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hosa
HOSA INTERNATIONAL LIMITED

浩沙國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02200)

2016 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board (the “**Board**”) of directors (“**Directors**”) of Hosa International Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015. These results have been reviewed by the Company’s audit committee (the “**Audit Committee**”), comprising three independent non-executive Directors, namely, Ms. Ko Yuk Lan, Mr. Yao Ge and Mr. He Wenyi. Ms. Ko Yuk Lan is the chairwoman of the Audit Committee.

HIGHLIGHTS

- Revenue and gross profit for the year ended 31 December 2016 were RMB1,103.5 million and RMB567.3 million, respectively, representing a decrease of 6.3% and 6.2%, respectively.
- Gross profit margin for the year ended 31 December 2016 was 51.4% (2015: 51.3%).
- Total profit attributable to equity shareholders of the Company for the year ended 31 December 2016 was RMB268.8 million, representing an increase of 0.6%.
- Basic earnings per share for the year ended 31 December 2016 was RMB16 cents per share.
- The Board proposed to declare a final dividend of HK2.3 cents (equivalent to approximately RMB2.1 cents) per share for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

| | <i>Note</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|-------------|-------------------------------|------------------------|
| Revenue | 3 | 1,103,540 | 1,178,001 |
| Cost of sales | 3 | <u>(536,213)</u> | <u>(573,413)</u> |
| Gross profit | | 567,327 | 604,588 |
| Other revenue | 4 | 57,850 | 61,830 |
| Other net income/(loss) | 4 | 1,193 | (526) |
| Selling and distribution expenses | | (185,689) | (206,770) |
| Administrative and other operating expenses | | <u>(109,198)</u> | <u>(119,228)</u> |
| Profit from operations | | 331,483 | 339,894 |
| Finance costs | 5(a) | <u>(4,307)</u> | <u>(1,002)</u> |
| Profit before taxation | | 327,176 | 338,892 |
| Income tax | 6 | <u>(58,339)</u> | <u>(71,617)</u> |
| Profit for the year attributable to equity shareholders of the Company | | 268,837 | 267,275 |
| Other comprehensive income for the year | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside the mainland China | | <u>(14,319)</u> | <u>(2,433)</u> |
| Total comprehensive income for the year attributable to equity shareholders of the Company | | <u>254,518</u> | <u>264,842</u> |
| Earnings per share (RMB) | | | |
| – Basic | 7 | <u>0.16</u> | <u>0.16</u> |
| – Diluted | | <u>0.16</u> | <u>0.16</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016 (Expressed in Renminbi)

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|------|------------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | | 85,299 | 79,939 |
| Lease prepayments | | 17,319 | 17,734 |
| Intangible assets | | 513 | 769 |
| Deferred tax assets | | 3,021 | 3,966 |
| Total non-current assets | | 106,152 | 102,408 |
| Current assets | | | |
| Inventories | | 220,255 | 259,079 |
| Trade and other receivables | 9 | 421,547 | 344,034 |
| Pledged deposits | | 255,959 | 174,916 |
| Fixed deposits held at banks with maturity over three months | | 1,364,266 | 1,281,500 |
| Cash and cash equivalents | | 88,796 | 21,000 |
| Total current assets | | 2,350,823 | 2,080,529 |
| Current liabilities | | | |
| Trade and other payables | 10 | 236,028 | 320,886 |
| Bank loans | | 320,632 | 129,739 |
| Current taxation | | 33,346 | 10,768 |
| Total current liabilities | | 590,006 | 461,393 |
| Net current assets | | 1,760,817 | 1,619,136 |
| Total assets less current liabilities | | 1,866,969 | 1,721,544 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 10,782 | 10,782 |
| Total non-current liabilities | | 10,782 | 10,782 |
| Net assets | | 1,856,187 | 1,710,762 |
| Capital and reserves | | | |
| Share capital | | 13,567 | 13,494 |
| Reserves | | 1,842,620 | 1,697,268 |
| Total equity | | 1,856,187 | 1,710,762 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 2 September 2010. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 16 December 2011.

These consolidated financial statements have been prepared in accordance with 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 International Accounting Standards Board (“**IASB**”) and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis.

3. REVENUE AND SEGMENT REPORTING

The principal activities of the Group are design, manufacture and wholesale of swimwear, fitness wear and sports underwear.

Revenue represents the sales value of goods sold less returns, discounts and value added tax.

Segment information is presented in respect of the Group’s business segments. The primary format, business segments, is based on the Group’s management and internal reporting structure. No geographical segment analysis is presented as substantially all assets, liabilities, revenue and gross profit of the Group are attributable to the operation in the PRC.

In 2016, the Group has four separate segments as follows:

- Design, manufacture and wholesale of swimwear under the brand name of “Hosa” (“**Swimwear – Hosa**”);
- Design, manufacture and wholesale of swimwear under the brand name of “Water Cube” (“**Swimwear – Water Cube**”);
- Design, manufacture and wholesale of fitness wear under the brand name of “Hosa” (“**Fitness wear – Hosa**”); and
- Design, manufacture and wholesale of sports underwear under the brand name of “Hosa” (“**Sports underwear – Hosa**”).

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

| | Swimwear – Hosa <i>RMB’000</i> | Swimwear – Water Cube <i>RMB’000</i> | Fitness wear – Hosa <i>RMB’000</i> | Sports underwear – Hosa <i>RMB’000</i> | Total <i>RMB’000</i> |
|-------------------------|--------------------------------------|--|--|---|-------------------------|
| Year ended | | | | | |
| 31 December 2016 | | | | | |
| Revenue | 422,819 | 140,295 | 441,526 | 98,900 | 1,103,540 |
| Cost of sales | <u>(198,866)</u> | <u>(83,524)</u> | <u>(193,994)</u> | <u>(59,829)</u> | <u>(536,213)</u> |
| Gross profit | <u><u>223,953</u></u> | <u><u>56,771</u></u> | <u><u>247,532</u></u> | <u><u>39,071</u></u> | <u><u>567,327</u></u> |
| Year ended | | | | | |
| 31 December 2015 | | | | | |
| Revenue | 395,785 | 151,994 | 437,076 | 193,146 | 1,178,001 |
| Cost of sales | <u>(179,311)</u> | <u>(88,493)</u> | <u>(187,372)</u> | <u>(118,237)</u> | <u>(573,413)</u> |
| Gross profit | <u><u>216,474</u></u> | <u><u>63,501</u></u> | <u><u>249,704</u></u> | <u><u>74,909</u></u> | <u><u>604,588</u></u> |

The Group's revenue by geographical locations is determined by the destination where the goods are delivered.

| | Year ended 31 December | |
|----------|-------------------------------|-------------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Domestic | 1,021,928 | 1,117,083 |
| Overseas | 81,612 | 60,918 |
| | <u>1,103,540</u> | <u>1,178,001</u> |

The Group has three customers (2015: one customer) with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2016. The amount of sales to these customers amounted to approximately RMB408,400,000 for the year ended 31 December 2016 (2015: RMB183,217,000).

4. OTHER REVENUE AND OTHER NET INCOME/(LOSS)

| | Year ended 31 December | |
|--|-------------------------------|-----------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Other revenue | | |
| Interest income – financial institutions | 40,900 | 36,633 |
| Government grants | 12,578 | 24,418 |
| Written back of long-aged liabilities | 3,482 | – |
| Others | 890 | 779 |
| | <u>57,850</u> | <u>61,830</u> |
| Other net income/(loss) | | |
| Exchange gain/(loss) | 1,567 | (519) |
| Loss on disposal of raw materials | (295) | – |
| Others | (79) | (7) |
| | <u>1,193</u> | <u>(526)</u> |

Government grants of the Group were unconditional and were therefore recognised as income when received.

5. PROFIT BEFORE TAXATION

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

| | Year ended 31 December | |
|---|-------------------------------|----------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| (a) Finance costs: | | |
| Interest on bank loans | <u>4,307</u> | <u>1,002</u> |
| (b) Staff costs: | | |
| Contributions to defined contribution retirement plans | 1,995 | 1,795 |
| Equity-settled share-based payment expenses | 179 | – |
| Equity-settled share-based payment expenses reversal | (979) | – |
| Salaries, wages and other benefits | <u>94,907</u> | <u>98,112</u> |
| | <u>96,102</u> | <u>99,907</u> |
| (c) Other items: | | |
| Amortisation of intangible assets and lease prepayments | 820 | 790 |
| Auditors' remuneration | 2,702 | 2,550 |
| Depreciation | 9,028 | 9,617 |
| Operating lease charges in respect of properties | 6,374 | 6,666 |
| Research and development costs (<i>note (i)</i>) | 63,073 | 73,443 |
| Cost of inventories (<i>note (ii)</i>) | <u>536,213</u> | <u>573,413</u> |

Notes:

- (i) Research and development costs for the year ended 31 December 2016 include staff costs of employees in the design, research and development department of RMB13,064,000 (2015: RMB13,225,000), which are also included in the staff costs as disclosed in note 5(b).
- (ii) Cost of inventories for the year ended 31 December 2016 includes RMB54,080,000 (2015: RMB57,533,000) relating to staff costs, depreciation and amortisation expenses, which amount is included in the respective total amounts disclosed separately above in notes 5(b) and (c) for each of these types of expenses.

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

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

| | Year ended 31 December | |
|---|------------------------|---------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Current tax – PRC income tax | | |
| Provision for the year | 46,094 | 49,576 |
| PRC dividend withholding tax (<i>iv</i>) | 11,300 | 19,000 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 945 | (544) |
| Provision of dividends withholding tax | – | 3,585 |
| | <u>58,339</u> | <u>71,617</u> |

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

| | Year ended 31 December | |
|---|------------------------|----------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Profit before taxation | <u>327,176</u> | <u>338,892</u> |
| Notional tax on profit before taxation, calculated at the statutory tax rates applicable to the respective tax jurisdictions (<i>i</i>) | 85,117 | 85,550 |
| Tax effect of PRC preferential tax treatments (<i>ii</i>) | (40,643) | (38,337) |
| Tax effect of non-deductible expenses | 2,565 | 1,819 |
| Withholding tax on profit retained by PRC subsidiaries (<i>iii</i>) | <u>11,300</u> | <u>22,585</u> |
| Actual tax expense | <u>58,339</u> | <u>71,617</u> |

- (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.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for the years ended 31 December 2016 and 2015.

- (ii) According to the PRC Corporate Income Tax (“**CIT**”) Law that took effect on 1 January 2008, the statutory income tax rate of the Group’s subsidiaries in mainland China Haosha Industry (Fujian) Co., Ltd. (“**Haosha Industry**”) and Haosha Industry (Datian) Co., Ltd. (“**Haosha Industry (Datian)**”) is 25%.

In accordance with the CIT Law, its implementation rules and the relevant regulations, Haosha Industry was granted the High and New Technology Enterprise Status (“**HNTE**”) in 2013 for a valid period of 3 years from 2013 to 2015 which entitles Haosha Industry to a reduced income tax rate at 15% during the valid periods under the CIT Law and its relevant regulations. Haosha Industry successfully renewed the HNTE qualification on 1 December 2016 and continues to enjoy a preferential income tax rate of 15% for another three years from 2016 to 2018.

- (iii) According to PRC CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises which are earned since 1 January 2008 are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements. Under the Sino-Hong Kong Double Tax Arrangement, 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.

As at the date of the annual report, the Group had not yet obtained the certificates of Hong Kong tax residents from the Inland Revenue Department of Hong Kong. Therefore, the Group is applicable to the withholding tax rate of 10%.

The Directors of the Group have determined that in determining the amounts of dividends to be distributed from PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company would be considered. As at 31 December 2016, the Directors of the Group determined that the estimated dividends to be distributed will not be greater than RMB107,820,000 (31 December 2015: RMB107,820,000) in the foreseeable future.

- (iv) PRC dividend withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group’s PRC subsidiaries during the year.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB268,837,000 (2015: RMB267,275,000) and the weighted average number of 1,660,301,000 ordinary shares (2015: 1,657,298,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | 2016 '000 | 2015 '000 |
|--|-------------------------|-------------------------|
| Ordinary shares at 1 January | 1,658,881 | 1,655,212 |
| Effect of shares repurchased | – | (117) |
| Effect of share options exercised | 1,420 | 2,203 |
| | <u>1,660,301</u> | <u>1,657,298</u> |
| Weighted average number of ordinary shares at 31 December | <u><u>1,660,301</u></u> | <u><u>1,657,298</u></u> |

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB268,837,000 (2015: RMB267,275,000) and the weighted average number of ordinary shares of 1,665,025,000 shares (2015: 1,665,586,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

| | 2016 '000 | 2015 '000 |
|--|-------------------------|-------------------------|
| Weighted average number of ordinary shares at 31 December | 1,660,301 | 1,657,298 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | 4,724 | 8,288 |
| | <u>1,665,025</u> | <u>1,665,586</u> |
| Weighted average number of ordinary shares (diluted) at 31 December | <u><u>1,665,025</u></u> | <u><u>1,665,586</u></u> |

8. DIVIDENDS

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Interim dividend declared of HK4.2 cents per share (2015: HK6.0 cents per share) | 59,593 | 82,091 |
| Final dividend proposed after the end of the reporting period of HK2.3 cents per share (2015: HK2.2 cents per share) | 34,493 | 30,576 |
| Special dividend proposed after the end of the reporting period of nil (2015: HK2.0 cents per share) | — | 27,796 |
| | <u>94,086</u> | <u>140,463</u> |

The dividends proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.2 cents per share (2015:HK6.9 cents per share) | 30,385 | 90,215 |
| Special dividend in respect of the previous financial year, approved and paid during the year, of HK2.0 cents per share (2015: HK2.0 cents per share) | 27,622 | 26,149 |
| | <u>58,007</u> | <u>116,364</u> |

9. TRADE AND OTHER RECEIVABLES

| | At 31 December | |
|-----------------------------|-----------------------|-----------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade and bills receivables | 354,594 | 248,486 |
| Deposits and prepayments | 40,430 | 45,524 |
| Other receivables | 26,523 | 50,024 |
| | <u>421,547</u> | <u>344,034</u> |

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

The Group accepts bank and commercial acceptance bills for settlement of trade receivables. As at 31 December 2016, outstanding commercial acceptance bills in the amount of RMB401,490,000 (2015: RMB267,920,000) have been discounted to the banks. As these bills have been discounted without recourse, the Group has derecognised these outstanding bills as receivables as at 31 December 2016 and 2015.

(i) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | At 31 December | |
|--|-----------------------|-----------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 month | 91,746 | 56,657 |
| More than 1 month but within 3 months | 168,628 | 114,849 |
| More than 3 months but within 6 months | 78,779 | 75,139 |
| More than 6 months but within 1 year | 13,037 | 1,622 |
| More than 1 year | 2,404 | 219 |
| | <u>354,594</u> | <u>248,486</u> |

As at 31 December 2016, current balance included in trade receivables (net of allowance for doubtful debts) amounted to RMB339,153,000 (2015: RMB246,645,000). Amount past due was RMB15,441,000 (2015: RMB1,841,000). Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

(ii) Impairment of trade and bills receivables

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

For the year ended 31 December 2016, the Group did not record any impairment losses in respect of trade receivables (2015: Nil).

10. TRADE AND OTHER PAYABLES

| | At 31 December | |
|--|-----------------------|----------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 20,052 | 97,427 |
| Bills payable | 124,098 | 118,862 |
| Receipts in advance | 1,455 | 18,463 |
| Amounts due to the immediate controlling party | 53,671 | – |
| Dividends payable | 12 | 1,591 |
| Other payables and accruals | 36,740 | 84,543 |
| | <u>236,028</u> | <u>320,886</u> |

Bills payable as at 31 December 2016 and 2015 were secured by pledged bank deposits.

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

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

| | At 31 December | |
|--|-----------------------|-----------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 month | 51,296 | 57,151 |
| More than 1 month but within 3 months | 15,750 | 86,201 |
| More than 3 months but within 6 months | 70,697 | 63,566 |
| More than 6 months | 6,407 | 9,371 |
| | 144,150 | 216,289 |

MANAGEMENT DISCUSSION AND ANALYSIS

1 MARKET OVERVIEW

2016 is the year full of challenges and opportunities. The growth of the Chinese economy decelerated and GDP of the year increased by 6.7%, representing a decrease as compared with the increase of 6.9% last year. There are worries over the macroeconomic market due to the uncertain prospects of global economy, impacted domestic consumer sentiment, and the pressure on traditional sales channels continuously imposed by e-commerce. However, the PRC government has gradually promoted and implemented the policies of the sports and health industry, which provides opportunities under the adverse economic situation. Over the past few years, China has promulgated a number of policies to support the sports and health industry. In 2016, the General Administration of Sports of China published the “13th Five-Year Plan for the Development of the Sports Industry”, and the State Council also issued The National Fitness Plan (2016–2020), proposing vigorous efforts in developing mass sports programs, advocating a new trend of comprehensive fitness and promoting the establishment of Healthy China. The plan stated that, by 2020, the number of people who frequently do exercises will reach 435 million, and the total scale of sports consumption will reach RMB1.5 trillion. National fitness will promote industrial development, and form new economic growth driver.

Although the domestic GDP per capita has exceeded US\$8,000 in 2015, the sports and health industry did not significantly grow in line with international precedents during such period due to the characteristics of the economic structure. It is expected that, following the step-by-step promotion and implementation of the relevant policies, the sports and health industry will experience a high-growth period. Meanwhile, in the growing consumer market of sports and health, more sophisticated consumers are pursuing not only brand names and professional functionality but also fashion, cost-performance ratio and quality.

2 BUSINESS HIGHLIGHTS

The positive development trend of the sports and health industry creates favourable external conditions for the Group, which possesses competitive resources of the related industry, to implement the strategy of sports health industry and the successful transformation and upgrade. In 2016, the Group continued to actively promote the transformation and upgrade in respect of branding, sales channels and retail outlets. Net profit remained flat as compared with last year. The operating condition was still healthy in general. The strategy of sports health industry has been implemented, which provide the Group with a greater room for development.

The Group's revenue for 2016 amounted to RMB1,103.5 million (2015: RMB1,178.0 million), representing a decrease of 6.3% as compared with the same period of last year. The profit for the year attributable to the shareholders of the Group amounted to RMB268.8 million (2015: RMB267.3 million), representing an increase of 0.6% as compared with the same period of last year.

(a) Products

Currently, the Group's sports and health products and equipment are indoor sportswear, including the three product lines of fitness wear, swimwear and sports underwear. In 2016, with the emphasis on sports and fitness, the Group developed new products which met the professional needs of sports so as to optimise its product structure. As of 31 December 2016, the Group's three product lines, namely fitness wear, swimwear and sports underwear, achieved an operating income of RMB441.5 million, RMB563.1 million and RMB98.9 million (2015: RMB437.1 million, RMB547.8 million and RMB193.1 million respectively), representing an increase of 1.0%, 2.8% and a decrease of 48.8% respectively as compared to the same period last year.

(b) Branding

In order to meet the multi-faceted demand from sports and health communities, the Group currently possesses two brands of products, namely Hosa and Water Cube. In 2016, the Group continued putting more effort on the promotion of Hosa as a brand in professional competitions and activities. As a title sponsor of the Fédération Internationale De Natation ("FINA") Marathon Swimming World Cup and Diving Series and being the global partner of FINA, the Group sponsored, including but not limited to, the Marathon Swimming World Cup and the diving tournament of FINA World Cup. The Group also continued the promotion of and develop the independent sale channels for Water Cube brand apparel, and by leveraging its brand influence, high professional standard and price-performance ratio, the Group continued to expand sales in the mass swimwear market. As of 31 December 2016, the Hosa brand revenue amounted to RMB963.2 million (2015: RMB1,026.0 million), representing a decrease of 6.1% as compared with the same period in 2015, while the Water Cube brand apparel's revenue amounted to RMB140.3 million (2015: RMB152.0 million), representing a decrease of 7.7% as compared with the same period in 2015.

(c) Channels and Sales Outlets

In 2016, the Group established all-round distribution channels for the convenience and improvement of consumption experiences of consumers by focusing on the construction of diversified outlets model such as professional network, direct selling and marketing by coaches. At the same time, for the development of physical sales outlets, by launching Sports Health Experience Store, the Group emphasized the improvement of the consumption experience so as to promote sales outlets. These enabled the Group to maintain a healthy level in overall operation. In addition, the Group made proactive efforts in seeking opportunities to develop a vertical e-commerce platform for fitness.

The Group also took advantage of the features of the Group's products including specialization, flexibility of composition and compatibility to encourage the offering of sales packages with complementary products and brands by means of wholesale and distribution. The above measures enabled the Group to maintain a healthy level in overall operation and improve the quality of sales network under the adverse market environment.

(d) Marketing and Consumer Relations

Focusing on promoting the life style as being natural, joyful and healthy through the participation in sports, the Group continued to carry out accurate and effective brand promotion and marketing campaigns which focused on its target customers, and brought about delightful and pleasant experience in sports and health to its consumers. In order to promote fitness culture, the Group continued to vigorously promote and develop sports and national fitness in 2016 through wide and deep cooperation with many other organisations in the fitness industry. It organised and sponsored more than a hundred of fitness promotion campaigns in different cities across the country, for instance, the National Fitness Carnival, the Fitness Exchange Conference, the Yoga Conference and the Asia Fitness Festival, aimed at spreading the culture of fitness, popularising national fitness activities and advocating scientific fitness, particularly, to fulfill its social responsibilities by raising national citizens' health awareness and improving their physical conditions.

In 2016, the Company kept devoting more effort on the sponsorship of professional swimming and gym competitions, such as the National Swimming Championships, the National Marathon Swimming Championships and the National Beach Volleyball Grand Slam. In addition, as a title sponsor of the FINA Marathon Swimming World Cup and Diving Series and being the global partner of FINA, the Group sponsored, including but not limited to, the Marathon Swimming World Cup and the diving tournament of FINA World Cup. Meanwhile, the Group also titled sponsorships for “Hosa Cup” Adolescents Swimming Contest, various provincial and city “Hosa Cup” Adolescents Swimming Championships, “Hosa Cup” College Swimming Championships and other sports programs. The Group also sponsored nearly ten provincial swimming teams and all swimming contests of certain provinces. In addition, the Group titled sponsorships for “Hosa Cup” 2016 National Rhythmic Gymnastic Grand Prix, promoting national and creating professional image and strategic value of the brand of Hosa in the field of professional fitness.

The above promotional events received relatively satisfactory response in the market, and the brand influence and professional status of Hosa were also effectively promoted.

(e) Product Research and Development

Equipped with nearly 20 years of experience in indoor sportswear research and development, rich professional knowledge and technological build-up, the Group has established a seasoned research and development team for indoor sports apparel that is familiar with the demand of indoor sportswear in China’s consumer market. The Group has created a globalized and professional research and development system formed by domestic and foreign professional cooperating institutions including Hosa International Beijing Design Centre, Hosa International Fujian Technology Centre, French Design Studio, function and prototype expert team from Japan as well as The Asian Fitness Academy, which enabled the Group to continuously enhance its competitive strengths in terms of the professional design, fashion design, functional development and technology of indoor sportswear and thus maintained the market competitive edge of the Group’s products. In 2014, Hosa obtained the certification for competition swimwear of FINA, in which Hosa is the only enterprise obtained such certification in the PRC up to now.

(f) **Financial Review**

Revenue

By operating segments

Revenue of the Group for the financial year ended 31 December 2016 was RMB1,103.5 million (2015: RMB1,178.0 million), representing a decrease of 6.3% as compared to the revenue for the financial year ended 31 December 2015. The following table sets forth the sources of revenue by operating segments in the Group's operations:

| | Year ended 31 December | | | |
|-------------------------|------------------------|--------------|----------------|----------|
| | 2016 | | 2015 | |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Domestic sales | | | | |
| Swimwear – Hosa | 341,566 | 31.0 | 335,472 | 28.5 |
| Swimwear | | | | |
| – Water Cube | 140,295 | 12.6 | 151,994 | 12.9 |
| Fitness wear – Hosa | 441,167 | 40.0 | 436,471 | 37.0 |
| Sports underwear – Hosa | 98,900 | 9.0 | 193,146 | 16.4 |
| Subtotal | 1,021,928 | 92.6 | 1,117,083 | 94.8 |
| Overseas sales | | | | |
| Swimwear – Hosa | 81,253 | 7.4 | 60,313 | 5.1 |
| Fitness wear – Hosa | 359 | 0.0 | 605 | 0.1 |
| Subtotal | 81,612 | 7.4 | 60,918 | 5.2 |
| Total | 1,103,540 | 100.0 | 1,178,001 | 100.0 |

Domestic sales decreased from RMB1,117.1 million for the financial year ended 31 December 2015 to RMB1,021.9 million for the financial year ended 31 December 2016, representing a decrease of 8.5%. Overseas sales increased from RMB60.9 million for the financial year ended 31 December 2015 to RMB81.6 million for the financial year ended 31 December 2016, representing an increase of 34.0%. Given that the market potential remains relatively large in China, the Group will continue to focus on its sales efforts in the PRC market in the coming years.

Cost of sales

Cost of sales of the Group primarily consisted of production costs and procurement costs of finished products from external sources. Production costs include raw material costs, labour costs as well as manufacturing overhead incurred in the production of swimwear, fitness wear and sports underwear. The following table sets forth a breakdown of the cost of sales for the Group's products:

| | Year ended 31 December | | | |
|--|------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2015 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Raw materials | 405,712 | 75.7 | 436,034 | 76.0 |
| Labour | 50,297 | 9.4 | 54,846 | 9.6 |
| Manufacturing overhead | 17,213 | 3.2 | 18,972 | 3.3 |
| Procurement costs of finished products | 62,991 | 11.7 | 63,561 | 11.1 |
| | <u>536,213</u> | <u>100.0</u> | <u>573,413</u> | <u>100.0</u> |

Raw material costs primarily refer to the costs of procuring raw materials used in the production of our products, such as fabrics, threads and ancillary clothing materials. For the year ended 31 December 2016, the average purchase price for the Group's key raw materials was RMB53.4 (2015: RMB57.4) per kilogram, which was lower than that for the year ended 31 December 2015.

Certain production and processing procedures of the Group's products, primarily fabric manufacturing, fabric printing and dyeing as well as fabric cutting, sewing and stitching, are outsourced to external contract manufacturers. The Group provides fabric materials to contract manufacturers for processing and pay outsourced processing and service fees. Such outsourced processing and service fees are categorized under the Group's raw material costs. Labour costs consisted of salaries, benefits and other forms of compensation paid to the Group's production staff. Manufacturing overhead mainly includes depreciation of production facilities, costs associated with operating our facilities including electricity, water, maintenance costs, etc.

The following table sets forth a breakdown of the cost of sales by operating segments:

| | Year ended 31 December | | | |
|-------------------------|-------------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2015 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Swimwear – Hosa | 198,866 | 37.0 | 179,311 | 31.3 |
| Swimwear – Water Cube | 83,524 | 15.6 | 88,493 | 15.4 |
| Fitness wear – Hosa | 193,994 | 36.2 | 187,372 | 32.7 |
| Sports underwear – Hosa | 59,829 | 11.2 | 118,237 | 20.6 |
| | <u>536,213</u> | <u>100.0</u> | <u>573,413</u> | <u>100.0</u> |

Gross profit

Gross profit of the Group for the year ended 31 December 2016 was RMB567.3 million (2015: RMB604.6 million), representing a decrease of 6.2% as compared to that of the year ended 31 December 2015. Gross profit margin of the Group for the year ended 31 December 2016 was 51.4% (2015: 51.3%).

The following table sets forth a breakdown of the Group's gross profit from operations and gross profit margin by geographical regions and operating segments:

| | Year ended 31 December | | | |
|-------------------------|-------------------------------------|--|-------------------------------------|--|
| | 2016 | | 2015 | |
| | Gross Profit RMB'000 | Gross Profit Margin % | Gross Profit RMB'000 | Gross Profit Margin % |
| Domestic sales | | | | |
| Swimwear – Hosa | 192,186 | 56.3 | 188,290 | 56.1 |
| Swimwear – Water Cube | 56,771 | 40.5 | 63,501 | 41.8 |
| Fitness wear – Hosa | 247,390 | 56.1 | 249,435 | 57.2 |
| Sports underwear – Hosa | 39,071 | 39.5 | 74,909 | 38.8 |
| Subtotal | 535,418 | 52.4 | 576,135 | 51.6 |
| Overseas sales | | | | |
| Swimwear – Hosa | 31,767 | 39.1 | 28,184 | 46.7 |
| Fitness wear – Hosa | 142 | 39.6 | 269 | 44.4 |
| Subtotal | 31,909 | 39.1 | 28,453 | 46.7 |
| Total | 567,327 | 51.4 | 604,588 | 51.3 |

Other revenue

Other revenue of the Group primarily consisted of government grants and interest income from interest-bearing bank deposits. The government grants were provided by provincial or prefectural government authorities in the form of unconditional subsidies as recognition for the Group's contribution to the local economy through the Group's business operation and achievements as one of the core enterprises in the local cluster of enterprises. Other revenue decreased from RMB61.8 million in 2015 to RMB57.9 million in 2016, representing a decrease of 6.4%. Such decrease was mainly due to the decrease in the aggregate amount of government grants, which amounted to RMB12.6 million in 2016 (2015: RMB24.4 million).

Selling and distribution expenses

Selling and distribution expenses consisted primarily of advertising and promotion expenses, remuneration and employee benefits for our sales and marketing personnel, rental expenses, packaging and transportation expenses, depreciation and amortisation expenses of our properties used for sales and marketing activities and other miscellaneous expenses. Advertising and promotion expenses primarily include fees paid for event sponsorship and television, magazine and billboard advertising. Selling and distribution expenses decreased from RMB206.8 million in 2015 to RMB185.7 million in 2016, representing a decrease of 10.2%. Selling and distribution expenses represented approximately 16.8% of the revenue in 2016 (2015: 17.6%).

Administrative and other operating expenses

Administrative and other operating expenses consisted primarily of remuneration and employee benefits for the Group's administrative staff, travel and transportation expenses, general office expenses and other miscellaneous expenses. Administrative and other operating expenses were RMB109.2 million in 2016 (2015: RMB119.2 million). The administrative and other operating expenses to total revenue was 9.9% in 2016, which was lower than 10.1% of the same period of last year.

Finance costs

The Group's finance costs primarily consisted of interest charged to the Group's interest-bearing bank borrowings. Total finance costs increased from RMB1.0 million in 2015 to RMB4.3 million in 2016, representing an increase of 329.8%. As at 31 December 2016, the bank borrowings of the Group amounted to RMB320.6 million (2015: RMB129.7 million).

Profit from operations and dividend

The profit from operations for the year ended 31 December 2016 decreased by 2.5% to RMB331.5 million as compared with RMB339.9 million for the year ended 31 December 2015. Interim dividend of HK4.2 cents (equivalent to approximately RMB3.6 cents) per share for the first half of the year of 2016 was declared and paid to the Shareholders. For the year ended 31 December 2016, the Board has proposed a final dividend of HK2.3 cents (equivalent to approximately RMB2.1 cents) per share, and with the interim dividend of HK4.2 cents, the total dividend payout ratio for the year was approximately 35%. The above proposed dividends are subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

Key financial ratios

The following table sets forth certain of the Group's major financial ratios as at 31 December of the year indicated:

| | 2016 | 2015 |
|--------------------------|-------------------|------------|
| Current ratio | 3.98 time | 4.51 time |
| Quick ratio | 3.61 time | 3.95 time |
| Inventory turnover days | 163.1 days | 136.3 days |
| Debtors' turnover days | 99.7 days | 80.2 days |
| Creditors' turnover days | 122.7 days | 110.8 days |
| Gearing ratio | 13.0% | 5.9% |

Working capital and working capital management

The inventory turnover days of the Group were 163.1 days for the year ended 31 December 2016 as compared to 136.3 days for the year ended 31 December 2015. The inventory turnover days increased by 26.8 days. The Group's debtors' turnover days increased to 99.7 days for the year ended 31 December 2016 as compared to 80.2 days for the year ended 31 December 2015. The Group generally allows credit period ranging from 90 days to 180 days to customers. The Group's creditors' turnover days (including both trade and bills payables) were 122.7 days for the year ended 31 December 2016 as compared to 110.8 days for the year ended 31 December 2015. The overall working capital cycle has increased from 105.7 days to 140.1 days. The overall operation remained at a normal level.

The Group's primary objective of working capital management is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the Shareholders and benefits for other stakeholders, by pricing products 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.

Liquidity, financial resources and capital structure

As at 31 December 2016, the Group had net current assets of RMB1,760.8 million (2015: RMB1,619.1 million) of which cash and bank deposits were RMB1,709.0 million (2015: RMB1,477.4 million). Total bank borrowings as at 31 December 2016 were RMB320.6 million (2015: RMB129.7 million), while the bills payable were RMB124.1 million (2015: RMB118.9 million). Bank borrowings and bills payable were mainly used for the Group's working capital management, financing the purchases and financing the dividend paid to the shareholders of the Group. The Group's gearing ratio as at 31 December 2016 (total bank borrowings divided by total assets) was 13.0% (2015: 5.9%). The Group's transactions and the monetary assets are principally denominated in Renminbi. The Group did not experience any material difficulties in operations or liquidity as a result of fluctuations in exchange rates during the year. The Group adopts centralised financing and treasury policies in order to ensure the Group's funding is utilised efficiently. Conservative approach is adopted in monitoring foreign exchange exposure and interest rate risk. The Group's liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements. This strong cash position enables the Group to explore investment and business development opportunities when expanding its market share in China.

Use of Proceeds – Initial Public Offering

The shares of the Company were listed on the main board of the Stock Exchange on 16 December 2011 with net proceeds from the global offering of approximately RMB488.6 million (after deducting underwriting commissions and related expenses). The amounts utilised as at 31 December 2016 are as follows:

| Purposes of net proceeds | Percentage | As at 31 December 2016 | | |
|---|-------------|--|--|--|
| | | Amount of net proceeds (RMB million) | Amount utilised (RMB million) | Remaining balance (RMB million) |
| 1. Expansion of distribution network | 35% | 171.0 | 171.0 | – |
| 2. Enhancement of brand image through marketing and promotion | 25% | 122.1 | 122.1 | – |
| 3. Expansion of production capacity | 15% | 73.3 | 7.0 | 66.3 |
| 4. Investment in research, design and development activities | 10% | 48.9 | 48.9 | – |
| 5. Development and upgrading of supply chain and information management systems | 5% | 24.4 | – | 24.4 |
| 6. Funding for working capital and other general corporate purposes | 10% | 48.9 | 48.9 | – |
| | <u>100%</u> | <u>488.6</u> | <u>397.9</u> | <u>90.7</u> |

The Company does not intend to apply the remaining net proceeds for the purposes other than those disclosed in the prospectus of the Company dated 6 December 2011 (the “**Prospectus**”).

Use of Proceeds – Share Placements

On 17 September 2013, Ho Born Investment Holdings Limited (“**Ho Born**”), the Company and Goldman Sachs (Asia) L.L.C., as the placing agent, entered into a placing and subscription agreement pursuant to which the placing agent agreed to procure purchasers to subscribe for 54,500,000 existing shares owned by Ho Born to not fewer than six independent places at the placing price of HK\$2.85 per share, and Ho Born conditionally agreed to subscribe, and the Company agreed to allot and issue to Ho Born for such number of subscription shares which is equivalent to the number of shares actually placed under the placing at the subscription price of HK\$2.85 per share. Details of these transactions are set out in the Company’s announcement dated 17 September 2013.

Approximately RMB116.9 million (after deducting underwriting commissions and related expenses) was raised from the subscription. The amounts utilised as of 31 December 2016 are as follows:

| Purposes of net proceeds | Percentage | As at 31 December 2016 | | |
|---|-------------|--|--|--|
| | | Amount of net proceeds (RMB million) | Amount utilised (RMB million) | Remaining balance (RMB million) |
| 1. Enhancement of brand image through marketing and promotion | 30% | 35.0 | 35.0 | – |
| 2. Expansion of production capacity | 15% | 17.5 | – | 17.5 |
| 3. Investment in research, design and development activities | 40% | 46.9 | 46.9 | – |
| 4. Funding for working capital and other general corporate purposes | 15% | 17.5 | 17.5 | – |
| | <u>100%</u> | <u>116.9</u> | <u>99.4</u> | <u>17.5</u> |

The Company does not intend to apply the remaining net proceeds for the purposes other than those disclosed in the announcement of the Company dated 17 September 2013.

Apart from the capital raising activity mentioned above, the Company has not conducted any equity fund raising activities in the past 12 months from the date of this announcement.

Capital expenditure and capital commitments

During the year ended 31 December 2016, the capital expenditure amounted to RMB14.5 million. As at 31 December 2016, the capital commitments amounted to RMB14.6 million.

Foreign exchange risk management

Most of the sales and purchases of the Group are settled in Renminbi, which is not freely convertible into foreign currencies. The fluctuations in Renminbi during the year did not have any significant effect on the Group's results. The Group is not exposed to any significant foreign exchange risk. In addition, the Group will conduct periodic review of its exposure to foreign exchange risk.

Contingent Liabilities

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

(g) Employees and Remuneration Policies

As at 31 December 2016, the Group had a workforce of about 1,300 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group has adopted share option schemes whereby employees of the Group are granted options to acquire shares in the Company. Good relationship has been maintained between the Group and its employees. The Group also provides internal training to staff and pays out bonuses based on staff performance and profits of the Group.

(h) Relationships with distributors and suppliers

The Group mainly sells its products to distributors, who placed the Group's products to retail outlets for final sales.

The Group would make on-site visits to distributors to ensure that they comply with the terms of the distribution agreement. It closely monitors the inventory and performance of distributors by requiring them to submit sales reports. The Group also provides distributors with various training and support, provides guidance to distributors on optimizing their product mix and offers them various tools and training in inventory management. In addition, the Group offers frequent training regarding its products, brand image, sales and marketing strategies and company policies, and it supports distributors during their marketing efforts. The Group believes that such support motivates distributors and improves the operational efficiency of the Group's sales and distribution network.

Suppliers of the Group include raw material suppliers and contract manufacturers. The Group has developed solid and steady relationships with many of its key suppliers. Given solid and steady relationships with the suppliers, the Group believes that its suppliers generally provide supplies to the Group with a priority and the Group has not experienced any material shortage or delays in receiving supplies or services from the suppliers during the track record period.

3. PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group. Major risks and uncertainties are summarised below.

a. Brand/Reputation Risk

The Company has established and maintained its Hosa brand as an indoor sportswear brand that aims to provide complete satisfaction in the functionality, comfort and style of its products, primarily targeting customers with health consciousness and spending power.

If the Group is unsuccessful in promoting its Hosa brand or fails to maintain its brand position and market perception, consumer acceptance of its Hosa brand may erode, and the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

Any negative publicity or disputes relating to the Group's Hosa brand, products, sponsorship activities or management, the loss of any award or accreditation associated with the Group's Hosa brand or products or the use of the "Hosa" trademark or brand name by other businesses could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

b. Market Trend

The Group's success depends on the market perception and consumer acceptance of Hosa brand and the Group's products, which in large part, rely on the Group's ability to anticipate and respond to different consumer tastes in a timely manner.

If the Group is unable to utilise new technologies and processes, anticipate and respond to market and fashion trends and consumer preferences in a timely manner, demand for Hosa products may decrease. The Group's business would also suffer if product creations or modifications do not respond to the needs of customers, are not appropriately timed with market opportunities or are not effectively brought to market. Any failure by the Group to offer products that respond to changing market and fashion trends and consumer preferences, or any shift in market or fashion trends and consumer preferences away from Hosa brand and the Group's products, could adversely affect consumer interest in the Group's products.

c. Competition

Currently, the Group's swimwear, fitness wear and sports underwear products face different levels of competition in their respective market sectors. As the indoor sportswear market is ever-evolving and competitors with similar brand positioning may emerge and intensify the current competition, there can be no assurance that the Group will be able to compete effectively against competitors who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain the Group's market share, the Group may be forced to, among other actions, reduce prices, provide more sales incentives to distributors, and increase capital expenditures, which may in turn negatively affect the Group's profit margins, business and financial conditions and results of operations.

d. Operation of Distributors

As the Group's term of agreements with distributors is generally 2 years, it is possible that their agreements with the Group will not be renewed on favourable terms or at all. If any of the Group's distributors terminates or does not renew its distribution agreement with the Group, the Group may not be able to replace such distributor with a new and effective distributor with similar business scale in a timely manner, on terms acceptable to the Group, or at all. If any of the distributors ceases its business relationship with the Group, the Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

The Group mainly sold products to distributors, who subsequently distributed our products to sub-distributors or sold our products to end-consumers. The Group relies on its distributors to oversee and ensure sub-distributors. The subdistributors' failure to comply with the Group's policies, such as aggressive discounting of the retail price of the Group's products, could result in the erosion of goodwill, a decrease in the market value of the Group's Hosa brand and an unfavourable public perception about the quality of the Group's products, which in turn could result in a material adverse effect on the Group's business, financial condition, results of operation and prospects.

The Group has no control over distributors or sub-distributors' practice of obtaining retail spaces within department stores. If the Group's distributors fail to secure retail spaces within the department stores on commercially reasonable terms, the Group's distributors may not be able to find alternative locations in areas that offer similar business environments, and the Group's competitors may move into such retail spaces previously occupied by the Group's distributors. As a result, the Group's sales performance may be materially and adversely affected.

4. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's production process is carried out with low emissions and low energy consumption, and it will not produce great amount of pollutants. The Group has been endeavoring to ensure that the production process is in compliance with the relevant environmental rules and regulations. In the past, to the best of our knowledge the Group has not been in breach of any relevant environmental rules and regulations and has not been imposed any relevant penalty. It is expected that the future operational activities of the Group would not be significantly affected by the environmental policies.

5. COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in mainland China while the Company is listed on the Stock Exchange. The Group's operations accordingly shall comply with relevant laws and regulations in mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, to the best of our knowledge, the Group has complied with all the relevant laws and regulations in mainland China and Hong Kong, and there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

6 LOOKING AHEAD

Since 2013, the State Council and General Administration of Sports of China have published various opinions relating to sports and health industry which have provided material development opportunities for the development of health services industry and sports services industry. Looking forward, there will still be tremendous room for the growth of the PRC sports and health industry which enters a flourishing stage, and the growth of demand will remain strong. Meanwhile, the construction of stadiums, which was driven by the urbanisation in the PRC, the growing number of consumers pursuing healthy lifestyle, the trend of fitness, the promotion of national fitness and support to health industry from the PRC government and the rising demand of consumers for products and services in terms of personalised need and professionalism have provided the Group with an important opportunity for future development. The Group will maintain its leading position in the existing sportswear business while promoting the implementation and enforcement of strategies with respect to sports and health industry in all aspects.

In view of current situation, the Group and its controlling shareholder will fully utilize the leading position in sports and health products and services with the determination to implement the development strategy for the sports and health industry. The sports and health ecosphere will be continued to be established based on customers' sports and health lifestyle. Centered around sports and health products and big data to develop and consolidate industry resources, the ecosphere links consumers, scenarios and products with the service provider through a mobile sports and health community to cater for the consumers' sports and health lifestyle and provide them with comprehensive services.

In 2017, the Group will focus on the promotion of the following tasks:

1. to promote the integration of online and offline sale by establishing “Hosa new retail”, and sufficiently expand the opportunity of “Internet+”;
2. to promote the titled sponsorship cooperation of various sports and fitness events continuously, and enhance the professional image and reputation for the brand;
3. to continue to develop new sports and health products, research on, develop and upgrade the smart products and consolidate sports and health products and services to explore new business growth driver based on consumers' needs;

4. to promote intelligent products and health APP and continue to perfect product series;
5. to actively explore the industry upstream and downstream cooperation, including food and drinks supply, internet/app service, gymnastic stadium, fitness service, etc, to integrate the industry resources by flexible cooperative investment, and develop sports and health industry.

The Group believes that the promotion and implementation of the above measures will tremendously consolidate the competitive edges of the Group in sports and health sectors in the future. Although there might be an impact on the results indicators of the Group in a short term due to the transformation and upgrading, it is considered to be an inevitable stage for the better enhancement of its long-term competitiveness and for the greater room for development of the Group. We believe that the implementation of the Group's sports and health industry strategies will form a foundation for the future development and create a huge room for the future development and growth of the Group as well as greater value and returns to the consumers and shareholders of the Company.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Audit Committee of the Company (the “**Audit Committee**”), consisting of the Company's three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2016 with the management. The Audit Committee has also met and discussed with the Group's external auditors, KPMG, regarding the Group's audit, financial reporting matters and relevant internal controls over financial reporting.

CORPORATE GOVERNANCE PRACTICE

During the period from 1 January 2016 to 31 December 2016, the Company has complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by the Directors. Specific enquiries have been made with all Directors and all Directors confirmed that they have complied with the Model Code through out the year ended 31 December 2016.

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

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

DIVIDENDS

The Board recommended the distribution of a final dividend of HK2.3 cents (equivalent to approximately RMB2.1 cents) per share in cash to the shareholders of the Company (the “**Shareholders**”) for the year ended 31 December 2016, representing a total payout of approximately RMB34.5 million, subject to approval by the Shareholders at the annual general meeting (“**AGM**”) to be held on Friday, 28 April 2017.

Upon the approval to be obtained from the AGM, the final dividend will be payable on or around Friday, 7 July 2017 to the Shareholders whose names appear on register of members of the Company at close of business on Wednesday, 10 May 2017.

CLOSURES OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 April 2017 to Friday, 28 April 2017, both days inclusive, during which period no transfer of shares in the Company will be registered. The record date for entitlement to attend and vote at the AGM is Friday, 28 April 2017. In order to be eligible to attend and vote at the forthcoming AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 April 2017.

The proposed final dividend is subject to the passing of the ordinary resolution by the Shareholders at the AGM. In order to determine the entitlement of the Shareholders to receive the proposed final dividend (if approved), the register of members of the Company will be closed from Monday, 8 May 2017 to Wednesday, 10 May 2017, both days inclusive, during which period no transfer of shares in the Company will be registered. The record date for entitlement to receive the proposed final dividend is Wednesday, 10 May 2017. In order to be eligible to receive the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 5 May 2017.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 28 April 2017. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hosa.cn>). The annual report of the Company for the year ended 31 December 2016 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Hosa International Limited
Shi Hongliu
Chairman

Hong Kong, 21 March 2017

As at the date of this announcement, the executive Directors are Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Shi Zhixiong and Mr. Lui Wai Ming, and the independent non-executive Directors are Ms. Ko Yuk Lan, Mr. Yao Ge and Mr. He Wenyi.