

# REPORT OF THE DIRECTORS

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

## PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand.

## SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2016 are set out in note 1 to the financial statements.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the Group's financial position as at that date are set out in the financial statements on pages 94 to 146 of this annual report.

## DIVIDENDS

An interim dividend of HK10.5 cents (equivalent to approximately RMB9.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK3.25 cents (equivalent to approximately RMB2.89 cents) per Share and a special dividend of HK2.75 cents (equivalent to approximately RMB2.44 cents) per Share for the year ended 31 December 2016, subject to approval by the Shareholders at the annual general meeting to be held on 8 May 2017. The total dividends for the year ended 31 December 2016, which include the interim dividend, final dividend and special dividend, amounted to a total dividend of HK16.50 cents (equivalent to approximately RMB14.33 cents) per Share, represented a payout ratio of approximately 60%. Details of the dividend for the year ended 31 December 2016 are set out in note 11 to the financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB406.2 million (2015: RMB76.3 million). Details of the reserves of the Company as at 31 December 2016 are set out in note 40 to the financial statements.

## REPORT OF THE DIRECTORS

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to approximately RMB12.8 million.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2016 are set out in note 27 to the financial statements.

### DIRECTORS

The Directors during the year ended 31 December 2016 were:

#### Executive Directors

Ding Shui Po (*Chairman*)

Ding Mei Qing

Lin Zhang Li

Ding Ming Zhong

Ho Yui Pok, Eleutherius

Ye Qi (resigned on 31 March 2016)

#### Independent Non-Executive Directors

Tan Wee Seng

Sin Ka Man

Gao Xian Feng

Bao Ming Xiao

## REPORT OF THE DIRECTORS

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive Directors on the Board, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Mr. Tan Wee Seng and Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Mr. Ding Shui Po, Mr. Lin Zhang Li and Mr. Sin Ka Man will retire from the Board by rotation at the forthcoming annual general meeting. Mr. Ding Shui Po is eligible and offers himself for re-election. Mr. Lin Zhang Li will not offer himself for re-election due to his other commitment and Mr. Sin Ka Man, after serving as an independent non-executive director of the Company for almost 9 years since the Company's listing on 3 June 2008, will not offer himself for re-election in line with code provision A.4.3 of Appendix 14 to the Listing Rules.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 60 to 63 of this annual report.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed below, there was no transaction, arrangement or contract of significance to which the holding companies of the Company, and the Company's subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2016.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

### Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Mr. Ding Shui Po	Beneficiary of a trust <sup>(2)</sup> / Beneficial interests <sup>(3)</sup>	1,327,375,000	59.80%
Ms. Ding Mei Qing	Beneficiary of a trust <sup>(2)</sup>	1,310,059,500	59.02%
Mr. Lin Zhang Li	Interests of spouse <sup>(4)</sup>	1,310,059,500	59.02%
Mr. Ding Ming Zhong	Beneficiary of a trust <sup>(2)</sup>	1,310,059,500	59.02%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	2,900,000 <sup>(5)</sup>	0.13%
Mr. Tan Wee Seng	Beneficial interests	1,380,000 <sup>(6)</sup>	0.06%

Notes:

- (1) It was based on 2,219,535,000 issued Shares of the Company as at 31 December 2016.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.  
  
The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po is also beneficially interested in 17,315,500 Shares of the Company.
- (4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in the Company.

## REPORT OF THE DIRECTORS

- (5) 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 400,000 shares of these shares were acquired by Mr. Ho Yui Pok, Eleutherius on the Hong Kong Stock Exchange.
- (6) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

### Long Positions in Associated Corporation Xtep International E-Commerce Investment Limited

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of shares interested</b>	<b>Approximate percentage of interest in the issued share capital of associated corporation</b>
Mr. Ho Yui Pok, Eleutherius <sup>(1)</sup>	Interests of controlled corporation and interests of spouse	1,750	3.5%

Note:

- (1) Such interests are held by a company which is equally owned by Mr. Ho Yui Pok, Eleutherius and his spouse.

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

At no time was the Company, or any of its holding companies and subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## SHARE OPTION SCHEMES

### Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and motivating its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of the Listing Date	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2016 are as follows:

Name	Outstanding as at 1 January 2016	Exercised during the year ended 31 December 2016 <sup>(1)</sup>	Outstanding as at 31 December 2016
<b>Director</b>			
Mr. Ho Yui Pok, Eleutherius	1,000,000	(1,000,000)	–
<b>Employees</b>			
In aggregate	12,465,000	(990,000)	11,475,000
<b>Total</b>	<b>13,465,000</b>	<b>(1,990,000)</b>	<b>11,475,000</b>

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 11,475,000, representing approximately 0.5% of the Company's issued share capital as at the date of this annual report.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2016.

### Share Option Scheme

The Company has adopted the Share Option Scheme on 7 May 2008 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, i.e. 220,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

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Details of the share options granted under the Share Option Scheme as at 31 December 2016 are as follows:

Name	Date of Grant	Exercise price per Share <sup>(1)</sup>	Exercise period <sup>(2)(3)(4)</sup>	Outstanding as at 1 January 2016	Granted during the year ended 31 December 2016	Cancelled during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Lapsed during the year ended 31 December 2016	Outstanding as at 31 December 2016
<b>Directors</b>									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010–28 July 2019	1,500,000	–	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012–27 May 2020	1,000,000	–	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK\$2.35	14 January 2012–13 January 2021	4,500,000	–	–	(4,500,000)	–	–
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011–29 March 2020	600,000	–	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK\$2.35	14 January 2012–13 January 2021	600,000	–	–	–	–	600,000
<b>Past Director</b>									
Mr. Ye Qi	28 May 2010	HK\$6.00	28 May 2012–27 May 2020	1,000,000	–	–	–	(1,000,000)	–
Mr. Ye Qi	7 December 2011	HK\$2.35	14 January 2012–13 January 2021	1,500,000	–	–	(1,500,000)	–	–
<b>Employees</b>									
In aggregate	29 July 2009	HK\$4.11	29 July 2010–28 July 2019	7,790,000	–	–	–	–	7,790,000
In aggregate	28 January 2010	HK\$5.01	28 January 2011–27 January 2020	500,000	–	–	–	–	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012–27 May 2020	8,000,000	–	–	–	–	8,000,000
In aggregate	7 December 2011	HK\$2.35	14 January 2012–13 January 2021	38,295,000	–	–	(11,550,000)	–	26,745,000
<b>Total</b>				65,285,000	–	–	(17,550,000)	(1,000,000)	46,735,000



## REPORT OF THE DIRECTORS

The total number of shares available for issue under the Share Option Scheme is 46,735,000, representing 2.1% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2016.

Notes:

- (1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010 and 7 December 2011 (the dates on which the share options were granted) were HK\$4.86, HK\$5.95, HK\$5.67 and HK\$2.31 respectively.
- (2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
First anniversary of the Date of Grant	30% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	40% of the total number of options granted

- (3) Share options granted under the Share Option Scheme on 28 May 2010 shall vest in the grantee in accordance with the timetable below:

Vesting Date	Percentage of Share Options to vest
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	70% of the total number of options granted

- (4) Share options granted under the Share Option Scheme on 7 December 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
14 January 2012	40% of the total number of options granted
14 January 2013	30% of the total number of options granted
14 January 2014	30% of the total number of options granted

- (5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$3.89.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 29 to the financial statements.

## ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies and its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

<b>Name of Shareholders</b>	<b>Nature of Interest</b>	<b>Number of Shares interested</b>	<b>Approximate percentage of interest in the issued share capital of the Company<sup>(1)</sup></b>
Group Success	Beneficial interests	1,310,059,500	59.02%
Wan Xing International Holdings Limited	Interests of controlled corporation <sup>(2)</sup>	1,310,059,500	59.02%
Ding Wang Fortune Limited	Interests of controlled corporation <sup>(3)</sup>	1,310,059,500	59.02%
Guan Hong Development Limited	Interests of controlled corporation <sup>(3)</sup>	1,310,059,500	59.02%
Ming Zhong Family Limited	Interests of controlled corporation <sup>(3)</sup>	1,310,059,500	59.02%
UBS Trustees (BVI) Limited	Trustee <sup>(3)</sup>	1,310,059,500	59.02%

Notes:

- (1) It was based on 2,219,535,000 issued Shares of the Company as at 31 December 2016.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 31 December 2016, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

**SHARE AWARD SCHEME**

On 1 August 2014, the Company has adopted the Share Award Scheme ("Scheme") in which the Group's employees, executives, officers or directors will be entitled to participate. Details of the Scheme are set out in the Company's announcement dated 1 August 2014.

On 15 May 2015, the Board has paid to the trust established for the Scheme HK\$160,000,000, and HK\$152,600,000 of which was used to purchase 50,000,000 Shares as part of the trust fund and such Shares are held by the trustee for the benefit of the eligible participants under the trust. Details of the purchase are set out in the Company's announcement dated 15 May 2015.

On 10 January 2017, the Board resolved to grant a total of 50,000,000 Shares to employees of the Group at nil consideration. These 50,000,000 Shares granted under the Scheme represent approximately 2.25% of the issued share capital of the Company as at the date of grant.

As at the date of this report, no Share was held in trust under the Scheme.

Save for the aforesaid, as at the date of this report, the Board neither granted any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares.

Further details of the Scheme are set out in note 30 to the financial statements.

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

On 15 July 2016, the Company and Mr. Nicholas Tse (the "Subscriber") entered into a subscription agreement pursuant to which the Company has conditionally agreed to issue and allot, and the Subscriber has agreed to subscribe for, 5,000,000 Shares (the "Subscription Shares") at the subscription price (which is also the net price to the Company) of HK\$4.50 per Share. The aggregate nominal value of 5,000,000 Subscription Shares is HK\$50,000.

The Subscription Price of HK\$4.50 per Subscription Share was agreed after arm's length negotiations between the Company and the Subscriber, with reference to, among other things, the recent trading prices of the Shares on the Stock Exchange.

The Subscription Price of HK\$4.50 per Subscription Share represents:

- (i) a premium of approximately 13.07% to the closing price of HK\$3.98 per Share as quoted on the Stock Exchange on 15 July 2016, being the date of the Subscription Agreement; and
- (ii) a premium of approximately 13.64% to the average closing price of approximately HK\$3.96 per Share as quoted on the Stock Exchange for the last five trading days of the Shares immediately prior to and including the date of the Subscription Agreement.

The subscription was conditional upon the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Subscription Shares and was completed on 3 August 2016.

Pursuant to the terms of the subscription agreement, the Subscriber undertakes, inter alia, that he will not dispose of or encumber the Subscription Shares for a period of one year immediately after the completion of the said subscription (the "First Year Period"), and he will not dispose of or encumber any of the Subscription Shares to the extent that he will own less than 50% of the number of the Subscription Shares for another year immediately after the expiry of the First Year Period.

The subscription will offer an opportunity to broaden the Company's capital and shareholder base. It will also strengthen the Group's relationship with the Subscriber who has been the Group's XTEP brand spokesperson for more than a decade. The Group intends to further collaborate with the Subscriber in the design and marketing of a new Subscriber's series of sports products.

The gross and net proceeds from the subscription will be approximately HK\$22.5 million and HK\$22.5 million, respectively. It is intended that the net proceeds from the subscription will be used in the development of the Group's products.

For further details of the subscription, please refer to the Company's announcements dated 15 July 2016 and 3 August 2016.

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

### CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2016.

### SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 9 January 2014, the Company as borrower entered into a facility agreement (the “2014 Facility Agreement”) with a consortium of 11 banks arranged by Hang Seng Bank Limited (“HASE”) as co-ordinator, a mandated lead arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of US\$92,000,000 and HK\$452,400,000 (equivalent to approximately HK\$1,170,000,000 in aggregate) (the “2014 Facility”) was made available to the Company on the terms and conditions stated therein.

On 3 January 2017, the Company as borrower entered into another facility agreement (together with the 2014 Facility Agreement, the “Facility Agreements”) with a consortium of 9 banks arranged by HASE, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 3.5-year dual currency term loan facility in the principal amount of US\$116,000,000 and HK\$651,000,000 (equivalent to approximately HK\$1,555,800,000 in aggregate) (together with the 2014 Facility, the “Facilities”) was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreements, among other things, that an event of default will occur if the following undertakings are not complied with and not remedied within 20 days of the earlier of (i) HASE, as the facility agent, giving notice to the Company and (ii) any of the Company or the guarantors named therein becoming aware of the failure to comply:

- (a) Mr. Ding Shui Po will remain as the chairman of the Board;
- (b) Mr. Ding Shui Po will maintain control over the management and business of the Group;
- (c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the “Majority Shareholders”) collectively will continue to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or
- (d) the Majority Shareholders collectively will remain to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE, as the facility agent, may by notice to the Company (a) cancel the whole or any part of the Facilities whereupon the whole or relevant part of the Facilities shall immediately be cancelled; (b) declare that all or part of the Facilities, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreements and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facilities be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

## REPORT OF THE DIRECTORS

As at 31 December 2016 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 59.02% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.78% of the issued share capital of the Company.

### NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the controlling shareholders of the Company.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

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

### MANAGEMENT CONTRACTS

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

### PRE-EMPTIVE RIGHTS

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

### EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 29 to the financial statements.

The Company has adopted a share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme are set out in this paragraph headed "Share Award Scheme" above and note 30 to the financial statements.

None of the directors waived any emoluments during the year.

## REPORT OF THE DIRECTORS

### PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for eligible employees. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

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

### BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2016 is shown on pages 18 to 57.

### PERMITTED INDEMNITY PROVISION

Article 167 of the Company’s articles provides that every Director, secretary and other officers shall be indemnified out of the assets and profits of the Company against all actions, costs, losses and damages which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in his office, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to him.

### MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group’s largest and five largest customers were 4.8% (2015: 3.7%) and 15.4% (2015: 14.1%) of the Group’s total sales respectively.

Aggregate purchases attributable to the Group’s largest and five largest suppliers were 3.2% (2015: 3.7%) and 14.9% (2015: 15.7%) of the Group’s total purchases respectively.

At no time during the year ended 31 December 2016, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company’s share capital, have an interest in any of the Group’s five largest customers and suppliers.

### AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company’s issued Shares as required under the Listing Rules for the year ended 31 December 2016.

## REPORT OF THE DIRECTORS

### BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2016 are set out in note 24 to the financial statements.

### FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this annual report.

On behalf of the Board

**Ding Shui Po**

*Chairman*

Hong Kong, 17 March 2017