group at 31 December 2016. There is no particular requirement on the timing of the contribution.

(d) The registered capital of Xizang Ling Shang is HK$50,000,000 which was yet to be contributed by the Group at 31 December 2016. There is no particular requirement on the timing of the contribution.

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate and ultimate controlling party of the Group to be Xiao Sheng International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

FIVE YEARS SUMMARY

(Expressed in Renminbi)

	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016 RMB'000**
Revenue	2,793,370	2,298,634	2,432,956	2,689,093	**2,411,638**
Profit from operations	709,398	581,977	680,760	794,143	**663,353**
Net finance income	57,399	63,928	85,912	69,441	**83,423**
Profit before taxation	766,797	645,905	766,672	863,584	**746,776**
Income tax	(140,000)	(129,815)	(211,764)	(238,419)	**(206,912)**
PROFIT FOR THE YEAR	626,797	516,090	554,908	625,165	**539,864**
Earnings per share					
Basic (cents)	52.20	42.97	46.17	51.83	**44.66**
Diluted (cents)	52.04	42.88	46.06	51.77	**44.66**
Assets and liabilities					
Non-current assets	774,687	583,741	414,014	411,455	**553,346**
Net current assets	1,970,422	2,138,121	2,350,124	2,538,461	**2,507,484**
Total assets less current liabilities	2,745,109	2,721,862	2,764,138	2,949,916	**3,060,830**
Non-current liabilities	363,103	208,379	66,269	38,718	**49,268**
NET ASSET	2,382,006	2,513,483	2,697,869	2,911,198	**3,011,562**
Capital and reserves					
Share capital	105,801	105,826	106,049	106,458	**106,467**
Reserves	2,276,205	2,407,657	2,591,820	2,804,740	**2,905,095**
TOTAL EQUITY	2,382,006	2,513,483	2,697,869	2,911,198	**3,011,562**