



*(Bermuda Company No. 43136)
(Incorporated as an exempted company
in Bermuda under the Companies Act 1981 of Bermuda)
(Malaysian Foreign Company Registration No. 995210-W)
(Registered as a foreign company
in Malaysia under the Companies Act, 1965 of Malaysia)*



www.xidelang.com.my

annual report **2016**



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NOTICE OF THE EIGHTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting of the Company will be held at Dewan Putra Perdana 1, Level 1, Putrajaya Shangri-La Hotel, Taman Putra Perdana, Presint 1, 62000 Wilayah Persekutuan, Putrajaya, Malaysia on Tuesday, 20 June 2017 at 10.00 a.m. to transact the following businesses:-

AGENDA

As Ordinary Business:-

1. To receive the Audited Financial Statements of the Company and of the Group and the Reports of the Directors and the Auditors thereon for the financial year ended 31 December 2016. *(Please refer to Explanatory Note 1)*
2. To approve the payment of Directors' fees of RMB567,346 for the financial year ended 31 December 2016. *(Ordinary Resolution 1)*
3. To re-elect the following Directors who retire pursuant to Bye-Law 86 of the Company's Bye-Laws:
 - 3.1 Ding PengPeng *(Ordinary Resolution 2)*
 - 3.2 Wong Yoke Nyen *(Ordinary Resolution 3)*

Dato' Mohamed Nazim Bin Abdul Razak, who is subject to retirement pursuant to the Bye-Law 86 of the Company's Bye-Laws, will be retiring at the conclusion of this Eighth Annual General Meeting of the Company. *(Please refer to Explanatory Note 2)*
4. To re-appoint Messrs BDO as Auditors of the Company and to authorise the Board of Directors to fix their remuneration. *(Ordinary Resolution 4)*

As Special Business:-

To consider and if thought fit, to pass the following Ordinary Resolutions, with or without modifications:-

5. **Proposed Renewal of Authority for Xidelang Holdings Ltd to Purchase its own Shares Pursuant to the Prevailing Laws, Main Market Listing Requirements and Bye-Laws ("Proposed Renewal of Share Buy-Back Authority")** *(Ordinary Resolution 5)*

"THAT subject always to the provisions of the Bye-Laws of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such amount of ordinary shares of USD0.01 each in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:-

- (i) the aggregate number of shares purchased does not exceed ten per centum (10%) of the total issued and paid-up share capital of the Company as quoted on Bursa Securities as at the point of purchase;

Notice of the Eighth Annual General Meeting (cont'd)

- ii) the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall be backed by an equivalent amount of retained profits and share premium; and
- (iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends.

THAT the authority conferred by this resolution will commence after the passing of this ordinary resolution and will continue to be in force until:-

- (a) the conclusion of the next Annual General Meeting ("AGM") at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to the Bye-Laws and the Prevailing Laws; or
- (c) revoked or varied by a resolution passed by the shareholders of the Company in a general meeting;

whichever is earlier;

AND THAT authority be and is hereby given unconditionally and generally to the Directors of the Company to take all such steps as are necessary or expedient (including without limitation, the opening and maintaining of central depository account(s) under the Securities Industry (Central Depositories) Act 1991 of Malaysia, and the entering into all other agreements, arrangements and guarantee with any party or parties) to implement, finalise and give full effect to the aforesaid purchase with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities and with the fullest power to do all such acts and things thereafter (including without limitation, the cancellation or retention as treasury shares of all or any part of the purchased shares or to resell the shares or distribute the shares as dividends) in accordance with the Bermuda Companies Act, 1981, the provisions of the Bye-Laws of the Company and the requirements and/or guidelines of Main Market Listing Requirements of Bursa Securities and all other relevant governmental and/or regulatory authorities."

6. Authority to Issue Shares

(Ordinary Resolution 6)

"THAT subject always to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby authorised pursuant to the Company's Bye-law 12 to issue shares in the Company at any time upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, PROVIDED THAT the aggregate number of new ordinary shares to be issued during the preceding 12 months pursuant to this resolution does not exceed ten per centum (10%) of the total issued share capital of the Company and that such authority shall unless revoked or varied by an ordinary resolution by the shareholders of the Company in general meeting commence upon the passing of this resolution until the conclusion of the next Annual General Meeting of the Company AND THAT the Directors are further authorised to do all such things and upon such terms and conditions as the Directors may deem fit and expedient in the best interest of the Company to give effect to the issuance of new ordinary shares under this resolution including making such applications to Bursa Malaysia Securities Berhad for the listing of and quotation for the new ordinary shares to be issued pursuant to this resolution."

Notice of the Eighth Annual General Meeting (cont'd)

7. Other Matter

To transact any other business that may be transacted at an annual general meeting of which due notice shall have been given in accordance with the Company's Bye-Laws and Bermuda Companies Act 1981.

BY ORDER OF THE BOARD
XIDELANG HOLDINGS LTD

Secretarius Services Sdn Bhd
Conyers Corporate Services (Bermuda) Limited (formerly known as Codan Services Limited)
Company Secretaries

Kuala Lumpur
28 April 2017

Notes:-

- i. *A member shall be entitled to appoint up to two (2) proxies to attend and vote at the same meeting. A proxy may but need not be a member of the Company. Where a member appoints more than one (1) proxy the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
- ii. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 of Malaysia, it may appoint at least one (1) proxy in respect of each securities account it holds which is credited with ordinary shares of the Company.*
- iii. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- iv. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of an office, attorney or other person duly authorised to sign the same.*
- v. *The instrument appointing a proxy must be deposited at the Company's registered office in Malaysia i.e. Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, at the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting i.e. on or before 10.00 a.m., Sunday, 18 June 2017 or any adjournment thereof.*
- vi. *Only members whose names appear in the Record of Depositors as at 13 June 2017 will be entitled to attend and vote at the meeting or appoint proxy (proxies) to attend and vote on their behalf.*

Notice of the Eighth Annual General Meeting (cont'd)

Explanatory Notes:-

1. Item 1 of the Agenda – Audited Financial Statements for the financial year ended 31 December 2016

The Agenda item is meant for discussion only as the provision of Section 84 of the Bermuda Companies Act, 1981 does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

2. Item 3 of the Agenda – Retirement of Director

Dato' Mohamed Nazim Bin Abdul Razak, who is retiring pursuant to the Bye-Law 86 of the Company's Bye-Laws, has indicated that he does not wish to seek re-election at this Eighth Annual General Meeting of the Company. Hence, he shall cease to be a Director of the Company upon the conclusion of the Eighth Annual General Meeting.

3. Item 5 of the Agenda – Ordinary Resolution 5

The proposed resolution, if passed, will allow the Company to purchase its own shares up to 10% of the total issued and paid-up capital of the Company by utilising the funds allocated which shall not exceed the earnings and/or share premium of the Company. Please refer to the Statement Accompanying Notice of Annual General Meeting in relation to the Proposed Renewal of Share Buy-Back Authority attached in the Annual Report 2016 of the Company for further details.

4. Item 6 of the Agenda – Ordinary Resolution 6

The proposed resolution is primarily to give flexibility to the Board of Directors to issue shares to such persons at any time in their absolute discretion without convening a general meeting. This authorisation will expire at the conclusion of the next Annual General Meeting of the Company.

As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the Seventh Annual General Meeting held on 16 June 2016 and which will lapse at the conclusion of the Eighth Annual General Meeting.

The purpose of this general mandate is for fund raising exercises including but not limited to further placement of shares for purposes of funding current and/or future investment projects, working capital, acquisition and/or for issuance of shares as settlement of purchase consideration.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

PROPOSED RE-ELECTION OF DIRECTORS

Details of the Directors standing for re-election are set out in the Profile of the Board of Directors contained in this Annual Report.

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

Definitions

Except where the context otherwise requires, the following definitions shall apply throughout this Statement:

“AGM”	:	Annual General Meeting of XiDeLang Holdings Ltd (“XiDeLang”)
“Board”	:	The Board of Directors of XiDeLang
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“CEO”	:	Chief Executive Officer
“China or PRC”	:	The People’s Republic of China
“Code”	:	Malaysian Code on Take-Overs and Mergers 2016, as amended from time to time and include any re-enactment thereof
“CMSA”	:	Capital Markets and Services Act 2007 of Malaysia
“Director(s)”	:	Has the meaning given in Section 2(1) of the CMSA
“EPS”	:	Earnings per share
“HongPeng International”	:	HongPeng International Holdings Ltd (British Virgin Island Company No.: 1526675), incorporated in British Virgin Island
“Listing Requirements”	:	Main Market Listing Requirements of Bursa Securities, including any amendment that may be made from time to time
“LPD”	:	14 April 2017, being the latest practicable date prior to the printing of this Statement
“Major Shareholder”	:	A person who has an interest or interests in one or more voting shares in a company and the nominal amount of the share, or the aggregate of the nominal amounts of those shares, is: <ol style="list-style-type: none"> a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the company; or b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the company where such person is the largest shareholder of the company
“NA”	:	Net assets
“Prevailing Laws”	:	Bermuda Companies Act, 1981, Malaysian Companies Act, 2016 and any prevailing laws, rules, regulations, orders, guidelines and requirements issued by the relevant authorities including but not limited to the Listing Requirements

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

Definitions (cont'd)

“Proposed Renewal of Share Buy-Back Authority”	:	Proposed renewal of existing authority for XiDeLang to carry out the Proposed Share Buy-Back
“Proposed Share Buy-Back”	:	Proposed authority for the Company to purchase its own shares up to 10% of its issued and paid-up share capital
“Purchased Shares”	:	Shares purchased pursuant to the Proposed Share Buy-Back
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“RMB” and “RMB cents”	:	PRC Renminbi and cents respectively
“Share(s)”	:	Ordinary share(s) of USD0.01 each in the capital of XiDeLang
“US”	:	United States of America
“USD” and “US cents”	:	US Dollar and cents respectively
“Warrants 2015”	:	Warrants issued by the Company on 3 July 2015 and are expiring on 2 July 2018, constituted by the deed poll dated 17 June 2015 and varied and amended by a supplemental deed poll dated 27 April 2016
“XiDeLang” or “Company”	:	XiDeLang Holdings Ltd (Bermuda Company Registration No. 43136) (Malaysian Foreign Company Registration No. 995210-W), incorporated in Bermuda as an exempted company under the Bermuda Companies Act, 1981 and registered as a foreign company in Malaysia under the Malaysian Companies Act, 1965
“XiDeLang Group” or “Group”	:	XiDeLang and its subsidiary companies as defined in Section 86 of the Bermuda Companies Act, 1981

Words incorporate the singular shall, where applicable, include the plural and vice versa and words incorporate the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Statement to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of a day in this Statement shall be a reference to Malaysian time, unless otherwise stated.

Statement Accompanying Notice of Annual General Meeting (cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

1. INTRODUCTION

The Board had, during the Company's Seventh AGM held on 16 June 2016 obtained the approval of its shareholders to purchase up to 10% of the Company's total issued and paid-up share capital as at the point of purchase. In accordance with the Listing Requirements governing the purchase of own shares by a listed company, the aforesaid approval will continue in force until the conclusion of the Company's forthcoming AGM which will be held on Tuesday, 20 June 2017 at 10.00 a.m..

In connection thereto, the Company had on 14 April 2017 announced its intention to seek the shareholders' approval for the Proposed Renewal of Share Buy-Back Authority at the forthcoming AGM of the Company.

The purpose of this Statement is to provide shareholders with the details of the Proposed Renewal of Share Buy-Back Authority and to seek the shareholders' approval for the ordinary resolution pertaining thereto to be tabled at the forthcoming AGM. Notice of the AGM and the Form of Proxy are enclosed in this Annual Report.

SHAREHOLDERS OF XIDELANG ARE ADVISED TO READ THE CONTENTS OF THIS STATEMENT CAREFULLY BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY.

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

2.1 Details of the Proposed Renewal of Share Buy-Back Authority

The Board proposes to seek approval from the shareholders for a renewal of authorisation to enable XiDeLang to purchase up to 10% of the issued and paid-up share capital of the Company quoted on the Main Market of Bursa Securities as at the point of purchase.

The Proposed Renewal of Share Buy-Back Authority shall be effective upon the passing of the ordinary resolution in the forthcoming AGM until:

- a) the conclusion of the next AGM of the Company at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
- b) the expiration of the period within which the next AGM of the Company is required to be held pursuant to the Bye-Laws and the Prevailing Laws; or
- c) revoked or varied by a resolution passed by the shareholders of the Company at a general meeting;

whichever occurs first.

The shareholders' approval for the Proposed Renewal of Share Buy-Back Authority does not impose an obligation on the Company to purchase its own Shares. However, it will further allow the Board to exercise the power of the Company to purchase its own Shares at any time within the abovementioned time period.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.2 Quantum

The maximum aggregate number of Shares, which may be purchased by the Company and / or hold as treasury shares shall not exceed 10% of the total issued and paid-up share capital of the Company at the point of purchase.

If the existing Warrants 2015 are exercised during the validity period, the maximum number of shares that can be purchased and / or hold may change from time to time during the validity period of the authority as detailed in Section 2.11 of this Statement, depending on XiDeLang enlarged issued and paid-up share capital at the time of purchase of its own Shares.

The actual number of Shares to be purchased will depend on market conditions and sentiments of Bursa Securities as well as the retained profits, share premium and financial resources available to the Company at the time of the purchase.

As at 14 April 2017, the issued and paid-up share capital of XiDeLang is USD26,954,821.54 comprising 2,695,482,154 ordinary shares of USD0.01 each (including 1,000 treasury shares and assuming the 1,000 treasury shares are resold in the market). The Proposed Renewal of Shares Buy-Back Authority will enable XiDeLang to purchase up to 269,548,215 Shares (including 1,000 treasury shares and assuming the 1,000 treasury shares are resold in the market), representing up to 10% of the issued and paid-up share capital of XiDeLang.

2.3 Pricing

Pursuant to Paragraph 12.17 of the Listing Requirements, the Company may only purchase its own shares at a price which is not more than 15% above the weighted average market price ("WAMP") of the Shares for the five (5) market days immediately preceding the date of the purchase(s).

According to Paragraph 12.18 of the Listing Requirements, the Company may resell the Purchased Shares held as treasury shares at:

- (i) a price which is not less than the WAMP for the shares for the five (5) market days immediately prior to the resale(s); or
- (ii) a discounted price of not more than 5% of the WAMP for the Shares for the five (5) market days immediately prior to the resale provided that the resale takes place no earlier than 30 days from the date of purchase and the resale price is not less than the cost of purchase of the shares being resold.

Statement Accompanying Notice of Annual General Meeting (cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.4 Funding

The maximum amount of funds to be allocated by the Company for the Proposed Renewal of Share Buy-Back Authority shall not exceed the retained profits and / or share premium account of the Company.

Based on the latest audited financial statements of XiDeLang as at 31 December 2016, the Company's audited retained earnings and share premium account stood at RMB50,413,000 (equivalent to RM32,259,278.70#) and RMB15,087,000 (equivalent to RM9,654,171.30#) respectively.

The funding for the Proposed Renewal of Share Buy-Back Authority will be made from internally generated funds of the Company and / or borrowings. The actual amount of borrowings will depend on the financial resources available at the time of purchase(s). The Proposed Renewal of Share Buy-Back Authority will reduce the cash flows of the Company by an amount equivalent to the purchase price of XiDeLang Shares and the actual number of XiDeLang Shares bought-back. Therefore, the Company will ensure that sufficient funds are available to effect the Proposed Renewal of Share Buy-Back Authority.

There is no restriction on the type of funds which may be utilised for the Proposed Renewal of Share Buy-Back Authority so long as it is backed by an equivalent amount of retained earnings and / or share premium account of the Company. In the event that the Company intends to purchase its own shares using bank borrowings, the Board shall ensure that the Company shall have sufficient funds to repay the bank borrowings and interest expense and that the repayment would not have any material effect on the cash flows of the Company.

Note

Based on the exchange rate as at the LPD i.e. RMB1 : RM0.6399

2.5 Ranking and Treatment of Purchased Shares

Pursuant to the Prevailing Laws, the Directors of the Company may deal with the Purchased Shares in the following manners:

- i) cancel the Purchased Shares; or
- ii) retain the Purchased Shares as treasury shares held by the Company; or
- iii) retain part of the Purchased Shares as treasury shares and / or cancel the remainder.

The Purchased Shares held as treasury shares may be distributed as share dividends to the shareholders of XiDeLang and / or resold on Bursa Securities in accordance with the relevant rules of Bursa Securities and / or subsequently cancelled.

Statement Accompanying Notice of Annual General Meeting (cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.5 Ranking and Treatment of Purchased Shares (Cont'd)

It is the present intention of the Board to retain the Purchased Shares as treasury shares and subsequently resell them on Bursa Securities if the opportunity arises for the Company to realise gains from the resale on Bursa Securities. However, the Board may distribute the Purchased Shares as share dividends, which will depend on the availability of, amongst others, retained profits, share premium and tax credits of the Company, or cancel the Purchased Shares if the Board decides to change the capital structure of the Company.

While the Purchased Shares are held as treasury shares, the rights attached to these Shares as to voting, dividends and participation in other distribution or otherwise, will be suspended and the treasury shares shall not be taken into account in calculating the number or percentage of Shares, or of a class of Shares in the Company for any purpose including major shareholdings, takeovers, notices, requisitioning of meetings, quorum for a meeting and the results of votes on resolutions at a meeting.

2.6 Public Shareholding Spread

The Proposed Renewal of Share Buy-Back Authority will be carried out in accordance with the Prevailing Laws at the time of the purchase including compliance with 25% public shareholding spread as required under Paragraph 8.02(1) of the Listing Requirements.

The public shareholding spread of the Company as at the LPD was 66.61%. The Company will endeavour to ensure that the Proposed Renewal of Share Buy-Back Authority will not breach Paragraph 12.14 of the Listing Requirements, which states that a listed company must not purchase its own Shares on Bursa Securities if the purchase(s) will result in the listed company being in breach of Paragraph 8.02(1) of the Listing Requirements.

2.7 Potential Advantages and Disadvantages

The potential advantages of the Proposed Renewal of Share Buy-Back Authority to the Company and its shareholders are as follows:

- (i) Allow the Company to take preventive measures against speculations, particularly when its shares are undervalued which would in turn stabilise the market price of Shares and hence, enhance investors' confidence;
- (ii) Allow the Company the flexibility in attaining its desired capital structure in terms of the debt and equity composition and the size of equity; and
- (iii) If the treasury shares are distributed as dividends by the Company, it may then serve to reward the shareholders of the Company.

Statement Accompanying Notice of Annual General Meeting (cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.7 Potential Advantages and Disadvantages (Cont'd)

The potential disadvantages of the Proposed Renewal of Share Buy-Back Authority to the Company and its shareholders are as follows:

- (i) The Proposed Renewal of Share Buy-Back Authority will reduce the financial resources of the Group and may result in the Group foregoing better investment opportunities that may emerge in the future; and
- (ii) As the Proposed Renewal of Share Buy-Back Authority can only be made out of the retained profits and share premium account of the Company, it may result in the reduction of financial resources available for distribution to shareholders in the immediate future.

Nevertheless, the Proposed Renewal of Share Buy-Back Authority is not expected to have any potential material disadvantages to the Company and its shareholders, as any share buy-back will be undertaken only after in-depth consideration of the financial resources of XiDeLang and the resultant impact on its shareholders. The Board, in exercising any decision in implementing the Proposed Share Buy-Back, will be mindful of the interests of the Company and its shareholders.

2.8 Purchase, Resale and / or Cancellation of Treasury Shares Made During the Financial Year Ended 31 December 2016

The Company did not purchase, resell and / or cancel any treasury shares during the financial year ended 31 December 2016.

2.9 Implication of the Code

Pursuant to Rule 4 of the Code, in the event the Proposed Share Buy-Back results in any major shareholder and / or persons acting in concert with him / her:

- (a) obtains controls in the Company; or
- (b) who already holds more than thirty-three per centum (33%) but not more than fifty per centum (50%) of the voting shares or voting rights in XiDeLang, increases his / her holding of the voting shares or voting rights of the Company by more than two per centum (2%) in any six (6) months period;

the affected major shareholder and / or persons acting in concert with him / her will be obliged to make a mandatory offer for the remaining XiDeLang Shares not held by him / her.

The direct shareholding of HongPeng International as at 14 April 2017 (being the last practicable date prior to the printing of this Statement) is approximately 33.39% of the issued and paid-up share capital of XiDeLang. In the event that the Proposed Share Buy-Back of up to approximately 10% is carried out in full and the shares purchased are cancelled, the shareholding of HongPeng International would increase to approximately 37.10% of the issued and paid-up share capital of the Company if the number of Shares held by HongPeng International remain unchanged. Pursuant to the Code, HongPeng International will be obliged to undertake a mandatory general offer for the remaining XiDeLang Shares not already held. HongPeng International is expected to make an application to Securities Commission Malaysia for waiver from implementing a mandatory general offer as required by the Code before triggering the obligation for mandatory general offer.

The Board is aware and will be mindful of the implications of the Code when making any purchase of XiDeLang Shares pursuant to the Proposed Renewal of Share Buy-Back Authority.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.10 Rationale for the Proposed Renewal of Share Buy-Back Authority

The procurement of the shareholders' approval for the Proposed Renewal of Share Buy-Back Authority would enable the Company to purchase Shares when appropriate and at prices which the Board views favourable.

The Proposed Renewal of Share Buy-Back Authority may enable the Company to utilise any of its surplus financial resources to purchase its own shares from the market. It may stabilise the supply and demand of Shares traded on the Main Market of Bursa Securities and thereby support its fundamental value.

The Proposed Renewal of Share Buy-Back Authority, if exercised, will enhance the EPS of XiDeLang Group as a result of a lower number of shares being taken into account for the purpose of computing the EPS, if the Purchased Shares are held as treasury shares or cancelled, which in turn is expected to have a positive impact on the market price of the Shares.

XiDeLang may utilise the treasury shares as future dividend pay-out to XiDeLang shareholders and / or for resale in the market should opportunities arise in the future.

2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority

The pro forma effects of the Proposed Renewal of Share Buy-Back Authority are based on the following assumptions:

(i) Minimum Scenario

Assuming that none of the outstanding Warrants 2015 of the Company as at the LPD are exercised into new Shares prior to the Company purchasing its own shares representing approximately ten percent (10%) of its issued and paid-up share capital and such Shares purchased are cancelled or alternatively be retained as treasury shares or both.

(ii) Maximum Scenario

Assuming that all of the outstanding Warrants 2015 of the Company as at the LPD are exercised into new Shares prior to the Company purchasing its own shares representing approximately ten percent (10%) of its issued and paid-up share capital and such Shares purchased are cancelled or alternatively be retained as treasury shares or both.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority (Cont'd)

(a) Issued and Paid-Up Share Capital

In the event that the Proposed Renewal of Share Buy-Back Authority is implemented in full and all the Shares purchased are subsequently cancelled, the pro forma effects of the Proposed Renewal of Share Buy-Back Authority on the issued and paid-up share capital of the Company as at the LPD are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of shares	Share Capital (USD)	No. of shares	Share Capital (USD)
Issued and paid-up share capital as at the LPD	2,695,481,154 ^(b)	26,954,811.54	2,695,481,154 ^(b)	26,954,811.54
Assuming full exercise of outstanding Warrants 2015	-	-	881,236,448 ^(c)	8,812,364.48
Maximum number of the Company's Shares that may be purchased pursuant to the Proposed Renewal of Share Buy-Back Authority	2,695,481,154 (269,548,115)	26,954,811.54 (2,695,481.15)	3,576,717,602 (357,671,760)	35,767,176.02 (3,576,717.60)
	2,425,933,039	24,259,330.39	3,219,045,842	32,190,458.42
		106,898,739.34		141,847,255.02

Notes

- (a) Translated based on the exchange rate as at the LPD i.e. USD1 : RM4.4065.
 (b) Excluding a total of 1,000 treasury shares held by the Company as at the LPD.
 (c) Total number of shares resulting from the exercise and conversion of Warrants 2015.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority (Cont'd)

(a) Issued and Paid-Up Share Capital (Cont'd)

However, in the event that all the Shares bought back are retained as treasury shares, resold or distributed as share dividends to shareholders, the Proposed Renewal of Share Buy-Back Authority will not have any effect on the issued and paid-up share capital of XiDeLang.

(b) NA

The effect of the Proposed Renewal of Share Buy-Back Authority on the consolidated NA of XiDeLang Group will depend on the purchase price of the XiDeLang Shares, the number of Shares purchased, the effective funding cost of XiDeLang Group to finance the share buy-back, if any, or loss in interest income to the Group, and whether the Purchased Shares are cancelled, retained as treasury shares, resold on Bursa Securities or distributed as share dividends to shareholders.

If all the Purchased Shares are cancelled, the Proposed Renewal of Share Buy-Back Authority would reduce the NA per share of XiDeLang Group if the purchase price of each Purchased Share exceeds the NA per share at the relevant point in time, and vice versa.

The NA of XiDeLang Group would decrease if the Purchased Shares are retained as treasury shares due to the requirement for treasury shares to be carried at cost and to be offset against equity, resulting in a decrease in the NA of XiDeLang Group by the cost of the treasury shares.

If the treasury shares are resold through Bursa Securities, the NA of XiDeLang Group would increase if the Company realises a gain from resale, and vice versa. If the treasury shares are distributed as share dividends, the NA of XiDeLang Group would decrease by the cost of the treasury shares.

(c) Working Capital

The Proposed Renewal of Share Buy-Back Authority is likely to reduce the working capital of XiDeLang, the quantum of which depends on the purchase price(s) and the number of Shares purchased. Nevertheless, the Board is mindful of the interest of XiDeLang and its shareholders in undertaking the Proposed Renewal of Share Buy-Back Authority and will assess the working capital needs of XiDeLang prior to any purchase of Shares.

(d) Earnings and EPS

The effect of the Proposed Renewal of Share Buy-Back Authority on the EPS of XiDeLang Group will depend on the purchase price of the Shares, the number of Shares purchased and the effective funding cost, if any, or any loss in interest income to the Group.

Assuming that the Purchased Shares are retained as treasury shares and subsequently resold, the effects on the EPS of XiDeLang Group will depend on the actual selling price, the number of the treasury shares resold and the effective gain or interest savings arising from the exercise.

If the Purchased Shares are retained as treasury shares or cancelled immediately, the Proposed Renewal of Share Buy-Back Authority will increase the EPS of XiDeLang Group provided that the income foregone and interest expenses incurred on the Purchased Shares is less than the EPS before the share buy-back.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority (Cont'd)
(e) Directors' and Substantial Shareholders' Shareholdings

The following tables illustrate the pro forma effects of the full implementation of the Proposed Renewal of Share Buy-Back Authority on the directors' and substantial shareholders' shareholdings respectively, based on the Registers of Directors' Shareholdings and Substantial Shareholders' Shareholdings as at the LPD:

(i) Minimum Scenario

	Existing shareholdings as at the LPD				Full implementation of the Proposed Renewal of Share Buy-Back Authority			
	Direct Interest		Indirect Interest		Direct Interest		Indirect Interest	
	No. of Shares	% ^(a)	No. of Shares	% ^(a)	No. of Shares	% ^(b)	No. of Shares	% ^(b)
Directors								
Ding LiHong ("DLH")	-	-	-	-	-	-	-	-
Ding PengPeng ("DPP") #	-	-	900,000,000	33.39	-	-	900,000,000	37.10
Ding PengWan ("DPW")	-	-	-	-	-	-	-	-
Lin YingYu ("LYY")	-	-	-	-	-	-	-	-
Dato' Mohamed Nazim Bin Abdul Razak ("Dato")	-	-	-	-	-	-	-	-
Zhu GuoHe ("ZGH")	-	-	-	-	-	-	-	-
Wong Yoke Nyen ("WYN")	-	-	-	-	-	-	-	-
Woon Yeow Thong ("WYT")	-	-	-	-	-	-	-	-
Substantial Shareholders								
HongPeng International	900,000,000	33.39	-	-	900,000,000	37.10	-	-
Ding PengPeng ("DPP") #	-	-	900,000,000	33.39	-	-	900,000,000	37.10

Notes

(a) Based on the issued and paid-up share capital of the Company comprising 2,695,481,154 Shares as at the LPD (after excluding 1,000 shares held as treasury shares as at the LPD).

(b) Based on the issued and paid-up share capital of the Company comprising 2,425,933,039 Shares after full implementation of the Proposed Renewal of Share Buy-Back Authority and assuming all the Shares purchased (including 1,000 shares held as treasury shares as at the LPD) are subsequently cancelled.

Deemed interested by virtue of his substantial shareholdings in HongPeng International.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority (Cont'd)
(e) Directors' and Substantial Shareholders' Shareholdings (Cont'd)

 (ii) Maximum Scenario

	(1)							
	Existing shareholdings as at the LPD			Assuming full exercise of the outstanding Warrants 2015				
	Direct Interest	Indirect Interest	Direct Interest	Indirect Interest	Direct Interest	Indirect Interest		
No. of Shares	% ^(a)	No. of Shares	% ^(a)	No. of Shares	% ^(b)	No. of Shares	% ^(b)	
Directors								
DLH	-	-	-	-	-	-	-	
DPP #	-	-	900,000,000	33.39	-	-	1,199,999,998 ^(c)	33.55
DPW	-	-	-	-	-	-	-	
LYY	-	-	-	-	-	-	-	
Dato	-	-	-	-	-	-	-	
ZGH	-	-	-	-	-	-	-	
WYN	-	-	-	-	-	-	-	
WYT	-	-	-	-	-	-	-	
Substantial Shareholders								
HongPeng International	900,000,000	33.39	-	-	1,199,999,998 ^(c)	33.55	-	
DPP #	-	-	900,000,000	33.39	-	-	1,199,999,998 ^(c)	33.55

Notes

- (a) Based on the issued and paid-up share capital of the Company comprising 2,695,481,154 Shares as at the LPD (after excluding 1,000 shares held as treasury shares as at the LPD).
- (b) Based on the issued and paid-up share capital of the Company comprising 3,576,717,602 Shares after taking into consideration the issuance of 881,236,448 new Shares arising from the full exercise of Warrants 2015 (after excluding 1,000 Shares held as treasury shares as at the LPD).
- (c) The 299,999,998 Warrants 2015 held by HongPeng International as at the LPD are assumed to be fully exercised.
- # Deemed interested by virtue of his substantial shareholdings in HongPeng International.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)
2.11 Financial Effect of the Proposed Renewal of Share Buy-Back Authority (Cont'd)
(e) Directors' and Substantial Shareholders' Shareholdings (Cont'd)

(ii) Maximum Scenario (Cont'd)

	(2)		After (1) and assuming full implementation of Proposed Renewal of Share Buy-Back Authority	
	Direct Interest	% ^	Indirect Interest	% ^
	No. of Shares	No. of Shares	No. of Shares	% ^
Directors				
DLH	-	-	-	-
DPP #	-	-	1,199,999,998	37.28
DPW	-	-	-	-
LYY	-	-	-	-
Dato	-	-	-	-
ZGH	-	-	-	-
WYN	-	-	-	-
WYT	-	-	-	-
Substantial Shareholders				
HongPeng International	1,199,999,998	37.28	-	-
DPP #	-	-	1,199,999,998	37.28

Notes

^ Based on the issued and paid-up share capital of the Company comprising 3,219,045,842 Shares after full implementation of the Proposed Renewal of Share Buy-Back Authority and assuming all the Shares purchased (including 1,000 shares held as treasury shares as at the LPD) are subsequently cancelled.

Deemed interested by virtue of his substantial shareholdings in HongPeng International.

Statement Accompanying Notice of Annual General Meeting
(cont'd)

PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. INFORMATION ON THE PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2.11 Interest of Directors, Substantial Shareholders and / or Persons Connected to Them

Save for the proportionate increase in the percentage of shareholdings and voting rights as shareholders of the Company as a consequence of the Proposed Renewal of Share Buy-Back Authority (which all other shareholders of the Company are similarly entitled to), none of the Directors and / or substantial shareholders of XiDeLang and / or persons connected to them, has any interest, direct and indirect, in the Proposed Renewal of Share Buy-Back Authority or resale of treasury shares, if any.

3. APPROVALS REQUIRED

The Proposed Renewal of Share Buy-Back Authority is subject to the approval being obtained from the shareholders of XiDeLang at the forthcoming AGM to be convened.

4. DIRECTORS' STATEMENT AND RECOMMENDATION

The Directors have considered all aspects of the Proposed Renewal of Share Buy-Back Authority and are of the opinion that the Proposed Renewal of Share Buy-Back Authority is in the best interest of the Company and its shareholders.

Accordingly, the Directors recommend that the shareholders vote in favour of the ordinary resolution pertaining to the Proposed Renewal of Share Buy-Back Authority to be tabled at the forthcoming AGM to be convened.

5. STATEMENT BY BURSA SECURITIES

Bursa Securities takes no responsibility for the contents of this Statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Statement.

6. FURTHER INFORMATION

The resolution pertaining to the Proposed Renewal of Share Buy-Back Authority is enclosed in the Notice of the AGM.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding LiHong

Executive Chairman
Non-Independent Director

Ding PengPeng

Managing Director /
Chief Executive Officer ("CEO")
Non-Independent Director

Ding PengWan

Executive Director /
Deputy CEO cum Chief Operating Officer
Non-Independent Director

Lin YingYu

Executive Director
Non-Independent Director

Dato' Mohamed Nazim

Bin Abdul Razak
Deputy Chairman
Independent Non-Executive Director

Zhu GuoHe

Senior Independent
Non-Executive Director

Wong Yoke Nyen

Independent Non-Executive Director

Woon Yeow Thong

Independent Non-Executive Director

PRINCIPAL PLACE OF BUSINESS

Head Office & Production Centre

XiDeLang Industrial Park
Neikeng Town
Jinjiang City, Fujian Province
People's Republic of China

Tel: +86 (595) 8677 6888

Fax: +86 (595) 8677 7222

Email: xdl@xidelang.com.cn

Website: www.xidelang.com.my

COMPANY SECRETARIES

Secretarius Services Sdn. Bhd.

Conyers Corporate Services (Bermuda)
Limited (formerly known as Codan
Services Limited)
(Assistant Secretary)

AUDITORS

BDO (AF 0206), Malaysia
Chartered Accountants
Level 8, BDO @ Menara CenTARA
360 Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur
Malaysia

Tel: +603 - 2616 2888

Fax: +603 - 2616 3190

REGISTERED OFFICE IN BERMUDA

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Tel: +1 (441) 295 1422

Fax: +1 (441) 292 4720

REGISTERED OFFICE IN MALAYSIA

Unit 30-01, Level 30, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8 Jalan Kerinchi
59200 Kuala Lumpur
Wilayah Persekutuan, Malaysia

Tel: +603 - 2783 9191

Fax: +603 - 2783 9111

AGENT IN MALAYSIA

PFA Corporate Consultants Sdn. Bhd.

Unit 30-01, Level 30, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8 Jalan Kerinchi
59200 Kuala Lumpur
Wilayah Persekutuan, Malaysia

Tel: +603 - 2783 9191

Fax: +603 - 2783 9111

BERMUDA SHARE REGISTRAR

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Tel: +1 (441) 295 1422

Fax: +1 (441) 292 4720

MALAYSIAN SHARE REGISTRAR

Tricor Investor & Issuing House
Services Sdn. Bhd.

Office

Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No. 8 Jalan Kerinchi
59200 Kuala Lumpur
Wilayah Persekutuan, Malaysia

Tel: +603 - 2783 9299

Fax: +603 - 2783 9222

Customer Service Center

Unit G-3, Ground Floor,
Vertical Podium, Avenue 3
Bangsar South, No. 8 Jalan Kerinchi
59200 Kuala Lumpur,
Wilayah Persekutuan, Malaysia

PRINCIPAL BANKERS

People's Republic of China ("China")

Industrial and Commercial Bank
of China
(中国工商银行)

Fujian Jinjiang Rural Commercial Bank,
China
(中国福建晋江农村商业银行)

Bank of Communications, China
(中国交通银行)

Malaysia

AmBank

STOCK EXCHANGE LISTING

Main Market
Bursa Malaysia Securities Berhad
Stock Name / Code: XDL 5156
ISIN: BMG9828L1072

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS	2012	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	947,398	646,200	530,035	544,812	503,834
Gross profit	289,847	171,701	130,751	103,193	83,928
Profit before tax	222,625	137,840	67,208	12,370	11,270
Net profit for the financial year	165,788	103,575	49,579	6,798	6,934
OTHER KEY FINANCIAL DATA	2012	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	1,046,450	1,148,289	1,300,117	1,402,713	1,414,575
Total liabilities	143,575	166,062	115,258	159,051	163,979
Net current assets	381,771	362,227	571,275	643,469	665,807
Net assets / Shareholders' equity	902,875	982,227	1,184,859	1,243,662	1,250,596
Borrowings	Nil	10,000	10,000	10,000	10,000
KEY FINANCIAL INDICATORS	2012	2013	2014	2015	2016
	%	%	%	%	%
Gross profit margin	30.59	26.57	24.67	18.94	16.66
Net profit margin	17.50	16.03	9.35	1.25	1.38
Borrowings-to-Equity	Nil	1.02	0.84	0.80	0.80
	('000 units)	('000 units)	('000 units)	('000 units)	('000 units)
Weighted average ordinary shares in issue ⁽¹⁾	1,791,140	1,814,996	2,264,518	2,510,872	2,695,480
Adjusted number of ordinary shares outstanding as at the financial year-end ("Outstanding OS") ⁽²⁾	1,633,496	1,633,496	2,298,994	2,695,480	2,695,482
	RMB cent	RMB cent	RMB cent	RMB cent	RMB cent
Basic earnings per share (based on weighted average ordinary shares in issue)	9.256	5.707	2.189	0.271	0.257
Net assets per share (based on Outstanding OS)	55.273	60.130	51.538	46.139	46.396

(1) Weighted average ordinary shares in issue were derived after adjusting for effects of bonus issues.

(2) Based on ordinary shares outstanding as at the financial year-end, after adjusting for effects of bonus issues.

CORPORATE STRUCTURE



XIDELANG HOLDINGS LTD
(Bermuda)

Investment Holding

100%

HongKong XinYuanChan
International Holding Co., Limited
("XinYuanChan")
(Hong Kong)
Investment Holding

100%

HongPeng Fujian Shoes & Garments Co., Ltd
("HongPeng Fujian")
(China)
*Design, manufacturing and marketing of sports shoes as well as
design and marketing of sports apparel,
accessories and equipment*

100%

Fujian Province Jinjiang City
Chendai HongPeng Footwear
Manufacturing Co., Ltd
("HongPeng Footwear")
(China)
Design, manufacturing and marketing of sports shoes

100%

Fujian Province Jinjiang City
XiDeLang Sports Goods Co., Ltd
("XDLSG")
(China)
Owner of the proprietary 'XiDeLang' brand

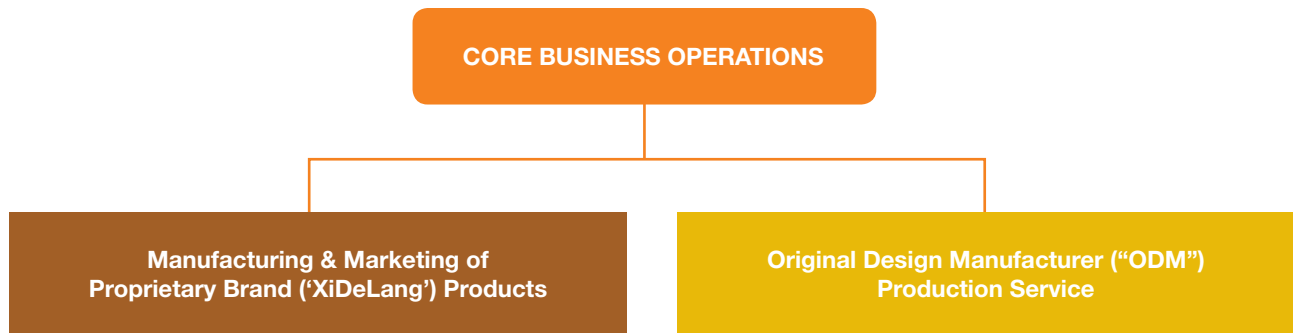
AWARDS AND ACCREDITATIONS

Over the years, the Group has received numerous awards and accolades for outstanding achievement as one of the leading players in the sportswear industry of China. These recognitions serve as inspiration for the Group and our team to uphold quality excellence in our products in line with our commitment to the consumers.

Awards and accreditations	Awarded by
Annual Most Influential Sportswear Brand (2013 – 2014) (2013-2014年度最具影响力品牌)	“shoes.hc360.com” – business-to-business website operated by HC International Inc. listed on Hong Kong Stock Exchange (慧聪鞋网)
Top 10 Influential Sportswear Brand (2012 – 2013) (十佳最具影响力品牌 ~ 2012-2013年度)	“shoes.hc360.com” – business-to-business website operated by HC International Inc. listed on Hong Kong Stock Exchange (慧聪鞋网)
Top 10 Best Sportswear Brand (2012 – 2013) (十佳运动鞋品牌 ~ 2012-2013年度)	“shoes.hc360.com” – business-to-business website operated by HC International Inc. listed on Hong Kong Stock Exchange (慧聪鞋网)
Outstanding Performance Award (十年讯网 • 卓越引领奖)	XunWang Technology, a Fujian-based company who operates several leading business-to-business and business-to-consumer e-commerce websites (福建省讯网网络科技有限公司)
2012 China Sportswear Brand with Most Growth Potential & Customer Satisfaction (2012中国最具成长性、顾客满意度鞋类品牌)	China Leather & Footwear Productivity Promotion Center (国家皮革和制鞋行业生产力促进中心) National Footwear Industry Information Center (全国制鞋工业信息中心)
Top 10 Best Sportswear Brand (十佳运动鞋品牌)	China Leather & Footwear Productivity Promotion Center (国家皮革和制鞋行业生产力促进中心) National Footwear Industry Information Center (全国制鞋工业信息中心)
Recognition – Jinjiang Five Primary Strategic Development Projects in 2013 (2013年度 - 五大战役项目先进企业)	People’s Government of Jinjiang City, Fujian Province (晋江市人民政府)
Award for Outstanding Contribution to the Development of West Coast, Fujian Province (闽商建设海西 – 突出贡献奖)	People’s Government of Fujian Province (福建省人民政府)
Green Factory - 2012 (绿色厂区)	Green Committee of Jinjiang City (晋江市绿化委员会)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW



Our Group's humble beginning can be traced back to 1993 when HongPeng Footwear was founded in Jinjiang City, Fujian Province, China to carry out manufacturing of sports shoes. Our Group promptly recognised that it is important to create a proprietary brand to help differentiate ourselves from other industry players, and to move up the value chain. Accordingly, our Group's proprietary brand name – 'XiDeLang' was created.

To facilitate the management process, HongPeng Fujian was established in 1996 to focus on design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment under 'XiDeLang' brand; whilst HongPeng Footwear concentrates on manufacturing of sports shoes for external customers where the products are primarily for distribution in overseas markets.

Our Group's objectives, focus and business strategies for the two core business operations are discussed below.

Proprietary Brand ('XiDeLang') Operation

- Objective:

To become leading brand for trendy casual sportswear in China.

- Targeted Customer:

End-consumers, mass market in China.

- Distribution Channel:

Primarily through the authorised distributors who are responsible to coordinate and manage the retail outlets across various cities in China. Our Group enjoyed market presence in 23 cities within China during year 2016, consistent with prior year.

In view of the rapid growth of e-commerce trend in recent years, our Group has also embarked on online-to-offline marketing strategy after communication and coordination with the authorised distributors. Products are listed on third party China-based online marketplaces to generate additional market awareness, with the ultimate aim to attract consumers to the physical retail outlets.

Management Discussion and Analysis (cont'd)

BUSINESS OVERVIEW (CONT'D)

Proprietary Brand ('XiDeLang') Operation (Cont'd)

- Focus and business strategies:

(a) Brand management

The brand positioning for 'XiDeLang' is casual sportswear targeting the mass market of China and accommodating the demands from younger generation in the urban areas. We are committed to provide the consumers with 'value-for-money' sportswear, combining functionality with fashion.

Our Group has remained cost-conscious in formulating the marketing strategies amid the challenging conditions encountered by China's sportswear industry in recent years, balancing the needs to maintain adequate level of brand awareness and cost control.

Our Group has adopted a multi-medium marketing approach to reach out to end-consumers and strengthen the brand equity, which encompasses:

- ✓ Television and radio advertising for wide coverage;
- ✓ Brochures and other promotional campaigns coordinated by the authorised distributors, for local coverage; and
- ✓ Product listings on third party China-based online marketplaces.

(b) Product innovation

Over the years, consumers in China have become more discerning and grown more sophisticated in terms of demands and expectations, making their preference less predictable. Product innovation in terms of design appearance, functionality and specifications has become one of the essential components for sportswear companies to stay competitive and to sustain the consumers' brand loyalty.

Continuous product innovation has always been one of the key emphasis of our Group. To accommodate the fast-changing fashion trend and consumers' preferences, we plan our product launching carefully to ensure that new models are introduced into the market periodically to sustain the consumers' interests in our brand. New models are usually introduced into the market in conjunction with the seasonal transition.

To ensure that our products will appeal to the consumers, we gather inputs via various channels and from various parties:

- (i) Our sales and marketing personnel engage the authorised distributors regularly to gather the end-consumers' feedbacks and insights to the consumers' preferences;
- (ii) Our purchasing team communicates with our raw material suppliers regularly to gather updates on new materials for footwear production; and
- (iii) Our in-house research and product development team will keep abreast with the changes in market trend and new technologies available in the market.

Our in-house research and product development team will consolidate the insights and updates from the marketing team and purchasing team with their own findings in developing new models and in improving the existing well-received models.

Management Discussion and Analysis (cont'd)

BUSINESS OVERVIEW (CONT'D)

Proprietary Brand ('XiDeLang') Operation (Cont'd)

- Focus and business strategies (cont'd):

(c) Supply-chain management and quality control

Our Group has continued to build on the production capability and capacity throughout the years. Relocation to our Group's present headquarter and production centre (with a built-up area of over 110,000 square meters) in 2013 has enabled us to expand our production capacity and to centralise the sports shoes manufacturing operations at single location, thereby allowing us greater flexibility and efficiency in accommodating the changes in market demands.

'XiDeLang' sports shoes are designed in-house by our research and product development team and manufactured internally. This enables us better integration and control for the entire production flow, as all key aspects (conceptual design, raw material procurement, costing, production process and production time) are considered and ascertained early at the design stage.

Production of 'XiDeLang' sports apparel, accessories and equipment are outsourced to external manufacturers, with a combination of in-house designs and recommended designs by the external manufacturers.

Our Group maintains a close relationship with the raw material suppliers and outsourced apparels, accessories and equipment manufacturers to ensure that the incoming supplies are of good quality with prompt delivery. All the supplies are sourced domestically, with majority of the suppliers located within the neighbouring areas. The close proximity allows us better communication with our suppliers, where any issues concerning the supplies can be resolved expediently.

Quality control has always been the key priority of our Group, as we are committed to providing the end-consumers with products that are reliable and safe to use. Incoming supplies are inspected prior to acceptance to ensure that they meet the desired specifications. In-house production is carefully monitored with checks and controls incorporated into the various stages of production for prompt detection of any defects. Finished products have to undergo various testing and inspection for quality assurance prior to delivery.

(d) Distribution network management

Our Group collaborates with the authorised distributors to create a wide retail network coverage across the dispersed provinces and cities in China. This model enables us to leverage on the knowledge and familiarity of the authorised distributors on the local markets for the effective monitoring and management of the retail outlets, without having to increase headcounts and incur additional administrative costs.

Over the years, our Group has established a relatively mature distribution and retail network with presence over 23 provinces and cities within China. Our Group now places the emphasis on improving the retail efficiency of the existing outlets and have been coordinating with the authorised distributors and retailers for several reform initiatives:

- Promoting brand unity, where standardised layout and promotional materials are adopted for the retail outlets.
- Optimising the retail outlets coverage, where smaller size and less profitable stores were either closed or merged to form a flagship store, so that resources can be concentrated on areas with sustainable profitability and growth potential.

Management Discussion and Analysis (cont'd)

BUSINESS OVERVIEW (CONT'D)

Proprietary Brand ('XiDeLang') Operation (Cont'd)

- Focus and business strategies (cont'd):
 - (d) Distribution network management (cont'd)
 - Optimising the in-store inventory level, where authorised distributors and retailers are encouraged to be more flexible in making replenishment orders in accordance to the market conditions and demands. Our Group's marketing team maintains close communication with the authorised distributors and retailers, with periodic visit to the retail outlets as part of the proactive control to prevent overstocking issues.
 - Modernising the layout of the retail outlets, to enhance the brand appeal to the younger generation and to improve the in-store experience of the consumers in line with our online-to-offline marketing strategy.

ODM Production Service

- Objective:

To become the reliable, trusted production partner for international brand names.
- Targeted Customer:

International brand names, where products are primarily for distribution in overseas markets.
- Distribution Channel:

Foreign trading / export companies and intermediaries based in China
- Focus and business strategies:
 - (a) Production and design capability and capacity

The relocation to our Group's present headquarter and production centre, which comes with wider production floor, has enabled us to install additional production lines to enhance our production and design capability as well as to expand our production capacity.

The enhanced production and design capability and increased production capacity are part of the key components which our Group leverages on to secure new ODM production orders, and enhance customers' confidence for recurring orders.
 - (b) Quality control

Our Group practices stringent checks and controls to uphold our quality commitment to the ODM customers. Raw materials to be used for the production are inspected to ensure adherence to the agreed specifications. Checks and controls are carried out at various stages of the production to ensure prompt detection of any defects and deviations from the agreed specifications. Finished products have to undergo various testing and inspection for quality assurance prior to delivery.

Management Discussion and Analysis (cont'd)

REVIEW OF OPERATING ACTIVITIES

	Financial Year Ended 31 December		Variance (%) 2016 vs 2015
	2015 (RMB'000)	2016 (RMB'000)	
Overall revenue	544,812	503,834	↓ 7.52
Analysis by business segment			
Own-branding			
• sports shoes	268,032	331,011	↑ 23.50
• sports apparel, accessories & equipment	135,935	19,485	↓ 85.67
ODM operations – sports shoes	140,845	153,338	↑ 8.87

	Financial Year Ended 31 December		Variance (%) 2016 vs 2015
	2015 ('000 Units Sold)	2016 ('000 Units Sold)	
Analysis by business segment			
Own-branding			
• sports shoes (pairs)	3,332	4,129	↑ 23.92
• sports apparel, accessories & equipment (pieces)	2,181	227	↓ 89.59
ODM operations – sports shoes (pairs)	2,243	2,414	↑ 7.62



Management Discussion and Analysis (cont'd)

REVIEW OF OPERATING ACTIVITIES (CONT'D)

Proprietary Brand ('XiDeLang') Operation

During the financial year under review, revenue from own-branding sports shoes improved from RMB268.03 million in the preceding year to RMB331.01 million representing a growth of 23.50%. This was primarily attributable to the increase in volume sold.

The primary factor contributing to the higher volume sold for own-branding sports shoes is the growing demand in China. According to the statistics published by the National Bureau of Statistics of China ("NBS"), total retail sales of clothing and footwear in China recorded a year-on-year growth of 7.0% for year 2016. The growing consumption for sportswear in China is supported by the following:

- Rising population with increasing urbanisation rate. China recorded a natural population growth rate of 5.86% in 2016, with a total population of over 1.38 billion as of the end of 2016 according to the statistics released by NBS;
- Increasing purchasing power of the urban residents as a result of income growth. Per capita annual disposable income of China's urban residents grew to RMB33,616 in 2016, representing a year-on-year growth of 5.6% (after adjusting for price factors) according to statistics by NBS;
- Improving health awareness and increasing participation in sports and exercise by China citizens; and
- Active measures and policies implemented by the Government of China to boost private consumption.

Revenue from own-branding sports apparel, accessories and equipment, however, decreased from RMB135.94 million in the preceding year to RMB19.49 million during the financial year under review as a result of lower volume sold. This was primarily attributable to the calculated cutback by our Group in the supply of own-branding sports apparel, accessories and equipment.

During the financial year under review, in view of the sudden glut and intensifying competition within the apparels market in China which has resulted in margin pressure, our Group decided to implement a managed slowdown in the supply of own-branding sports apparel, accessories and equipment while stepping up the efforts to solidify the manufacturing and sales of own-branding casual sports shoes to capture the encouraging market demands.

Our Group will continue to monitor closely the conditions and developments of the apparels market in China, and where necessary, will make prompt adjustment to our business strategies in relation to the supply of own-branding sports apparel, accessories and equipment.

As an initiative to reduce reliance on outsourced production and to achieve greater integration for the supply of own-branding sports apparel, accessories and equipment, our Group had previously entered into a heads of agreement on 29 July 2015 to acquire the entire business and undertakings of Jinjiang Yangsen Garments Co., Ltd including all of its assets and certain agreed liabilities. Relevant announcements had been made to Bursa Malaysia Securities Berhad ("Bursa Securities"). The aforementioned proposed acquisition had been mutually terminated during the financial year under review, on 29 February 2016, as both parties were unable to come to an agreement on the acquisition consideration and the proportion of acquisition consideration to be satisfied in cash and via issuance of shares.

Moving forward, our Group plans to explore further on e-commerce, particularly on strengthening the online-to-offline marketing efforts to complement the existing retail network through authorised distributors and retailers.

In addition to that, our Group will, from time to time, identify any potential merger and acquisition opportunities, joint-venture opportunities and / or collaboration opportunities that may further strengthen the market competitiveness of our Group and improve our Group's operational efficiency and financial performance.

Management Discussion and Analysis (cont'd)

REVIEW OF OPERATING ACTIVITIES (CONT'D)

ODM Production Service

Revenue from ODM production of sports shoes for external customers improved from RMB140.85 million in the preceding year to RMB153.34 million during the financial year under review, representing a growth of 8.87%. This was primarily attributable to the increase in quantities sold.

Factors contributing to the increasing orders for ODM production of sports shoes attained by our Group include the following:

- Improving market demands for sportswear in the overseas markets, particularly sports-inspired footwear; and
- Our Group's enhanced production and design capability as well as increased production capacity, which have boosted the customers' confidence on us.

Moving forward, to further expand the ODM operations, our Group plans to:

- Identify any collaboration or joint-venture opportunities with foreign trading / export companies with the aim to enlarge the customer base for ODM production and to be able to have direct business dealings with the international brand names;
- Identify any strategic alliance, merger or acquisition opportunities with China-based ODM apparels producers with the aim to diversify and complement our Group's existing ODM sports shoes production, as well as for cross-selling.

FINANCIAL ANALYSIS

(1) Revenue

During the financial year under review, our Group recorded total revenue of RMB503.83 million, lower by approximately RMB40.98 million or 7.52% as compared to total revenue of RMB544.81 million in the preceding year.

The moderation was primarily due to the managed slowdown in the supply of own-branding sports apparel, accessories and equipment implemented by our Group in view of the sudden glut and intensifying competition within the apparels market of China, which had resulted in an unparalleled decrease in quantities sold for own-branding sports apparel, accessories and equipment during the financial year under review.

The impact of reduced contribution from own-branding sports apparel, accessories and equipment for the financial year under review was, however, partially mitigated by additional contributions from own-branding sports shoes and ODM production of sports shoes as a result of increase in quantities sold in line with growing market demands.

(2) Other Income

Other income comprised mainly interest income earned by our Group. Other income for the financial year under review stood at approximately RMB2.06 million, decreased by approximately RMB0.69 million or 25.09% as compared to RMB2.75 million in the preceding year as a result of non-recurrence of realised gain on foreign exchange of RMB0.60 million recorded in prior year.

Management Discussion and Analysis (cont'd)

FINANCIAL ANALYSIS (CONT'D)

(3) Administrative and Other Expenses

During the financial year under review, administrative and other expenses incurred by our Group stood at RMB74.02 million, representing savings of RMB18.06 million or 19.61% as compared to administrative and other expenses of RMB92.08 million incurred in prior year.

The key components of administrative and other expenses for the financial year under review comprised the following:

- Employee benefits (including the directors' remuneration) amounted to RMB18.92 million (2015: RMB32.77 million), representing savings of RMB13.85 million or 42.26% as compared to preceding year. This was primarily due to non-recurrence of one-off expenses amounted to RMB13.10 million in relation to share options granted under share options scheme incurred in prior year; and
- Brand promotion and advertisement costs amounted to RMB41.05 million (2015: RMB42.03 million), which had remained relatively consistent with prior year. The ratio of brand promotion and advertisement costs to the Group's total revenue stood at 8.15% (2015: 7.71%), which was largely consistent with the trend of other leading industry players.

(4) Effective tax rate

The Group's effective tax rate stood at approximately 38.47% for the financial year under review, lower as compared to 45.04% in the preceding year. The effective tax rate was higher than the statutory tax rates applicable to our Group primarily due to the following factors:

- Certain expenses were not allowed for deduction for the purpose of tax computation;
- Deferred tax assets have not been recognised for temporary differences arising from the unused tax losses of a subsidiary; and
- Withholding tax on undistributed profits of the Group's subsidiaries in China were accounted for as deferred tax liabilities.



Management Discussion and Analysis (cont'd)

FINANCIAL ANALYSIS (CONT'D)

(5) Profitability

Despite the market challenges, our Group continued to be profitable during the financial year under review, upholding the uninterrupted profit track record since the Company's listing on the Main Market of Bursa Securities.

	Financial Year Ended 31 December		Variance (%) 2016 vs 2015
	2015 (RMB'000)	2016 (RMB'000)	
• Gross profit ("GP")	103,193	83,928	↓ 18.67
• Profit before tax ("PBT")	12,370	11,270	↓ 8.89
• Net profit ("NP")	6,798	6,934	↑ 2.00
Financial ratios			
• GP Margin	18.94%	16.66%	
• PBT Margin	2.27%	2.24%	
• NP Margin	1.25%	1.38%	

The fluctuations in the profit levels were primarily attributable to the reasons explained in earlier sections. Profit margins achieved for the financial year under review were relatively consistent with prior year, save for a slight decrease in GP margin. This was primarily due to lower contribution from sales of own-branding sports apparel, accessories and equipment during the financial year, which historically fetched slightly higher margin as compared to sales of sports shoes.

(6) Financial Position

	[----- As at 31 December -----]		Variance (%) 2016 vs 2015
	2015 (RMB'000)	2016 (RMB'000)	
• Total assets	1,402,713	1,414,575	↑ 0.85
• Total liabilities	159,051	163,979	↑ 3.10
• Net assets / Shareholders' equity	1,243,662	1,250,596	↑ 0.56
• Net current assets	643,469	665,807	↑ 3.47
Financial ratios			
• Quick ratio ⁽¹⁾	554.11%	555.80%	
• Debt-to-equity ratio ⁽²⁾	12.79%	13.11%	

Remark

⁽¹⁾ Formula: $(\text{Cash and cash equivalents} + \text{Loans and receivables}) / \text{Current liabilities}$

⁽²⁾ Formula: $\text{Total liabilities} / \text{Shareholders' equity}$

Our Group maintains a healthy financial position as of 31 December 2016, with no significant variance as compared to prior year.

Management Discussion and Analysis (cont'd)

FINANCIAL ANALYSIS (CONT'D)

(7) Liquidity

Working Capital Turnover Days	[----- As at 31 December -----]	
	2015 (Days)	2016 (Days)
• Inventories ⁽¹⁾	6	6
• Trade receivables ⁽²⁾	177	172
• Trade payables ⁽³⁾	(83)	(88)
Net working capital turnover days	100	90

Remark

⁽¹⁾ Formula: $\text{Inventories} / \text{Cost of sales} \times 365 \text{ days}$

⁽²⁾ Formula: $\text{Trade receivables} / \text{Total revenue} \times 365 \text{ days}$

⁽³⁾ Formula: $\text{Trade payables} / \text{Cost of sales} \times 365 \text{ days}$

The net working capital turnover days have been shortened from 100 days in 2015 to 90 days for the financial year under review, indicating an improvement in working capital management. This was primarily due to the following:

- (i) Regular monitoring and follow-up on collections from receivables, which had resulted in the decrease of past due trade receivables' balances for the financial year under review as compared to preceding year; and
- (ii) Slight increase in trade payables' turnover period, in line with the longer credit terms granted to our Group by the trade payables which had been raised from 90 days in prior year to 120 days for the financial year under review.

Cash Flows Movements	Financial Year Ended 31 December	
	2015 (RMB'000)	2016 (RMB'000)
Net cash (used in) / from operating activities	(46,946)	52,346
Net cash (used in) / from investing activities	(636)	1,639
Net cash from / (used in) financing activities	38,929	(438)
Net movement in cash and cash equivalents	(8,653)	53,547

During the financial year under review, our Group recorded net cash inflows of approximately RMB53.55 million as compared to net cash outflows of RMB8.65 million in prior year. This was primarily due to the abovementioned measures implemented by our Group to enhance working capital and cash flows management.

Management Discussion and Analysis (cont'd)

FINANCIAL ANALYSIS (CONT'D)

(8) Capital Requirements, Structure & Resources

Our Group's capital commitment as of 31 December 2016 was as stated below:

	RMB'000
Capital expenditure in respect of purchase of property, plant and equipment	40,248

Our Group had raised net proceeds (after deducting the relevant expenses) of RMB83.70 million, which translated into RMB151.25 million, from the renounceable rights issue exercise completed on 27 January 2014. The net proceeds raised was earmarked to fund the stage-2 construction of our Group's design and production centre ("Stage-2 Construction"). For further details, kindly refer to the abridged prospectus dated 23 December 2013.

Apart from that, our Group had obtained a 6-year term loan facility amounting to RMB130 million on 28 September 2013 from the Industrial and Commercial Bank of China ("ICBC") to part finance the Stage-2 Construction. Subsequently on 10 September 2014, our Group had obtained additional credit facilities of up to RMB96.27 million.

As of 31 December 2016, the Stage-2 Construction was still awaiting the necessary approvals and accordingly, the actual capital expenditure requirements cannot be ascertained at this juncture. Our Group will assess the capital expenditure required and reflect the relevant disclosures in the financial reports when Stage-2 Construction is ready to commence.

The abovementioned net proceeds raised, the term loan facility and the credit facilities remained unutilised as of 31 December 2016.

Capital structure & resources

	RMB'000
Cash and cash equivalents as at 31 December 2016	562,208
Less:	
- Net proceeds from renounceable rights issues exercise completed on 27 January 2014	(151,246)
- Borrowings as at 31 December 2016	(10,000)
- Capital commitment as at 31 December 2016	(40,248)
Cash and cash equivalents available for working capital and operational funding requirements as at 31 December 2016	360,714

As of 31 December 2016, our Group had sufficient cash reserves to fund the existing capital expenditure requirements, to settle the existing indebtedness and to carry out our day-to-day business operations.

Although there is no immediate shortage in capital resources, our Group may, from time to time, assess the need for additional fund-raising to meet future capital expenditure requirements while ensuring that our Group's financial and liquidity position remains healthy.

Management Discussion and Analysis (cont'd)

TREND & RISK FACTORS

Known Trend

Intensifying market competition for the footwear and apparels market, although the demands for sports-inspired footwear and apparels are gradually increasing both in the context of China market and global market. This was the key factor / trend affecting our Group's performance for the recent years.

Our Group had taken the following initiatives to mitigate the impact arising from the intensifying market competition:

- (i) Enhanced the sports shoes production capability and capacity of the Group, so that our Group is more flexible in accommodating to the changes in market demands;
- (ii) Optimised the existing distribution and retail network for own-branding products to improve the efficiency at the retail stores, to promote brand unity and to provide better consumer experience;
- (iii) Embarked on online-to-offline marketing strategy to create an additional platform for promotion of our proprietary brand in addition to the television and radio advertising;
- (iv) Stepped up the efforts in securing additional ODM production orders, to diversify the revenue base of our Group; and
- (v) Implemented a managed slowdown in the supply of own-branding sports apparel, accessories and equipment in response to the sudden glut in the apparels market of China, to steer clear of price competition given that the margin from apparels sales were eroding.

Principal Risk Factors

The principal risk factors faced by our Group's operations consist of the following:

- Unfavourable macro and industry-related regulations and policies;
- Impact of global economic uncertainties on China's economy;
- Natural disaster causing disruption to operations;
- Unsuccessful brand positioning and market competition;
- Loss of authorised distributors; and
- Non-recoverability of trade debts.

Kindly refer to Statement on Risk Management and Internal Control contained in this Annual Report for further details on the key risk management processes that have been put in place by our Group to mitigate the impact of the abovementioned principal risk factors.



Management Discussion and Analysis (cont'd)

PROSPECTS

Proprietary Brand ('XiDeLang') Operation

On 13 July 2016, the General Administration of Sport of China (中国国家体育总局) announced the 13th Five-Year Plan for the development of sports industry in China focusing on five core strategies:

- Deepen the industry structural reform and enhance the industrial and technological revolution innovation;
- Optimise the overall policy system and improve the efficiency and effectiveness of policy implementation;
- Advocate private-public partnership and encourage private sector investment to enlarge the capital investment in China's sports industry, and enhance the capital utilisation efficiency;
- Improve the welfare and education system for athletes, and strengthen the cultivation of reserved talents; and
- Strengthen the monitoring of the industry development and promote public participation and active communication with the industry players.

The authorities are optimistic that the 13th Five-Year Plan and the National Fitness Campaign will contribute positively to the industry growth in the medium and long term and propel the nation to achieve the following development targets set for 2016 – 2020:

- ✓ Enlarge the market size and employment size of China's sports industry to exceed RMB3 trillion and 6 million people;
- ✓ Increase the industrial value-added contribution of the China's sports industry to 1.0% of the nation's GDP;
- ✓ Increase the service-based value-added contribution to more than 30% of the overall industrial value-added contribution of the China's sports industry;
- ✓ Expand the sports facilities and bases, per capita sports area to exceed 1.8m²; and
- ✓ Increase the consumption value of sports to more than 2.5% of the disposable income per capita.

Demands for sportswear within the domestic China market are expected to be on increasing trend, backed by the following favourable factors:

- (i) Active measures and policies by the Government of China to accelerate the development of the domestic sports industry, as abovementioned;
- (ii) Huge and rising population in China, particularly with the implementation of two-child policy; and
- (iii) Rising awareness on healthy lifestyle and increasing participation by the general public in sports and exercise within China.

On the domestic front, the outlook for the sportswear industry within China are expected to remain promising in the medium and long term. The outlook in the near term, however, is expected to be challenging in view of the intensifying market competition and fresh uncertainties stemmed from Brexit and potential changes of United States of America's fiscal policies and diplomatic stance under Trump's administration.

Our Group believes that the prospects remain promising for our own-branding operations, whilst being cautious that the industry may encounter increasing short term volatility for the near future.

ODM Production Service

Demands for sportswear in the global markets are estimated to be on gradual growth in the medium and long term, as the outlook for advanced economies has improved for 2017 – 2018 in view of the stronger economic activity during the second half of 2016 and a projected fiscal stimulus in the United States of America based on the estimates and projections of International Monetary Fund.

Our Group believes that there is good prospects for our ODM production operations, although we do acknowledge that the operating environment may remain challenging in the near term.

Management Discussion and Analysis (cont'd)

PROSPECTS (CONT'D)

Overall

Barring any unforeseen circumstances, our Group is cautiously optimistic that the performance for the financial year ending 31 December 2017 will remain positive.

Dividend Policy

At present, our Group does not have a fixed dividend policy. The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of our Board of Directors and any final dividend proposed is subject to our shareholders' approval.

The Board will, from time to time, assess whether it is feasible to declare / recommend payment of dividends after taking into consideration our Group's operational performance, financial condition, capital expenditure plans, business expansion plans and working capital requirements; always bearing in mind the importance of long term value creation for our shareholders.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of our Group.

Wordings such as "expects", "estimates", "anticipates", "intends", "plans", "believes", "potential", and variations of these wordings and similar expressions are intended to identify forward-looking statements.

These forward-looking statements represent our Group's expectations or beliefs concerning future events and involve inherent risks and uncertainties. Forward-looking statements speak only as of the date they are made, and one should not assume that they have been revised or updated in the light of new information or future events. Accordingly, undue reliance should not be placed on them.

Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Trends and factors that are expected to affect our Group's results of operations are disclosed in the above sections.



PROFILE OF THE BOARD OF DIRECTORS



Ms. Ding LiHong

*Female, Aged 44
(Citizen of the People's Republic of China)*

Executive Chairman

Ms. Ding LiHong was appointed as the Executive Chairman on 5 May 2009.

She is the co-founder of XiDeLang Group (“the Group”) and has been instrumental in the growth and success of the Group. With over 20 years of experience in the sportswear industry, she has contributed immensely to the Group’s success particularly in driving the overall vision of the Group.

In 1993, she started her career in the sportswear industry when she established Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd (“HongPeng Footwear”) together with the Managing Director / Chief Executive Officer (“CEO”) of the Group, Mr. Ding PengPeng. During that time, HongPeng Footwear was initially a manufacturer of casual sports shoes. However, under her management, the Group has since grown to become a reputable and established player in sports shoes, apparel, sports accessories and equipment in China. She is also recognised for her contribution in the growth and development of the ‘XiDeLang’ brand, which has successfully attained numerous awards and recognition from various authorities.

She is a graduate of the Executive Training Program for Jinjiang Entrepreneurs from University of Hong Kong - School of Professional and Continuing Education. She is also a graduate of the CEO Advanced Management Programme from Peking University.

She has been elected as a Member of National Youth Chamber of Commerce, Vice President of Jinjiang Youth Chamber of Commerce, Member of the Twelfth Jinjiang Committee of the Chinese People’s Political Consultative Conference (CPPCC), Standing Committee of the Youth Federation of Jinjiang, Standing Committee of Jinjiang Footwear Association, Standing Committee of Quanzhou Footwear Association, Honorary Chairman of Junior Chamber of Commerce of Chendai, Jinjiang, China, and Standing Committee of World Jinjiang Youth Association.

She is the sister of Mr. Ding PengPeng and Ms. Ding PengWan, the Managing Director / CEO and Executive Director / Deputy CEO cum Chief Operating Officer (“COO”) of the Group respectively.

She does not hold any other directorship in other public listed companies.

She does not have any conflict of interest with the Company.

In the past five (5) years, she has not been convicted of any offence.

She attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors
(cont'd)



Y.Bhg Dato' Mohamed Nazim Bin Abdul Razak

*Male, Aged 55
(Malaysian)*

Deputy Chairman / Independent Non-Executive Director

Y.Bhg Dato' Mohamed Nazim Bin Abdul Razak was appointed as Deputy Chairman / Independent Non-Executive Director on 10 March 2014. He is also a member of our Remuneration Committee.

Y.Bhg Dato' is an architect by profession. He graduated from Architectural Association, School of Architecture, London in 1987. Upon graduation, he served with YRM Architects in London, a multi-disciplinary building design consultancy. He returned to Malaysia in 1989 and worked with Kumpulan Arkitek. He set up NRY Architects Sdn Bhd in 1992 and is currently the Chief Executive Officer of NRY Architects Sdn Bhd.

Y.Bhg Dato' has accumulated close to 30 years of experience in the architectural field, majority of which were in Kuala Lumpur.

Y.Bhg Dato' also serves as an independent non-executive director of Hong Leong Capital Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a director of The Legend Golf and Country Resorts Berhad, a public company.

Y.Bhg Dato' has no family relationship with any other director / major shareholder of XiDeLang Group.

Y.Bhg Dato' does not have any conflict of interest with the Company.

In the past five (5) years, Y.Bhg Dato' has not been convicted of any offence.

Y.Bhg Dato' has attended five (5) out of the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors (cont'd)



Ding PengPeng

*Male, Aged 42
(Citizen of the People's Republic of China)*

Managing Director / CEO

Mr. Ding PengPeng was appointed as the Managing Director / CEO on 5 May 2009. He is also a member of our Remuneration Committee and Risk Management Committee.

He is the co-founder of the Group. His vision, strong business acumen and proactive management have contributed significantly to the growth and development of the Group. He has accumulated more than 20 years of marketing and management experience in the sportswear industry where he started his career in 1993, when he established HongPeng Footwear together with our Executive Chairman, Ms. Ding LiHong.

During the infancy years of XiDeLang Group, he recognised the importance of brand creation, ownership and management as key components of differentiating the Group from competitors. He was instrumental in building the 'XiDeLang' brand of sport shoes to become a highly coveted brand in China today. His expertise and contribution extends to the formulation and execution of the overall business strategies and policies of the Group. He is also responsible for implementing the management policies and overseeing the production and operation, marketing, quality control, public relations and research and development, where his prudent management has propelled the continuing success of XiDeLang Group.

He is also the Chairman of Fujian Province Jinjiang City E-Commerce Development Co., Ltd, a private company in China that operates the "China Shoes Capital E-Commerce Centre". He has also been elected as the President of the Junior Chamber of Commerce of Chendai, Vice President of the Industrial Design & Fashion Creativity Association of JinJiang City, Executive Vice President of Jinjiang Youth Chamber of Commerce cum Director-General of Youth Entrepreneurship Society, Council Member of the Quanzhou Youth Federation and the Special Supervisory Agent (2014 – 2016) for the Chendai Police Station.

He has received numerous awards throughout the years, in recognition of his achievements and contribution to the domestic sportswear industry including the "Top Ten Sportswear Industry Player of the Year" and the "Quanzhou May-Fourth Medal".

He is the brother of Ms. Ding LiHong and Ms. Ding PengWan, the Executive Chairman and Executive Director / Deputy CEO cum COO of the Group respectively.

He does not hold any other directorship in other public listed companies.

He does not have any conflict of interest with the Company.

In the past five (5) years, he has not been convicted of any offence.

He has attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors
(cont'd)



Ding PengWan

*Female, Aged 40
(Citizen of the People's Republic of China)*

Executive Director / Deputy CEO cum COO

Ms. Ding PengWan was appointed as the Executive Director on 21 July 2009. She was re-designated as the Deputy CEO cum COO on 29 February 2016. She is also the Chairman of our Risk Management Committee.

She started her career with XiDeLang Group as junior accountant in 1993 and was subsequently promoted to Purchasing and Integrated Management Manager in 2008. On 26 April 2010, she was appointed as the COO of the Group. On 29 February 2016, she has been re-designated as the Deputy CEO cum COO of the Group and is currently responsible for overseeing the overall operations and management functions of the Group.

She is a graduate of the CEO Advanced Management Program in Business Administration from Huaqiao University, China.

She is the sister of Ms. Ding LiHong and Mr. Ding PengPeng, the Executive Chairman and Managing Director / CEO of the Group respectively.

She does not hold any other directorship in other public listed companies.

She does not have any conflict of interest with the Company.

In the past five (5) years, she has not been convicted of any offence.

She attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors
(cont'd)



Lin YingYu

*Female, Aged 39
(Citizen of the People's Republic of China)*

Executive Director

Ms. Lin YingYu was appointed as the Executive Director on 10 March 2014. She is also a member of our Risk Management Committee.

She started her career with XiDeLang Group as junior accountant in 1997 and was subsequently promoted to Assistant Finance Manager in 2001. In 2005, she was promoted to Finance Manager and is tasked with the responsibilities to oversee the accounting and financial aspects of XiDeLang Group.

She has 20 years of working experience in the accounting and financial aspects and she is familiar with the XiDeLang Group's business operation and the business environment in China, particularly the footwear and apparel industry.

She has no family relationship with any other director / major shareholder of XiDeLang Group.

She does not hold any other directorship in other public listed companies.

She does not have any conflict of interest with the Company.

In the past five (5) years, she has not been convicted of any offence.

She attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors
(cont'd)



Zhu GuoHe

*Male, Aged 47
(Citizen of the People's Republic of China)*

Senior Independent Non-Executive Director

Mr. Zhu GuoHe was appointed as an Independent Non-Executive Director on 18 August 2009. He has been designated as the Senior Independent Non-Executive Director with effect from 30 November 2012. He is also the Chairman of our Nomination Committee and a member of our Audit Committee, Remuneration Committee and Risk Management Committee.

He graduated from Huaqiao University, China in 1994 with an Advanced Diploma in Electrical Automation Technology. He is also a graduate of Executive Seminars on Business Administration from Huaqiao University. He subsequently obtained a Master of Business Administration (MBA) from Preston University, United States in August 2010.

He is an entrepreneur with over 20 years of experience in the advertising industry. After gaining wide industry experience, he established his own advertising agency, Fujian Quanzhou Tianyuan Planning and Advertising Co., Ltd in 1997. Subsequently, he established another advertising firms in China, namely Xiamen Shengshi Tianyuan Media Co., Ltd. In 2010, he established Quanzhou Tianyuan Investment Consulting Co., Ltd. Under his management and leadership, his advertising agencies have grown rapidly to become one of the leading brand creation and integrators in China. His agencies had provided advisory services to leading China sports goods companies such as Jordan (China) Co., Ltd, 361° (China) Co., Ltd, XiDeLang, Kangta and the Chinese Basketball Association. He has been instrumental in assisting to establish the 'XiDeLang' brand as well as other prominent sports brands in China.

He has received numerous awards in China, including "China's Top Ten Sports Brand Planning Expert" in 2005, "China's Outstanding Sports Brand Planning Expert" in 2008, "China's Top Ten Marketing Planning Expert" in 2009 and "China's Annual Fashion Brand Planning Award" in 2011. He has also been accredited as the Qualified Senior Planner in China.

He has been elected as the Executive Vice President (First Council Meeting) and Chairman of the Supervisory Committee (Second Council Meeting) of Zhangzhou Chamber of Commerce in Quanzhou, and the Executive Chairman (First Council Meeting) of Pinghe Chamber of Commerce in Quanzhou.

He has no family relationship with any other director / major shareholder of XiDeLang Group.

He is also an executive director of Accsoft Technology Berhad (formerly known as Oriented Media Group Berhad), a company listed on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities"). He is also an independent non-executive director of China Automobile Parts Holdings Limited and Flyke International Holdings Ltd, a company listed on the Main Market of Bursa Securities and a public listed company in Hong Kong respectively.

He does not have any conflict of interest with the Company.

In the past five (5) years, he has not been convicted of any offence.

He has attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors (cont'd)



Wong Yoke Nyen

*Male, Aged 58
(Malaysian)*

Independent Non-Executive Director

Mr. Wong Yoke Nyen was appointed as an Independent Non-Executive Director on 21 July 2009. He is also the Chairman of our Audit Committee and a member of our Remuneration Committee and Nomination Committee.

He obtained his degree in Bachelor of Arts with Second Class Honours (First Division), having completed a course in Accountancy from City of London Polytechnic, United Kingdom (*now known as London Metropolitan University*). He is also a graduate of The Wharton Advance Management Program from the Wharton Business School of the University of Pennsylvania, United States of America.

In 1981, he started his career in Baker Rooke, a firm of chartered accountants in London where he gained wide experience and exposure in the areas of auditing, accountancy and management consultancy work. In 1983, he joined Aseambankers Malaysia Berhad (*now known as Maybank Investment Bank Berhad*). He is a seasoned investment banker with more than 30 years of dedicated corporate finance and investment banking experience. He was the Executive Vice President cum Head of Corporate Finance Division in Aseambankers Malaysia Berhad. He was an Honorary Advisor to the Master Builders Association Malaysia from July 2008 to June 2010. In 2004, he started WYNCORP Advisory Sdn. Bhd., a private company licensed to provide corporate finance advisory services. He is currently the Managing Director of WYNCORP Advisory Sdn. Bhd..

He also serves as an independent non-executive director of New Hoong Fatt Holdings Berhad, Benalec Holdings Berhad, Focus Lumber Berhad and Sentoria Group Berhad, companies listed on the Main Market of Bursa Malaysia Securities Berhad.

He has no family relationship with any other director / major shareholder of XiDeLang Group.

He does not have any conflict of interest with the Company.

In the past five (5) years, he has not been convicted of any offence.

He has attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

Profile of the Board of Directors
(cont'd)



Woon Yeow Thong

*Male, Aged 51
(Malaysian)*

Independent Non-Executive Director

Mr. Woon Yeow Thong was appointed as an Independent Non-Executive Director on 4 September 2009. He is also the Chairman of our Remuneration Committee and a member of our Audit Committee and Nomination Committee.

He graduated from the University of Kent at Canterbury with an honours degree in law. A Barrister-at-Law (Inner Temple) and an Advocate & Solicitor of the High Court of Malaya, Mr. Woon was called to the English Bar at the Honourable Society of the Inner Temple, England in 1989 and was subsequently admitted as an Advocate and Solicitor of the High Court of Malaya in 1990.

He is the founder of Messrs Woon & Co., Advocates & Solicitors, and has been in active legal practice for more than 20 years, specialising in commercial and corporate litigation, in particular corporate insolvency and restructuring. He has a number of reported cases at the High Court and Court of Appeal of Malaysia. He has conducted many litigation matters involving winding up and corporate reconstruction pursuant to Section 176 of the Companies Act 1965, Malaysia and has also been called to give talks to officers of the Insolvency Department by the Legal Department of the Ministry of Law, Malaysia on bankruptcy and winding up laws. He has also given talks on General Advocacy to junior lawyers including those in Sarawak.

He has no family relationship with any other director / major shareholder of XiDeLang Group.

He is also an independent non-executive director of Mikro MSC Berhad, a company listed on the ACE Market of Bursa Malaysia Securities Berhad.

He does not have any conflict of interest with the Company.

In the past five (5) years, he has not been convicted of any offence.

He has attended all the six (6) Board Meetings of the Company held during the financial year ended 31 December 2016.

STATEMENT ON CORPORATE GOVERNANCE

Our Group is committed to uphold good corporate governance practices recognising that proper corporate governance framework is one of the crucial factors that contributes to the intrinsic value of an organisation. The Board of Directors (“the Board”) is guided by the principles and recommendations of corporate governance as stipulated in the Malaysian Code on Corporate Governance (“MCCG”) 2012, and endeavour to ensure that the principles and recommendations advocated therein are practiced and applied within our Group where applicable and appropriate to create and deliver long term and sustainable shareholders values.

The ensuing paragraphs describe the extent of how our Group has applied and complied with the principles and best practices set out in the MCCG 2012 for the financial year under review.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 ROLES AND RESPONSIBILITIES OF THE BOARD

Recommendations 1.1 & 1.2 of MCCG 2012

The Board is collectively responsible to establish the overall strategic objectives of our Group, and assumes the overall responsibility for the formulation of strategies, strategic allocation of resources to align with the overall objectives of our Group, monitoring of financial performance, evaluation and management of principal risks faced by our Group, implementation and review of risk management and internal control systems, succession planning as well as development of investor relations programme and shareholders’ policy. Members of the Board exercise due diligence and care in discharging their responsibilities and act in the best interests of our Group and shareholders.

The functions of Executive and Non-Executive Directors are distinguished and clearly defined.

The Executive Directors, through their daily involvement in the operations of our Group, assume the primary responsibility for managing our Group’s operations and resources. Their intimate knowledge and vast experience of the business and their active-participation management style have contributed to the continued success of our Group.

The Independent Non-Executive Directors, on the other hand, exercise with professional competence and independence a supervisory role via their involvement in various Board committees and focus principally on performance monitoring and enhancement of corporate governance and internal controls. They offer a capable check and balance for the Executive Directors. The presence of the Independent Non-Executive Directors ensures that issues pertaining to strategies, performance and resources allocation proposed by the Management (led by the Executive Directors) are objectively evaluated, taking into consideration the interests of shareholders and relevant stakeholders of our Group. The Independent Non-Executive Directors bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the financial performance of our Group, and monitor the overall risk profile of our Group. The Independent Non-Executive Directors communicate with the Management, and with the internal and external auditors, to address matters concerning management and oversight of our Group’s operations.

To ensure the effective discharge of its function and responsibilities, the Board delegates some of the Board’s authorities and discretion to the Executive Directors, representing the Management, as well as properly constituted Board Committees. The Board Committees are entrusted with specific duties and responsibilities to oversee our Group’s affairs, in accordance with their respective terms of reference. At each Board meeting, minutes of the Board Committees’ meetings are presented to the Board. The respective Chairman of the Board Committees will also report to the Board on key issues deliberated by the Board Committees.

Statement on Corporate Governance (cont'd)

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.1 ROLES AND RESPONSIBILITIES OF THE BOARD (CONT'D)

Management will formulate the appropriate strategic plans and business strategies, taking into consideration the prevailing market condition and operating environment, and submit to the Board multi-year business plans and forecast for consideration and approval. From time to time, corporate proposal(s) that are considered beneficial to our Group are tabled by the Management at the Board meetings for deliberation and approval. Quarterly financial reports and the annual financial statements are submitted to the Audit Committee and the Board for review and performance monitoring. The actual results are benchmarked against the submitted forecast, and explanations are obtained by the Board from the Management on any significant deviation.

The Management's authority limits for our Group's operations are defined / approved by the Board from time to time, upon deliberation by the Board on the investment proposal, capital expenditure budget and / or business plan and forecast submitted by Management; with the status of implementation subject to the Board's monitoring at the periodic Board meetings. In defining the authority limits, the Board makes reference to the provisions of the Main Market Listing Requirements ("Listing Requirements") by Bursa Malaysia Securities Berhad ("Bursa Securities") particularly those as stipulated under Chapter 10 of the Listing Requirements.

The primary roles of the respective members of the Board are summarised below:

Chairman & Deputy Chairman	<ul style="list-style-type: none"> o Provides leadership to the Board. o Ensure the efficient organisation and conduct of the Board. o Monitor Board's performance annually. o Facilitate Board's discussions to ensure core issues faced by our Group are addressed. o Brief all Directors in relation to issues arising at Board meetings. o Facilitate the effective contribution and ongoing development of all Directors. o Promote consultative, constructive, professional and respectful relations between Board members and between the Board and Management. o Chair shareholder meetings.
Managing Director / Chief Executive Officer ("CEO")	<ul style="list-style-type: none"> o Perform executive management of our Group's business covering, inter alia, the development of a strategic plan / budget, performance benchmarks to gauge management performance and the analysis of management reports. o Ensure the effective implementation of our Group's strategic plan and policies established by the Board as well as managing the daily conduct of the business to ensure its smooth operations. o Effectively oversee the human resources of our Group with respect to key position in the corporate hierarchy. o Assure the Company that its corporate identity, products and services are of high standards and are reflective of the market environment. o Assess business opportunities which are of potential benefit to our Group. o Supervise heads of divisions and departments who are responsible for all functions contributing to the success of our Group. o Highlight material and other relevant matters to the Board's attention in a comprehensive and timely manner.

Statement on Corporate Governance (cont'd)

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.1 ROLES AND RESPONSIBILITIES OF THE BOARD (CONT'D)

Deputy CEO	<ul style="list-style-type: none"> o Provide assistance and support to the Managing Director / CEO to carry out his responsibilities. o To assume the role of CEO in the absence of Managing Director / CEO.
Chief Operating Officer ("COO")	<ul style="list-style-type: none"> o Monitor and manage day-to-day operations of our Group and keeping the Managing Director / CEO and / or Deputy CEO aware with the significant events of our Group. o Ensure our Group's operations in line with the short and / or long term strategic planning of our Group. o Communicate our Group's operation strategies and policies to the employees. o Evaluate our Group's performance and provide suggestions and solutions to improve / resolve identified issue(s).
Executive Director	<ul style="list-style-type: none"> o Responsible for the day-to-day management and operations of the relevant divisions and functions within our Group.
Independent Non-Executive Directors	<ul style="list-style-type: none"> o Responsible for providing unbiased, independent and professional views, advice and judgement, taking into consideration the interests of our Group and all its stakeholders. o Performance monitoring and enhancement of corporate governance and internal controls.

1.2 SUCCESSION PLANNING

Succession planning is embedded within our Group's organisational structure, where the top management (led by the Executive Directors) are supported by senior management personnel for the key functions of our Group's operations. This helps to ensure continuity of our Group's operations in the event of mishap or sudden departure of any key personnel.

Continuity is also preserved at the Board level.

For the executive capacity, while there are clear segregation of roles and responsibilities for the Executive Chairman, the Managing Director / CEO and the Executive Director / Deputy CEO cum COO, each of them are capable and competent of assuming the primary executive management function in the event of unforeseeable emergency.

For the non-executive capacity, our Group presently has four Independent Non-Executive Directors. This offers additional assurance that a quorum will remain available in the event of abrupt absence of any individual Independent Non-Executive Directors. This applies also to the Board committees, where the composition consists of a minimum of three (3) members.

The Board has delegated the authority and responsibility of formulating appropriate succession planning strategy for senior management levels to the Executive Directors. The appointment of Director and / or key officers (namely the CEO, the Deputy CEO, the COO and / or the chief financial officer) remains to be matter reserved for the Board to decide as a whole.

Statement on Corporate Governance (cont'd)

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.3 CODE OF ETHICS

Recommendation 1.3 of MCGG 2012

In order to enhance the professionalism and integrity of our employees, a formal Code of Ethics and Conduct has been put in place; outlining the standards of business conduct and ethical behaviours that all personnel of our Group (including the Directors) must adhere to in discharging their duties and responsibilities. The Code of Ethics and Conduct can be accessed on the Company's corporate website at www.xidelang.com.my.

In addition to that, a formal whistle-blowing policy has been put in place by our Group to provide an avenue for employees to raise their concerns and voice out any malpractices, wrongdoing, abuse of power, conflict of power, corruption or non-compliance within our Group; in order to promote accountability and to enhance personal ethics in the dealings of our Group.

1.4 STRATEGIES PROMOTE SUSTAINABILITY

Recommendation 1.4 of MCGG 2012

The Board recognises the importance to incorporate social responsibilities into our corporate strategies and operational decisions particularly on the environmental, social and governance aspects to promote sustainability. Kindly refer to the Sustainability Statement contained in this Annual Report for further details.

1.5 ACCESS TO INFORMATION AND ADVICE

Recommendation 1.5 of MCGG 2012

The Board is scheduled to meet at least quarterly to discuss the operations and financial performance of our Group, with additional meetings to be convened to resolve any major and ad hoc matters requiring immediate attention. Directors may participate either in person, or through electronic means of communication (via teleconference).

Relevant information and agenda are circulated to the Board members in advance of each Board meeting to ensure the Directors have sufficient time to solicit further explanations and / or information, where necessary, so as to enable them to duly discharge their duties and ensure that deliberations at the meeting are focused and constructive.

The proceedings and relevant resolutions passed at the Board meeting are duly recorded by the Company Secretary, and properly documented and filed in the Minutes Book maintained at the Registered Office in Bermuda with a copy maintained at the Registered Office in Malaysia.

The Board enjoys full and unrestricted access to all information pertaining to our Group's affairs. In discharging their duties, the Board has full access to the advice and services of the Company Secretary and Assistant Secretary who are responsible to the Board for ensuring that the Board meeting procedures are adhered to and that applicable rules and regulations are being complied with. The Board is allowed, whether as a full board or in their individual capacity, to solicit independent professional advice, where necessary and in appropriate circumstances, in furtherance of their duties, at the Group's expense.

Statement on Corporate Governance (cont'd)

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.5 ACCESS TO INFORMATION AND ADVICE (CONT'D)

Any request of information / enquiry will be communicated to the Company Secretary, who will then disseminate the request / enquiry to other members of the Board. The Director concerned may, at his / her desire, either procure the assistance of the Management or Company Secretary to obtain the clarification required, or communicate directly with the relevant professional. The clarification is shared with other members of the Board during the Board meeting. If necessary, invitation may be extended to the relevant professional to attend the Board meeting and brief the Board on the matter concerned.

The Board is constantly advised and updated on statutory and regulatory requirements pertaining to their duties and responsibilities.

1.6 SUITABLY QUALIFIED AND COMPETENT COMPANY SECRETARY

Recommendation 1.6 of MCCG 2012

The Company Secretary and the Assistant Secretary engaged by the Company are licensed company secretary firms within the jurisdiction of Malaysia and Bermuda, respectively; who employ chartered secretaries and experienced professionals in their provision of secretarial services to the Company.

The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in discharging its duties and responsibilities. The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, Board's policies and procedures and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary supports the Board in managing the Company's governance model, ensuring that it is effective and relevant. The Company Secretary also ensures that deliberations at the Board and its Committees meetings are properly minuted and kept. In particular, the Company Secretary:

- Compile all the relevant information and agenda for Board meetings and circulate the same to the members of the Board;
- Take minutes of the proceedings at the Board and its committees' meetings;
- Prepare the relevant resolutions for the approval of the Board where applicable;
- Brief the members of the Board on any updates or amendments on the regulatory requirements (including the Listing Requirements), directives and guidance applicable to the listed company, and circulate a copy of the regulatory requirements, directives and guidance to the Board for reference;
- Facilitate the conduct of the Company's Annual General Meeting and Special General Meeting (where applicable); and
- Assist the Company in making filings and submissions with the authorities.

Statement on Corporate Governance (cont'd)

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.7 BOARD CHARTER

Recommendation 1.7 of MCCG 2012

A board charter (“the Charter”) has been drawn up. The primary objective of the Charter is to promote high standards of corporate governance and to clarify the roles, responsibilities, functions, compositions, operation and processes of the Board. The Board reviews the Charter periodically, as and when there are changes to the governance structure or applicable requirements, to ensure compliance with the relevant standards of corporate governance. The Charter is published on the Company’s corporate website.

PRINCIPLE 2: STRENGTHEN COMPOSITION

2.1 BOARD COMPOSITION

The Board comprises eight (8) Directors, with a balanced mix of Executive Directors and Independent Non-Executive Directors. Members of the Board, and their respective attendance record for the Board meetings conducted during the financial year under review, are as follows:

Name	Designation	Attendance
Ding LiHong	Executive Chairman	6/6
Y.Bhg Dato’ Mohamed Nazim Bin Abdul Razak	Deputy Chairman / Independent Non-Executive Director	5/6
Ding PengPeng	Managing Director / CEO	6/6
Ding PengWan	Executive Director / Deputy CEO cum COO [^]	6/6
Lin YingYu	Executive Director	6/6
Zhu GuoHe	Senior Independent Non-Executive Director	6/6
Wong Yoke Nyen	Independent Non-Executive Director	6/6
Woon Yeow Thong	Independent Non-Executive Director	6/6

Remark

[^] with effect from 29 February 2016

The composition and size of the Board are reviewed from time to time to ensure their appropriateness and effectiveness. Overall, the Board should comprise:

- (i) Adequate independent non-executive directors in accordance with the provisions of the Listing Requirements;
- (ii) Directors with an appropriate range of skills, experience and expertise;
- (iii) Directors who have a proper understanding of, and competence to deal with current and emerging issues of the business; and
- (iv) Directors who can effectively review and challenge the performance of the management and exercise independent judgement.

At present, the Board consists of Executive Directors with extensive industry knowledge and experience, and Independent Non-Executive Directors with well-balanced mix of knowledge and experience on corporate management, corporate finance and financial reporting, legal and regulatory requirements, as well as industry insights.

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.2 BOARD COMMITTEES

The Board has established several board committees to assist the Board in discharging its duties and responsibilities, comprising an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management Committee (collectively referred to as “Board Committees”).

The Board Committees operate within their respective clearly defined terms of reference to assist in the effective functioning of the Board. The functions and terms of reference of the respective Board Committees, as well as authority delegated by the Board to these committees, are reviewed from time to time to ensure they remain relevant and are up to date.

The Board Committees deliberate matters within their operating parameters in greater details and report to the Board on matters deliberated together with their recommendations. Nevertheless, final decisions on all matters are subject to the Board’s collective approval.

Audit Committee

The composition of the Audit Committee and a summary of its activities are set out in the Audit Committee Report contained in this Annual Report.

Remuneration Committee

The Remuneration Committee comprises primarily Independent Non-Executive Directors with the involvement of one (1) Executive Director, and is primarily responsible for the following functions:

- (a) Establish formal and transparent remuneration policies and procedures to attract and retain Directors (executive and non-executive) and executives (where appropriate) who will create sustainable value for members and other stakeholders.
- (b) Fairly and responsibly reward Directors and executives (where appropriate) having regard to the performance of the Company, the performance of the Director and / or executive and the external compensation environment.
- (c) Other matters referred to the Committee by the Board.

The composition of the Remuneration Committee and the attendance record of its members during the financial year under review are reflected below:

Name	Designation	Attendance
Woon Yeow Thong	Chairman	2/2
Y.Bhg Dato’ Mohamed Nazim Bin Abdul Razak	Member	1/2
Ding PengPeng	Member	2/2
Zhu GuoHe	Member	2/2
Wong Yoke Nyen	Member	2/2

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.2 BOARD COMMITTEES (CONT'D)

Risk Management Committee

The Risk Management Committee comprises the following members:

Name	Designation
Ding PengWan	Chairman
Ding PengPeng	Member
Zhu GuoHe	Member
Lin YingYu	Member

The Risk Management Committee is primarily tasked to assist the Board in reviewing the adequacy and effectiveness of the system of risk management.

During the financial year under review, as an initiative to enhance the risk management of our Group, the outsourced internal auditors had been engaged to carry out an independent review on the risk assessment of our Group. To preserve independence, the findings of the outsourced internal auditors were tabled directly to the Audit Committee. Accordingly, no separate meeting was held by the Risk Management Committee. The assessment results of the outsourced internal auditors were evaluated by the Audit Committee, before reporting to the Board for deliberation.

Nomination Committee

Recommendation 2.1 of MCCG 2012

Our Nomination Committee comprises exclusively Independent Non-Executive Directors, the Chairman of which is the Senior Independent Non-Executive Director.

The Nomination Committee is empowered by the Board through its terms of reference (which is published under the Company's corporate website) to carry out the following:

- (a) Assess and select / nominate or recommend strong and capable candidates to serve on the Board.
- (b) Review the size, composition, structure, operations, performance and effectiveness of the Board and to recommend to the Board any adjustment deemed necessary.
- (c) Make recommendations to the Board in relation to the Company's succession planning process, in particular, for the Chairman and Executive Directors.
- (d) Lead the Board in its annual review of the Board's performance.
- (e) Develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors.

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.2 BOARD COMMITTEES (CONT'D)

Nomination Committee (Cont'd)

- (f) Consider issues involving possible conflicts of interest of Directors.
- (g) Perform such other functions as the Board may from time to time assign to the Committee.
- (h) Enhance the assessment criteria of the Directors, especially on the assessment of the Independent Directors.
- (i) Develop, promote and facilitate achievement of board gender diversity.

During the financial year ended 31 December 2016, two (2) meetings were held by the Nomination Committee and the following activities were undertaken:

- Reviewed the proposed appointment of Ms. Ding PengWan as the Deputy CEO cum COO of our Group, taking into consideration her working experience and knowledge of the sportswear industry and past performances.
- Reviewed and discussed the performance and contribution of the Executive Directors;
- Reviewed and discussed the performance and contribution of the Independent Non-Executive Directors;
- Assessed the performance of the Board as a whole as well as the contribution of the respective Board Committees; and
- Evaluated the Directors that shall retire pursuant to the Bye-Laws of the Company, and made recommendation for their re-election.

The meetings were attended by all members as reflected below:

Name	Designation	Attendance
Zhu GuoHe	Chairman	2/2
Woon Yeow Thong	Member	2/2
Wong Yoke Nyen	Member	2/2

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.3 APPOINTMENT & RE-ELECTION OF DIRECTORS

Recommendation 2.2 of MCGG 2012

The Board as a whole makes decisions on appointment of director, upon recommendation by the Nomination Committee.

The selection and appointment of suitable candidates for the Board membership are conducted in systematic manner, which involve the following five (5) nomination procedures:

- Identification / selection of candidates;
- Evaluation of suitability of candidates;
- Formal interview with candidates;
- Final deliberation by Nomination Committee; and
- Recommendation to the Board for approval.

In connection with the nomination process, the Nomination Committee shall be authorised to, without limitation:

- Determine the desired qualifications and criteria for Board members, including skills, experience, qualities, desired diversity and the like.
- Recommend to the Board definitions of “independence” and “conflicts of interest” for Board members, as well as guidance on time commitments and other directorships.
- Retain and terminate (within its sole authority) any search firm to assist in identifying director candidates, including the sole authority to approve the fees payable to such search firm and any other terms of retention.
- Oversee due diligence as to candidates for nomination or re-nomination as Board members.

Pursuant to the Company's Bye-Laws (“The Bye-Laws”), one-third (1/3) of the Directors for the time being, or if their number is not three (3) or a multiple of three (3) then the number nearest to but not less than one-third (1/3), shall retire from office and shall be eligible for re-election thereat by rotation at each Annual General Meeting (“AGM”) provided always that all Directors shall retire from office at least once every three (3) years. Directors who are appointed by the Board shall retire and subject themselves for re-election by the shareholders at the next AGM held following their appointments.

The Bye-Laws also provides that Directors over the age of seventy (70) years are required to subject themselves for re-appointment annually.

In the selection process, the Board and the Nomination Committee endeavour to appoint member that can improve the Board's overall compositional balance and enhance the Board's overall effectiveness in discharging its duties, emphasizing primarily on the working experience and knowledge of the candidate. The selection process is unbiased in respect of race, religion and gender although the Board and the Nomination Committee are cognisant of the gender diversity recommendation advocated by MCGG 2012.

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.3 APPOINTMENT & RE-ELECTION OF DIRECTORS (CONT'D)

The Board take note of the Recommendation 3.2 of MCGG 2012 that the tenure of an independent director should not exceed a cumulative term of nine (9) years. On completion of the nine years by a particular independent director, the Board will carry out assessment on the suitability of the said independent director to be re-elected to the Board taking into consideration the following factors:

- The past contributions by the said independent director and the future contribution that can be made by the said independent director by virtue of his knowledge, experience and skills;
- Whether there is any conflict of interest situation associated with the said independent director; and
- Whether there is any active involvement by the said independent director in the daily operations of the Group.

The Board may, upon satisfaction that the said independent director fulfils the definition of independence as stipulated in the Listing Requirements and can continue to add value and contribute to the Board and our Group, recommend the re-election of the said independent director to the Board subject to the approval of shareholders at the AGM. The Board seeks to strike a balance between tenure of service and the benefits to our Group from the continuity of service of an independent director.

During the financial year ended 31 December 2016, our Group has three (3) female Executive Directors albeit there is no female Independent Non-Executive Director.

The Board is satisfied with the mix of skills, experiences, and industry-specific knowledge gained to-date by the respective Directors and is of the opinion that the current Board composition is beneficial to the shareholders. Nevertheless, the Board will remain mindful of the gender diversity guideline when considering future changes to the Board's composition.

Annual Assessment

The Board carries out assessment on the effectiveness of individual Directors, the Board as a whole, and the Board Committees on annual basis, to identify areas for improvement and for the purposes of re-appointment of Directors of the Company. Criteria / aspects considered in the annual assessment of the individual Directors are summarised below:

- **In respect of Executive Directors**
 - (a) Knowledge and experience of the Group's operations and products;
 - (b) Actual performance against business plan / budget;
 - (c) Commitment towards good corporate governance and effective risk management and internal control systems;
 - (d) Whether there are effective authority and approval limits in place;
 - (e) Whether there is effective decision-making process in place, where all important factors (both quantitative and qualitative) are sufficiently deliberated;
 - (f) Whether they promote healthy debate on issues and encourage participation by all Directors;
 - (g) Commitment towards maintaining a healthy level of independence for the Board and ensuring that no board dominance by an individual / certain individuals; and
 - (h) Shareholders' communication and investor relations' policies and programs.

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.3 APPOINTMENT & RE-ELECTION OF DIRECTORS (CONT'D)

Annual Assessment (Cont'd)

- **In respect of Non-Executive Directors**

- (a) Commitment level, particularly in terms of attendance record and active participation in the Board's deliberation;
- (b) Independence level, particularly whether they have been able to express views and raise issues for discussion freely in ways that are constructive and in the interests of our Group;
- (c) Knowledge and experience, particularly whether they have been able to provide adequate advice and counsel on major business issues raised;
- (d) Commitment towards good corporate governance and effective risk management and internal control systems; and
- (e) Whether there is effective and adequate review, supervision and monitoring on our Group's strategic plans and directions, financial performance, governance structure and risk management and internal control mechanisms.

2.4 DIRECTORS' REMUNERATION

Recommendation 2.3 of MCCG 2012

The objective of our Group's remuneration policy is to attract and recruit the right people for the Board, who possess both the necessary leadership qualities and the required background and experience in relevant areas of our Group's business; and to encourage and motivate the Directors to focus on a strong market position of our Group, financial results and shareholder value creation as well as providing the members of the Board with incentives to achieve long term growth objectives.

The total remuneration package is structured to be competitive and in line with current market practice for Board members of comparable companies, taking into account both size and business complexity.

For Executive Directors, the remuneration package is structured to align the interests of the Executive Directors with those of shareholders and is linked to corporate and individual performance, service seniority, experience and responsibilities and consists of the both fixed element (annual salary) and variable element (bonus).

For Non-Executive Directors, the level of remuneration is in line with the level of contribution and taking into account factors such as efforts and devotion of time and the responsibilities entrusted upon them.

The Remuneration Committee recommends for the Board's approval, the framework of the Executive Directors' remuneration package and terms of employment. The determination of the remuneration package of Non-Executive Directors is a matter for the Board as a whole. Directors are required to abstain from deliberations and voting on decisions concerning their own remuneration.

The Board is of the opinion that disclosure of remuneration by appropriate components and bands is adequate to meet the objectives of MCCG 2012. Details of individual Directors' remuneration are not disclosed for personal security reasons.

Statement on Corporate Governance (cont'd)

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.4 DIRECTORS' REMUNERATION (CONT'D)

Aggregate Directors' Remuneration

Directors	[----- Financial year ended 31 December 2016 -----]		
	Directors' Fees RMB	Emoluments RMB	Total RMB
Executive Directors	–	2,790,491	2,790,491
Non-Executive Directors	567,346	37,180	604,526
Grand Total	567,346	2,827,671	3,395,017

Remark: Directors reside in the People's Republic of China were paid in RMB, while the remaining being paid in RM. For presentation purpose, directors' remuneration paid in RM has been translated at the exchange rate of RMB1: RM0.6455.

The remuneration of the Executive Directors are payable by a subsidiary company, whilst the remuneration of the Non-Executive Directors are payable by the Company.

Analysis of Directors' Remuneration

Range	Executive Directors	Non-Executive Directors
RMB100,000 and below	–	1
RMB150,001 – RMB200,000	1	3
RMB450,001 – RMB500,000	1	–
RMB1,050,001 – RMB1,100,000	2	–

PRINCIPLE 3: REINFORCE INDEPENDENCE

Recommendation 3.1 of MCCG 2012

Members of the Board are persons of high calibre from differing professional and commercial backgrounds. With a blend of good management, entrepreneurial skills and industry-specific knowledge, they bring extensive depth and diversity in experience and perspectives which are vital for the continued success of the Group. The profiles of each Director are presented under Profile of the Board of Directors contained in this Annual Report.

To ensure an effective and independent supervision, all the Independent Non-Executive Directors in office are independent of the Management and major shareholders and are free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The Board has performed an annual assessment on the Independent Non-Executive Directors and is satisfied that all the existing Independent Non-Executive Directors continue to fulfil the definition of independence as stipulated in the Listing Requirements.

Recommendations 3.2 & 3.3 of MCCG 2012

None of the Independent Non-Executive Directors has served the Company for tenure exceeding nine (9) years.

Statement on Corporate Governance (cont'd)

PRINCIPLE 3: REINFORCE INDEPENDENCE (CONT'D)

Recommendations 3.4 & 3.5 of MCCG 2012

The Board recognises a strong independent element of the Board is essential to ensure a balance of power and authority. The roles and responsibilities of the Chairman and Managing Director / CEO are clearly segregated to enhance and preserve a balance of authority and accountability. The Chairman provides overall leadership to the Board, without compromising the principle of collective responsibility for Board's decisions; while the Managing Director / CEO focuses primarily on formulation and implementation of business strategies, oversees the implementation of the Board's decision and policies, as well as supervises the day to day management and running of our Group. Also, Directors are required to abstain from deliberations and voting on decisions concerning transactions which are related to them or of which they have interests in.

The Company deviates from the Recommendation 3.4 of the MCCG 2012 which provides that the Chairman must be a non-executive member of the Board, and Recommendation 3.5 of the MCCG 2012 which provides that the Board should comprise a majority of independent directors where the Chairman is not an independent director.

The Board is of the opinion that it is more constructive and beneficial to our Group to have a combination of executive views and independent, objective views in the overall leadership of the Board. The present Executive Chairman, Ms. Ding LiHong is able to provide the Board with in-depth industry insights by virtue of her unparalleled knowledge and experience in China's sportswear industry and the recognition she earned from the industry peers; while the presence of the Independent Non-Executive Deputy Chairman ensures that Board's deliberations are always subject to objective evaluation.

The Board is of the opinion that the presence of the Independent Non-Executive Deputy Chairman, coupled with the fact that half of the present board composition consist of Independent Non-Executive Directors, are adequate to safeguard balance of power and authority and ensure that the Board's decisions are made with sufficient supervision; as advocated by Recommendation 3.5 of the MCCG 2012.

The Nomination Committee, upon assessment of the Board's size and composition, is satisfied that the Board's size is appropriate given the scale of our Group's business and operations and the composition is well-balanced with mix of knowledge, skills and attributes to enable the Board to discharge its duties efficiently.

PRINCIPLE 4: FOSTER COMMITMENT

4.1 TIME COMMITMENT

Recommendation 4.1 of MCCG 2012

The Board is satisfied with the level of time commitment allocated by the Directors towards fulfilling their roles and responsibilities as directors, as evidenced by the good attendance record of the Directors at the Board meetings.

Directors are required to submit a timely update of their directorship in other companies to the Company Secretary as and when there is a change. Such information is used as reference in assessing whether the Director will be able to allocate sufficient time to fulfil their fiduciary roles and responsibilities effectively.

The Board takes note of the restriction under Paragraph 15.06 of the Listing Requirements that the Directors should not hold more than five (5) directorships in listed entities. None of the Directors is in breach of this restriction.

Statement on Corporate Governance (cont'd)

PRINCIPLE 4: FOSTER COMMITMENT (CONT'D)

4.2 DIRECTORS TRAINING

Recommendation 4.2 of MCCG 2012

All existing Directors have attended the Mandatory Accreditation Programme (MAP) as required by Bursa Securities.

The Board is mindful that appropriate continuous training is essential for the Directors to keep abreast with the changes and developments in the marketplace and the corporate regulatory framework.

Directors are briefed and updated at the quarterly meetings by the Company Secretary, Internal and / or External Auditors on relevant amendments to the Listing Requirements, corporate governance practices and principles, risk management and internal control approaches, as well as Financial Reporting Standards.

The following are records on the Directors' participation in additional training programmes during the financial year under review:

Name of Director	Title of Training Programme
Wong Yoke Nyen	<ul style="list-style-type: none"> o Business Sustainability and Latest Amendments to Listing Requirements o The Interplay between Corporate Governance, Non-Financial Information and Investment Decision o Financial Crisis, Currency War and Portfolio Strategies o Merger & Acquisition: Pricing the Deal, Due Diligence and Alternatives to M&A
Woon Yeow Thong	<ul style="list-style-type: none"> o Annual Report Disclosure Guidelines & Sustainability Reporting – What A Company Need to Disclose

Apart from structured training programme, the Directors continued to gain updates through the briefings by the Company Secretary, Internal and External Auditors during the quarterly meetings, communications with other Directors as well as their daily work exposures and involvements in chamber of commerce and industry-related association.

All the Directors recognise the importance of continuing professional development and the need for continuous update and training. The Directors will, on a continuing basis, identify suitable training programmes for participation to ensure that they are updated and kept abreast with the developments in the economy, changes in the industry and business environment, new regulatory and financial reporting requirements, essential practices for effective corporate governance, risk management and internal control.

Statement on Corporate Governance (cont'd)

PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 FINANCIAL REPORTING

Recommendation 5.1 of MCGG 2012

The Board is committed to providing a balanced, clear and comprehensive assessment of the Group's financial performance, position and prospects in presenting the annual financial statements and quarterly announcements of results to shareholders.

The Board, assisted by the Audit Committee, takes due care and reasonable steps to ensure that the financial results are released to the shareholders and the general public on timely manner and the financial statements are presented with accuracy and adequacy and comply with all relevant regulatory reporting requirements and financial reporting standards.

5.2 RELATIONSHIP WITH AUDITORS

Recommendation 5.2 of MCGG 2012

With the assistance of the Audit Committee, the Board has established a transparent and appropriate relationship with the Group's External Auditors.

The Board recognises that the Group's independent external auditors serve an essential role in enhancing shareholders' confidence on the reliability of our Group's financial statements by expressing an independent opinion on whether the financial statements give a true and fair view of the Group's financial position and performance to the shareholders.

Further information is disclosed under the Audit Committee Report included within this Annual Report.

The Audit Committee had obtained assurance from the Group's external auditors, Messrs. BDO, confirming that they are, and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. The Audit Committee had reviewed the key members of the audit engagement team and none of them are connected to the director / major shareholders of the Group. The Audit Committee had also reviewed the audit fees and non-audit fees paid or payable by the Group to the external auditors and was not aware of undue financial dependency.

After having satisfied with the performance of Messrs. BDO and its audit independence, the Audit Committee recommended the re-appointment of Messrs. BDO to the Board for approval by its shareholders at the forthcoming AGM.

Statement on Corporate Governance (cont'd)

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

6.1 RISK MANAGEMENT AND INTERNAL CONTROL

Recommendation 6.1 of MCGG 2012

The Board recognises the importance of sound risk management and internal control systems, which are necessary to safeguard our Group's assets and shareholders' investment.

To this extent, the Board has adopted a formalised enterprise risk management framework to systematically identify, evaluate and mitigate current and emerging risks that may impede the achievement of our Group's strategic objectives and business strategies. The overall procedures / flows for the risk management are summarised below:

- (a) Define the processes / activities to be assessed;
- (b) Determine the relevant financial parameter to measure the impact of a risk event;
- (c) Identify the risks, together with the root cause and the possible impact / consequence to the Group and the probability of occurrence;
- (d) Identify control procedures that may be effective to manage the risks;
- (e) Risk profiling by summarising all the key risks identified in the risk register, together with the rating on their potential impacts to our Group; and
- (f) Findings are coordinated by the Risk Management Committee and subsequently reported to the Audit Committee and the Board for review and deliberation.

The risks are classified into appropriate categories and encompass:

- Internal and external strategic risks
- Financial risks
- Operational risks
- Investor relation risks
- Legal risks

The impact of principal risks have been measured, and appropriate internal controls identified, to ensure that they are maintained within acceptable and moderate level.

Periodic reviews are performed to identify, evaluate, monitor and manage significant risks affecting the business and operations of our Group and ensure that adequate and effective controls are in place. Such continuous review processes are assisted by the Group's appointed professional and independent internal auditors firm, as well as the Risk Management Committee supported by the Company's management team. The findings of the internal auditors are reported directly to the Audit Committee.

Further information and overview of the state of risk management and internal controls within the Group is disclosed under the Statement on Risk Management and Internal Control, and Audit Committee Report, contained in this Annual Report.

Statement on Corporate Governance (cont'd)

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS (CONT'D)

6.2 INTERNAL AUDIT FUNCTION

Recommendation 6.2 of MCGG 2012

Our Group has outsourced the internal audit function to a professional, independent internal auditors firm, who reports directly to the Audit Committee. Further information on the internal audit function is disclosed under the Statement on Risk Management and Internal Control, and Audit Committee Report, included within this Annual Report.

PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Recommendations 7.1 & 7.2 of MCGG 2012

The Board recognises the importance of an effective communication channel between the Board, shareholders, stakeholders and general public and the importance of timely dissemination of information to shareholders, stakeholders and general public and their rights to be updated of the Group's activities and performance to enable them to make informed evaluation and investment decision.

While the Company strives to provide as much information as possible to its shareholders, stakeholders and general public, the Company upholds strict standards of confidentiality with regard to undisclosed material information under all circumstances and remains mindful of the legal and regulatory framework (particularly the Listing Requirements) governing the dissemination of information to shareholders and the general public. The Company has established a corporate disclosure policy to govern the disclosure of material, non-public information in a manner designed to provide broad, non-exclusionary distribution of information so that the public has equal access to the information; and to prevent the abuse of undisclosed material information.

The Company is committed to keeping the shareholders, stakeholders and general public informed of our Group's business developments. To this end, we have disseminated relevant information and updates on the Group from time to time via various medium including the annual report, quarterly reports, circular to the shareholders and other prescribed announcements lodged with Bursa Securities in its website at www.bursamalaysia.com to the extent permissible under the Listing Requirements of Bursa Securities. Annual report and circular to the shareholders are also furnished in printed copy.

The Company has also established a corporate website under www.xidelang.com.my for shareholders and the public to access for corporate information.

Statement on Corporate Governance (cont'd)

PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY & SHAREHOLDERS

8.1 SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

Recommendation 8.1 of MCGG 2012

Our Group views the Company's Annual General Meeting ("AGM") and Special General Meeting ("SGM") as another principal avenue of communication with the shareholders. The AGM and SGM serve as useful platform for the shareholders to engage directly with the Board and the Management.

At every meeting, the Board sets out the progress and performance of our Group since the last meeting held. The Company is looking forward to solicit feedbacks and views from its shareholders and answer shareholders' question on all issues pertaining to the Group at the AGM and SGM.

Notice of the AGM and SGM and related papers are forwarded to shareholders with adequate time before the meeting. Shareholders are invited and encouraged to attend the Company's AGM and SGM and to actively participate in the proceedings by posing questions on the proposed resolutions and to seek clarification on our Group's business and performance. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf.

8.2 POLL VOTING

Recommendation 8.2 of MCGG 2012

Shareholders are allowed and encouraged to exercise their rights to demand for poll voting in the general meetings, if deemed necessary. During the financial year under review, the Company had not conducted any poll voting as there was no contentious issue raised at the general meetings convened.

The Board takes cognisance of the requirements stipulated under Paragraph 8.29A of the Listing Requirements of Bursa Securities that any resolution set out in the notice of any general meeting, or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting, shall be voted by poll. This will be practiced in the Company's upcoming AGM and any subsequent general meeting(s).

The Company will appoint one or more scrutineers, where appropriate, to validate the votes cast at the general meeting. The Company will ensure that the scrutineer(s) appointed is not an officer of the Company or its related corporation, independent of the person undertaking the polling process, and is not interested in the resolution to be passed. The candidate(s) for the scrutineer will be determined from time to time, as and when a general meeting is called.

Statement on Corporate Governance (cont'd)

PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY & SHAREHOLDERS (CONT'D)

8.3 EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

Recommendation 8.3 of MCGG 2012

In addition to the above, the Board has identified Mr. Zhu GuoHe as the Senior Independent Non-Executive Director to whom queries and concerns regarding the Group may be raised. The shareholders and investors, at their discretion, may also direct their queries to other Directors of our Group as the Board operates in an open environment in which information is freely exchanged among the Board members, with due care exercised to safeguard the confidentiality of the information.

Shareholders and the public may contact the Company Secretary and / or the Company's Agent in Malaysia, the contact details of which have been set out under the Corporate Information section of this Annual Report, for assistance in conveying their queries and concerns to the Senior Independent Non-Executive Director and / or any other Directors of our Group.

RESPONSIBILITY STATEMENT BY THE BOARD

In the course of preparing the annual financial statements of the Group and of the Company, the Directors reaffirm that they are collectively responsible for ensuring that these financial statements are drawn up in accordance with the requirements of the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Listing Requirements; and that the financial statements give a true and fair view of the financial position of the Group at the end of the financial year, the financial performance and cash flows of the Group for the financial year ended 31 December 2016.

In preparing the financial statements, the Directors have:

- adopted the Malaysian Financial Reporting Standards and International Financial Reporting Standards;
- applied the appropriate and relevant accounting policies on consistent basis;
- made judgements and estimates that are reasonable and prudent;
- prepared the financial statements on going concern basis; and
- ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also made reasonable steps to safeguard the assets of the Group, and to prevent and detect fraud as well as other irregularities.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The Board recognises the importance of the principles and recommendations set out in the MCGG 2012. Save as disclosed within this Annual Report, the Group has, and will continue to apply the principles and recommendations promoted by MCGG 2012 where practical and appropriate.

SUSTAINABILITY STATEMENT

This Sustainability Statement aims to outline the key environmental, social and governance aspects that are material to the continued success of our Group's operations in manufacturing and marketing of own-branding casual sportswear and ODM manufacturing of sports shoes for external customers, based in Jinjiang City, Fujian Province of China.

Our Group focuses on five core areas of sustainability:



(1) CUSTOMER SATISFACTION

Our Group recognises that customer satisfaction is one of the key factors underlying the long term sustainability of our Group's operations. It is the fundamental policy of our Group that all final products launched into the market must not contain any hazardous element, and must be of high quality to ensure customers' satisfaction. "Value-for-money" is the core principle guiding our product development. We uphold the belief that consumer rights should be preserved at all times and are on continuous endeavours to create value-for-money for the customers.

Our Group values preventive controls over detective measures, and recognise that a comprehensive quality assurance cannot be achieved without the efficient and effective functioning of the entire supply chain, involving the following parties:

- Our Group as the manufacturer of sportswear products and marketer of proprietary sportswear brand;
- Raw materials suppliers;
- Authorised distributors and retailers who are responsible to establish an extensive retail coverage for 'XiDeLang' products across China; and
- Customers, consisting of the general public that consume our proprietary brand products, and foreign trading / export companies (who act as the agent of overseas sportswear brands) that engage us as the ODM manufacturer.

Dissatisfaction from any one of the external parties in the supply chain may adversely disrupt our Group's sales and financial performance. As such, our Group places great emphasis in establishing and maintaining positive / mutually-beneficial relationship with all the parties.

Sustainability Statement (cont'd)

(1) CUSTOMER SATISFACTION (CONT'D)

To this end, we maintain close relationship with our raw material suppliers to ensure that incoming supplies always conform to our required standard / quality. In return, we offer the suppliers with recurring orders and prompt payment.

Similarly, our Group fosters close collaboration with our authorised distributors and retailers who play the pivotal role in expanding the market coverage of 'XiDeLang' brand products. It is important that the authorised distributors and retailers operate efficiently and profitably, as their performance have direct bearing on our Group's performance. The Management, assisted by the marketing team, maintain regular contacts with the authorised distributors and retailers to gather market insights and consumers' feedback for future improvement. In return, we offer the authorised distributors and retailers with quality products, decent retail profit margin, strategic brand positioning, and continuous brand-building activities. Amid the challenging market conditions and operating environment, our Group coordinates with the authorised distributors and retailers to optimise the retail network, and to minimise the production and delivery lead time so that in-store inventory level can be kept at reasonable level thereby reducing the risk of slow-moving / excessive stocks.

Internally, stringent control and monitoring are implemented throughout the production process. Quality inspection is carried out at various stages of the production, from raw material sourcing through to the packaging and delivery of the finished products.

The key indicators that reflect our Group's performance on this area during the financial year under review are summarised below:

Indicator	2016	2015
Customer base		
• Number of authorised distributors (own-branding)	23	23
• Number of ODM customers	20	28
Total quantities sold (in '000 pairs)		
• Own-branding sports shoes	4,129	3,332
• ODM manufacturing of sports shoes	2,414	2,243

The quantitative indicators pointed towards improved customer satisfaction of our Group's products during the financial year under review. There was no significant loss of customers, notwithstanding that the absolute number of ODM customers was lower during the financial year under review, as the total quantities of sports shoes sold for both the own-branding segment and the ODM manufacturing segment recorded growth.

The review excludes the sports apparel, accessories and equipment as our Group has temporarily withheld the supply taking into consideration the prevailing market conditions. Kindly refer to Management Discussion and Analysis contained in this Annual Report for further details.

Sustainability Statement (cont'd)

(2) PEOPLE-CENTRIC

Human capital is pivotal to our Group's continuing success, as our dedicated workforce is key to the effective functioning of all the departments within our Group including but not limited to product design and innovation, production, warehousing and logistics, purchasing, sales and marketing, finance, administrative and other support divisions.

To this end, our Group places emphasis on the following areas which we believe are amongst the primary considerations of an employee for long term loyalty:

- o **Safe and pleasant working environment.** Our Group endeavours to create an inspiring, conducive and pleasant working environment for our employees as part of our policy for talent retention. It is our Group's policy that production floor must be maintained clean and orderly organised at all times for safety consideration.
- o **Personal development.** On-the-job training and guidance are provided to the employees, from time to time, as the need arises.
- o **Sense of belonging.** Majority of our workforce originated from other provinces. To ease their burdens, both financially and mentally in terms of unfamiliarity with the environment, we have established free accommodation within the compound of our Group's headquarter and production centre. The layout of our Group's headquarter and production centre is delicately designed to be surrounded with greenery and landscaping, in order to provide recreational areas for our workforce to relieve work tension and to promote work-life balance. Also, for the convenience of the employees, canteen has been set up within the factory compound to help them save on the travelling time and cost. We have also established a library / reading corner for our employees to encourage them to enhance their knowledge through routine reading.
- o **Monetary consideration.** Our Group endeavours to ensure attractive remuneration package is offered to recruit and retain talents. To this end, our Group strives to ensure that the remuneration package offered is in line with the market practice, and include all the staff welfare and benefits prescribed by the local authorities and applicable labour laws and regulations.

During the financial year under review, our Group has carried out the following activities / initiatives to enhance the human capital aspect:

- (i) Orientation programmes for the new employees encompassing the following:
 - Briefing on our Group's corporate cultures
 - Briefing on internal rules and requirements applicable to our Group's operations
 - Induction training on technical / production skills
 - Briefing on emergency evaluation procedures and conduct of fire drill
 - Comprehensive safety training
- (ii) Continuing education programmes for the existing employees on the following areas:
 - Training to machinery operators on safe-handling of mechanical hazards
 - Training to chemical operators on emergency evaluation and safety procedures
- (iii) Medical check-up for new employees.
- (iv) Annual medical check-up for canteen workers and catering staff to ensure dietary safety, and testing of the drinking water to ensure compliance with the consumption standards.
- (v) Pollution assessment on the production floor to ensure a safe workplace for the staff.

Sustainability Statement (cont'd)

(2) PEOPLE-CENTRIC (CONT'D)

- (vi) Annual inspection on specialised equipment (such as the elevator, air compressor and forklift etc.) to ensure that the machineries and equipment are safe to use.
- (vii) Annual dinner and festive celebration to promote interactions amongst the employees.
- (viii) Establish an internal employees' care fund to aid staff facing difficulties or mishap.

(3) COMMUNITY CARE

Our Group acknowledges that the long term sustainability and growth of our business is dependent on the well-being of the community. All the key elements of our business (customers, suppliers, human capital) are originating from the community.

Our Group is dedicated to make annual contribution to the community, particularly in relation to improving the welfare of old folks and education environment (crucial element for the development of future generations).

During the financial year under review, our Group has made a donation of RMB105,000 to the old folks association within the local community.

(4) ENVIRONMENTAL PROTECTION

Our Group is committed to minimising impact to the environment and encouraging greater sustainability throughout our business operations. Our environmental protection initiatives include the smart and careful consumption of resources, while minimising possible carbon emissions and waste generation.

Production waste arising out of our Group's production process primarily comprise off-cuts in the process of constructing the bottom part of the shoe, without significant threat of pollutions. Notwithstanding that, careful waste-handling procedures are put in place whereby all the wastes are being gathered and subsequently forwarded to waste collection centres for proper disposal to avoid contaminating surrounding public areas.

We have also embedded the green initiatives into the design of our Group's headquarter and production centre, where we maintain greenery landscape and plants in the surroundings. The extra efforts of our Group in promoting environmental protection have paid off, with our Group's headquarter and production centre accredited as "Green Factory" by the Green Committee of Jinjiang City.

(5) REGULATORY COMPLIANCE

Our Group believes that strict compliance with all relevant laws and regulations is a requisite to promote an ethical and responsible society. To this end, our Group strives to comply with all the relevant laws and regulations applicable to our business operations.

Recognising the fact that tax is an important source of income for the government to finance the nation development activities and that everyone will stand to benefit as the nation and economy progress further, our Group places great emphasis in ensuring compliance with the applicable tax regulations and prompt settlement of our tax liabilities.

Our Group's commitment to proper compliance with laws and regulations has proven to be favourable and value-enhancing for our shareholders and stakeholders, as we minimise the exposure to lawsuits. To-date, our Group has not involved in any significant litigation, arbitration or claims.

Our Group strives to maintain a healthy and positive corporate image, hoping that this would share some effects on introducing ethical values and practices within the society and amongst our workforce.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

This Statement on Risk Management and Internal Control (“Statement”) is made pursuant to Paragraph 15.26(b) of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Listing Requirements”), and has been prepared in accordance with the Principles and Recommendations relating to risk management and internal controls advocated by the Malaysian Code on Corporate Governance 2012 (“the Code”) as well as the *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers*.

BOARD’S RESPONSIBILITIES

The Board affirms its overall responsibility for establishing and maintaining a sound risk management framework and system of internal control to manage the risk exposure of the Group; and for reviewing the adequacy and integrity of the system.

The Board recognises that such risk management and internal control systems are designed to manage and maintain the Group’s risks within an acceptable tolerance level established by the Board and the Management, rather than to eliminate the risks of non-adherence to the Group’s policies, procedures and practices and failure to achieve the Group’s goals and objectives. Therefore, the systems can only be relied upon to provide reasonable and not absolute assurance against the occurrence of any material misstatement of management and financial information, losses, fraud or breach of laws and regulations.

During the financial year ended 31 December 2016, the Board has established three lines of defence to safeguard the effective functioning of the Group’s risk management and internal control systems as depicted below:



Statement on Risk Management and Internal Control (cont'd)

BOARD'S RESPONSIBILITIES (CONT'D)

- **1st Line of Defence**
The Board was assisted by the Management (led by the Executive Directors) in implementing the approved policies and control procedures for the Group's day-to-day operations.
- **2nd Line of Defence**
The Board was assisted by the Management and Risk Management Committee in identifying and evaluating the risks faced by the Group's operations as well as implementing appropriate action plans / control measures to manage the risks; and by the outsourced independent internal auditors and Audit Committee in monitoring and reviewing the effectiveness of the risk management framework.
- **3rd Line of Defence**
The Board was assisted by the outsourced internal auditors and Audit Committee in obtaining independent assurance on the adequacy and effectiveness of the Group's risk management and internal control systems. The outsourced internal auditors carried out independent review of the Group's risk exposures and control activities. Findings identified during the course of internal audit, Management's responses thereto and actions taken / recommended improvement action plans to be implemented were tabled to the Audit Committee for review and deliberation. Matters discussed at the Audit Committee's meetings were minuted and reported to the Board for notation.

RISK MANAGEMENT

The Board has adopted a formalised risk management framework to systematically identify, evaluate and mitigate current and emerging risks that may impede the achievement of the Group's strategic objectives and business strategies, as depicted below:

The risk management framework sets out clearly the accountability of various management levels within the organisational structure:

The Board

- Overall oversight of risk management

Chief Executive Officer

- Accountable to the Board and other stakeholders for the efficient and effective management of strategic and operational risks within the Group

**Executive Directors and Key Management
(Executive Team)**

- Strategic risk assessment and oversight
- Recommending the levels of acceptable risk

Heads of Business Unit / Department

- Strategic and operational risk assessment, management, monitoring and reporting for all risks relative to their area of control

Managers

- Operational risk assessment, management, monitoring and reporting to Heads of Department and Executive Team for activities within their control



Statement on Risk Management and Internal Control (cont'd)

RISK MANAGEMENT (CONT'D)

The Board is assisted by the Risk Management Committee (“RMC”) in reviewing the adequacy and effectiveness of the risk management system. The Management, as an integral part of their overall stewardship responsibilities for the daily operations of the Group, monitor the key risks and action plans identified from time to time. Any weakness or new risk encountered will be reported to the RMC for assessment, and for formulation of appropriate action plans for mitigation where necessary. The findings of the RMC, if any, will then be reported to the Board for deliberation and approval.

During the financial year under review, as an initiative to enhance the risk management of the Group, the outsourced internal auditors was engaged to conduct a review on the Group’s existing risk assessment.

A total of 33 strategic and operational risks are documented, including 1 newly identified risk relating to natural disaster. Out of the 33 risks identified:

- 27 have been rated to be low risks;
- 5 have been rated to be moderate risks; and
- 1 has been rated to be high risk.

The risks were rated in the context of prevailing operating environment, and after taking into consideration the likelihood of occurrence and the consequential impact.

The principal risks (those rated to be moderate or high) faced by the Group together with the key risk management processes are outlined below:

Principal risks	Key Risk Management Processes
Unfavourable macro and industry-related regulations and policies <i>(Moderate risk)</i>	<ul style="list-style-type: none"> • Maintain regular communication with local authorities to keep abreast with policies and requirements. • Where necessary, obtain clarification and confirmation from the local authorities. For e.g. in relation to statutory payments. • Regular update on new policies and measures implemented by the central government.
The impact of global economic uncertainties on China’s economy <i>(Moderate risk)</i>	<ul style="list-style-type: none"> • Maintain close monitoring on payments and collections. • Assess the needs for expansion from time to time.
Natural disaster - Newly identified risk, after the typhoon incidence within Fujian Province during September 2016. <i>(Moderate risk)</i>	<ul style="list-style-type: none"> • Comprehensive insurance coverage on assets. • Regular update on weather forecast and any bad weather alert issued by the local authority. • Management to issue directive to employees to stay indoors. • Prompt actions to recover and remedy any damages caused by bad weather. • Carry out reinforcement to trees and other hardware / equipment with risk of tumbling.

Statement on Risk Management and Internal Control (cont'd)

RISK MANAGEMENT (CONT'D)

Principal risks	Key Risk Management Processes
Brand positioning & market competition <i>(Moderate risk)</i>	<ul style="list-style-type: none"> • Concentrate on sports shoes manufacturing, both own-branding and ODM segments. • Continue to enhance the relationship with ODM customers and strengthen their confidence on the Group. • Monitor the market development closely and adopt a prudent strategy on expansion and new product offerings in view of the intensifying competition within China domestic market.
Loss of authorised distributors <i>(Moderate risk)</i>	<ul style="list-style-type: none"> • Maintain close monitoring on the performance of the authorised distributors and obtain regular feedbacks from them. • The Group's sales and marketing team to pay regular visits to the authorised distributors, in order to establish and maintain close relationship and rapport with the authorised distributors.
Non-recoverability of trade debts <i>(High risk ^)</i> ^ <i>In the context of the prevailing economic uncertainties</i>	<ul style="list-style-type: none"> • Monthly reconciliation of outstanding balance with customers, and continuous follow-up on amount exceeding credit term. • Monthly review and monitoring of the trade receivables' ageing analysis.

INTERNAL CONTROL

The Board is committed to articulating, implementing and reviewing the Group's system of internal control and recognises the importance of an effective internal audit function to continually evaluate and review the adequacy and effectiveness of the Group's system of internal control.

The key features of the Group's system of internal control are described below:

- **Active participation by top management.** The Executive Directors actively participate on the day-to-day affairs of the Group, with discussions and meetings conducted with the various functions / departments to discuss on operational issues and performance as well as to formulate appropriate business strategies and targets in response to the changes in business environment and risks faced by the Group. The Board believes that active involvement by the Executive Directors would reinforce the awareness on the importance of a proper internal control system throughout the organisation.
- **Clearly defined lines of accountability and delegated authority.** The Board and Management have established an organisational structure with clearly defined lines of accountability and delegated authority. This includes well-defined roles and responsibilities of the Board, the Board committees and various management levels, including authorisation levels and limits for all material aspects of the business.

Statement on Risk Management and Internal Control (cont'd)

INTERNAL CONTROL (CONT'D)

- **Oversight function by Audit Committee.** The Board has established a fully independent Audit Committee comprising exclusively Independent Non-Executive Directors to assist the Board in reviewing internal control issues identified and evaluating the adequacy and effectiveness of the Group's risk management and internal control systems.

The Audit Committee is accorded full and unrestricted access to both internal and external auditors, as well as the management team. The Audit Committee, assisted by the outsourced internal auditors, hold discussion with the management to deliberate appropriate action plans in addressing the identified internal control issues and report to the Board accordingly.

- **Formal operating policies, procedures and processes.** The Management has established formal operating policies and procedures for the various key functions of the Group's operations to ensure that control measures are in place to govern the day-to-day affairs of the Group.
- **Financial planning and budgeting control.** During the financial year under review, an internal financial projection up to year 2019 was submitted to the Board for review and deliberation. The financial projection is used to facilitate the Board's monitoring of the Group's performance, to determine whether prompt actions are taken in the event of material adverse deviation between the actual results against the financial projection.
- **Periodic reporting and review.** Periodic meetings are held by the Board to review the financial results of the Group and discuss on operational matters, with all members of the Board accorded full and unrestricted access to information. The participation by the Independent Non-Executive Directors ensures that all major decisions are subject to appropriate level of independent, objective evaluation.

Quarterly financial reports and annual audited financial statements are reviewed by the Audit Committee, prior to the Board's approval for announcement.

- **Human resource management.** The Management has put in place formal policies for both the recruitment of employees and resignation of employees. New employees are briefed on the rules and requirements as contained in the Employee Handbook, and the company's policies. Leaving employees are interviewed to understand, and record in writing, the reason for resignation.
- **Code of ethics and conduct.** The Board has established and adopted a formal code of ethics and conduct, which sets out the principles and standards of behaviour that are expected of employees particularly on the core areas of conduct which include:
 - o conflict of interest;
 - o confidential and proprietary information;
 - o price sensitive information and securities trading;
 - o protection of Group's assets and fund;
 - o control of business records;
 - o compliance with applicable laws;
 - o personal gifts, gratuities, benefits and contributions;
 - o occupational health and safety;
 - o religious / racial / sexual discrimination;
 - o outside activities and interests;
 - o fair and courtesy inter-personal conduct; and
 - o dishonesty, misconduct and corrupt practices.

Statement on Risk Management and Internal Control (cont'd)

INTERNAL CONTROL (CONT'D)

- **Whistle-blowing policy.** The Board has established a whistle-blowing policy and procedures to provide guidance for employees to report on actual or suspected malpractice, misconduct or violation of the applicable laws and regulations and the Group's policies.
- **Insurance.** The Group has procured insurance coverage on its assets to safeguard the Group from financial losses in the event of mishap. A yearly review on the insurance coverage is undertaken by the Management in conjunction with the policy renewal, taking into consideration the feedback and professional advice from the insurance agent as well as the comments from external auditors. During the financial year under review, the Group has also procured a corporate liability insurance for additional coverage on management liability.

INTERNAL AUDIT FUNCTION

The Board acknowledges the importance of the internal audit function and has engaged the services of an independent professional internal audit firm, Total Advisors Sdn. Bhd., to provide much of the assurance it requires regarding the effectiveness as well as the adequacy and integrity of the Group's systems of internal control.

The internal audit function is responsible to assist the Audit Committee in evaluating and reviewing the adequacy and effectiveness of the Group's system of internal control. To ensure independence, the outsourced internal auditors reports directly to the Audit Committee.

During the financial year under review, the internal audit of the Group was carried out in accordance with a risk based two years audit plan approved by the Audit Committee. The review by the internal auditors provides an objective and independent assessment of the adequacy, efficiency and effectiveness of the Group's system of internal control.

The internal auditors' findings are circulated to the Audit Committee at their meetings. The internal audit reports are also circulated to the Management so that they can have a clear picture on the overall status of the control mechanism in place. In addition to that, the internal auditors also carried out follow-up reviews to ensure the recommendations are implemented within the required time frame. Summary of the internal audit activities during the financial year under review is disclosed under the Audit Committee Report of this annual report.

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Listing Requirements, the external auditors have reviewed this Statement. As set out in their terms of engagement, the said review procedures were performed in accordance with the Recommended Practice Guide 5 (Revised 2015): *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control Included in the Annual Report* ("RPG 5"), issued by Malaysian Institute of Accountants.

RPG 5 does not require the external auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system. RPG 5 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Annual Report will, in fact, remedy the problems.

Based on their procedures performed, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers*, to be set out, nor is it factually inaccurate.

Statement on Risk Management and Internal Control (cont'd)

CONCLUSION

The Board, after due consideration, is of the opinion that the system of internal controls as described in this Statement to be satisfactory and the key risks are maintained at an acceptable level in the context of the Group's business environment.

The Chief Executive Officer, Deputy Chief Executive Officer and Executive Director who is in charge of financial management have given assurance to the Board that the Group's risk management and internal control systems are operating adequately and effectively in all material aspects. There were no significant internal control deficiencies or weaknesses that resulted in material losses or contingencies to the Group during the financial year under review.

Based on the above, the Board is satisfied that the risk management and internal control systems in place for the financial year under review and up to the date of issuance of this Statement is adequate and effective to safeguard the Group's assets and the interests of the shareholders.

This Statement is made in accordance with the resolution of the Board dated 14 April 2017.

AUDIT COMMITTEE REPORT

1) COMPOSITION

The Audit Committee (“the Committee”) is established to assist the Board in ensuring timely and accurate financial reporting, proper implementation of risk management policies and internal control, and regulatory compliance. The Committee composed exclusively of Independent Non-Executive Directors, as disclosed below:

Name	Position
• Wong Yoke Nyen	Chairman / Independent Non-Executive Director
• Zhu GuoHe	Member / Senior Independent Non-Executive Director
• Woon Yeow Thong	Member / Independent Non-Executive Director

The composition of the Committee complies with the requirements as prescribed under Paragraph 15.09 and 15.10 of the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) and Practice Note 13 of Bursa Securities.

2) MEETINGS

During the financial year ended 31 December 2016, five (5) meetings were held by the Committee. The details of attendance of each member are disclosed below:

Audit Committee Members	Attendance of Meetings
Wong Yoke Nyen	5/5
Zhu GuoHe	5/5
Woon Yeow Thong	5/5

The representatives of the External Auditors, Internal Auditors and the Management Team were also invited, from time to time, to attend and brief the Committee members on specific issues during the Committee meetings.

All the proceedings at the Committee meetings were properly minuted by the Company Secretary, and kept as part of the statutory records of the Company. The minutes of meetings were circulated to the Committee members, and to all other members of the Board.

Audit Committee Report (cont'd)

3) RESPONSIBILITIES AND DUTIES

The Committee is governed by its terms of reference, which were drawn up in accordance with the requirements stipulated by the Listing Requirements of Bursa Securities and approved by the Board. Terms of reference of the Committee can be accessed on XiDeLang's corporate website at www.xidelang.com.my.

The primary responsibilities and duties of the Committee are summarised below.

Oversight Function
External Audit
<ul style="list-style-type: none"> • Recommend to the Board on the appointment and re-appointment of the External Auditors and their audit fees. • Review the following and report to the Board: <ul style="list-style-type: none"> - The audit plan tabled by the External Auditors - The audit report issued by the External Auditors - The assistance given by the employees to the External Auditors - The External Auditors' management letter and management's responses thereto - Any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the External Auditors - Any related party transaction and conflict of interest situation that may arise including any transaction, procedure or course of conduct that raises questions over management integrity - Any letter of resignation from the External Auditors and questions of resignation or dismissal - Whether there is reason (supported by grounds) to believe that the External Auditors are not suitable for re-appointment • Discuss problems and reservations arising from interim and final audits, and any matter the External Auditors may wish to discuss (in the absence of Management if necessary).
Financial Reporting
<ul style="list-style-type: none"> • Propose best practices on disclosure in financial results and annual report of the Company in line with the principles set out in the Malaysian Code on Corporate Governance, other applicable laws, rules, directives and guidelines. • Review the interim and annual financial reports of the Company and of the Group, prior to the approval of the Board for announcement, focusing on: <ul style="list-style-type: none"> - Any changes in accounting policies and practices - Any significant adjustments arising from the audit - Any significant and unusual events - The appropriateness of the going concern assumption - Compliance with accounting standards and other legal requirements
Internal Audit
<ul style="list-style-type: none"> • Assist the Board in identifying the principal risks in the achievement of the Company's objectives and ensuring implementation of appropriate systems to manage these risks. • Oversees the Company's internal control structure to ensure operational effectiveness and efficiency, reduce risk of inaccurate financial reporting, protect the Company's and Group's assets from misappropriation and encourage legal and regulatory compliance. • Overall oversight responsibilities over the internal audit function. • Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Audit Committee Report (cont'd)

4) SUMMARY OF ACTIVITIES

During the financial year, the Committee had carried out the following activities in discharging its roles and responsibilities:

Financial Reporting

- (i) Reviewed the unaudited interim / quarterly financial reports, before recommending them to the Board for approval and public announcement to Bursa Securities and Securities Commission (“SC”). In reviewing the unaudited interim / quarterly financial results, the Committee had considered the following:
 - o The appropriateness of the basis of preparation, in particular, the accounting policies and practices adopted and applied as well as the impact of the new accounting standards that came into effect during the financial year ended 31 December 2016.
 - o The fluctuations in the financial performance. The Committee had sought clarifications from the Management on the reasons for the variances in the financial results (as compared to preceding year corresponding periods), particularly on the Group’s revenue, profitability and expenses; and ensured that consistent disclosures were made in the interim / quarterly financial reports.
 - o The cash flows position of the Group, particularly cash flows from operating activities. In view of the challenging market conditions in China, Management advised that it was necessary to extend the credit period granted to the trade receivables to allow them greater flexibility in cash management. The Committee had reviewed the Management’s proposal and raised the concern that long credit terms will affect the Group’s cash flows. After due consideration, the Committee had recommended that the maximum credit period to be granted to the trade receivables should be capped at 120 days.
- (ii) Reviewed the annual audited financial statements, before recommending them to the Board for approval and public announcement to Bursa Securities and SC. In reviewing the annual audited financial statements, the Committee had communicated with the External Auditors, Messrs. BDO Malaysia with particular focus on:
 - o Compliance with the applicable Malaysian Financial Reporting Standards, International Financial Reporting Standards and other relevant legal and regulatory requirements.
 - o Significant audit and accounting matters highlighted, significant judgements made by the Management in preparing the financial statements as well as significant events and / or transactions during the financial year under review; and how these matters were addressed.

The review of the annual audited financial statements for the financial year ended 31 December 2015 was conducted in March 2016. The review of the annual audited financial statements for the financial year ended 31 December 2016 was conducted subsequent to the year-end, in April 2017.

- (iii) Reviewed the disclosures made within the Annual Report, particularly the Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit Committee Report, prior to the Board’s approval.

The review of the annual report for the financial year ended 31 December 2015 was conducted in April 2016. The review of the annual report for the financial year ended 31 December 2016 was conducted subsequent to the year-end, in April 2017.

Audit Committee Report (cont'd)

4) SUMMARY OF ACTIVITIES (CONT'D)

External Audit

- (i) Reviewed with the External Auditors the results of the annual audit for the financial year ended 31 December 2015, the audit report, management letter including the Management's responses thereto and the extent of compliance with legal and regulatory requirements.
- (ii) Considered the re-appointment of External Auditors (including assessment of their independence and objectivity) and their fees for the financial year ended 31 December 2016, and made appropriate recommendation to the Board.
- (iii) Reviewed with the External Auditors the audit plan for the financial year ended 31 December 2016, which covered the audit approach, concept of materiality and the basis applied in determining the materiality level, areas of significant auditor attention and key members of the audit engagement team.

The Committee had obtained assurance from the External Auditors that they have complied with the relevant ethical requirements regarding professional independence.

In addition to that, the Committee had obtained updates and clarifications from the External Auditors on the following:

- o New Malaysian Financial Reporting Standards that came into effect during the financial year ended 31 December 2016;
 - o Impact of the revised International Standards on Auditing; and
 - o Other changes to the legal and regulatory requirements, particularly the amendments to the Listing Requirements of Bursa Securities relating to disclosure and corporate governance requirements as well as the Companies Act 2016.
- (iv) Met twice with the External Auditors without the presence of the Executive Directors and Management where it was confirmed that full assistance was given by Management and employees and there was no restriction to the scope of audit.
 - (v) Subsequent to the year-end, in April 2017, reviewed with the External Auditors the results of the annual audit for the financial year ended 31 December 2016, the audit report and the extent of compliance with legal and regulatory requirements.

Audit Committee Report
(cont'd)

4) SUMMARY OF ACTIVITIES (CONT'D)

Risk Management and Internal Control

- (i) Reviewed the Internal Audit Services Engagement Letter (renewal for the next 2 years, 2016 and 2017) before recommending it for approval by the Board. In particular, the Committee confirmed that internal audit shall be conducted at least twice a year.
- (ii) Reviewed and approved the audit plan and scope of work of the Internal Auditors.
- (iii) Reviewed the Internal Auditors' reports, the findings included therein and Management responses thereto and actions taken to improve the system of internal controls. The Committee had received three (3) reports from the Internal Auditors during the financial year ended 31 December 2016, namely:
 - o Report dated May 2016, which covered the compliance audit. The scope of review is to ensure the various operational areas complied with the applicable rules and regulations, and compliance with requirements stipulated under Chapter 4A, Chapter 6, Chapter 8 and Chapter 9 of the Listing Requirements of Bursa Securities.
 - o Report dated October 2016, which covered the following functions / areas:
 - Finance and accounts department;
 - Fixed assets; and
 - Human resource management.
 - o Report dated November 2016, which contained a follow-up review on the Group's risk management and assessment.
- (iv) Ensured that appropriate remedial actions and improved procedures were implemented by the Management on the findings arising from the internal audit reviews. The Committee obtained update on the status of implementation via follow-up review by the Internal Auditors.

Other Activities

- Reviewed the related party transactions of the Group, to ensure that they are based on terms favourable to the Group. The Committee noted that there was no related party transaction being entered into by the Group during the financial year under review.
- Enquired on the progress of the proposed acquisition of the entire business and undertakings of Jinjiang Yangsen Garments Co., Ltd, where the Committee was informed that the heads of agreement had been mutually terminated. The Committee had requested that consistent disclosures to be reflected in the interim / quarterly financial report.
- Reviewed the internal performance forecast (up to year 2019) and evaluated the business strategies and development plans suggested by the Management.
- During the financial year under review, the Management had proposed to appoint a Financial Reporting and Compliance Manager as part of the initiative to further strengthen the financial reporting and compliance aspects of the Group. The Committee had reviewed the profile of the proposed candidate, particularly the qualification and prior experience of the candidate. After due consideration, the Committee agreed to the proposed appointment and recommended the matter to the Board for approval.

Audit Committee Report (cont'd)

INTERNAL AUDIT FUNCTION

Total Advisors Sdn. Bhd. ("the Internal Auditors"), an external professional firm, has been engaged by the Board to carry out the internal audit function during the financial year under review.

The Internal Auditors report directly to the Committee. The primary role of the internal audit function is to review the effectiveness of the Group's systems on internal control and this is performed with impartiality, proficiency and due professional care. Total internal audit fees incurred in respect of financial year ended 31 December 2016 amounted to RM52,200.

Internal audit function adopts a risk-based auditing approach by focusing on reviewing identified high risk areas for compliance with control policies and procedures, identifying business risk which have not been appropriately addressed and evaluating the adequacy and integrity of controls. Internal audit function assists the Committee in discharging its duties and responsibilities with respect to the adequacy and integrity of the systems of internal control within the Group.

During the financial year ended 31 December 2016, the Internal Auditors had carried out the independent review on the following areas:

- (a) Compliance aspect of the Group. Areas covered include business license, foreign exchange registration certificate, loan certificate, property ownership certificates, pollutant discharge permit, intellectual property rights, patents / industrial designs copyrights, environmental matters, and compliance with the requirements stipulated under Chapter 4A, Chapter 6, Chapter 8 and Chapter 9 of the Listing Requirements of Bursa Securities. The Internal Auditors concluded that overall internal controls are in place and sound due to effective applications and compliance to the Group's policies and procedures, operating and accounting and the applicable regulatory requirements.
- (b) Finance and Accounts Function, Fixed Assets and Human Resource Management. The Internal Auditors concluded that overall internal controls are in place and sound due to effective applications and compliance to the Group's policies and procedures, operating and accounting and the applicable regulatory requirements, although four (4) matters have been identified that required improvement. The findings, together with the management responses thereto and the recommended action plans, had been documented in the Internal Auditors' Report and tabled directly to the Committee for monitoring.
- (c) Risk management and assessment of the Group. Further details were disclosed in the Statement on Risk Management and Internal Control contained in this Annual Report.

ADDITIONAL CORPORATE DISCLOSURE

1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISES

Private placement and rights issue of warrants in 2012

Total gross proceeds raised amounted to RM29.70 million (equivalent to approximately RMB54.78 million). The status of utilisation is as follows:

(In RMB)			Proposed	Actual	Deviation		
Purpose	Intended	Utilisation	Utilisation	Amount			
	Timeframe	RMB'000	RMB'000	RMB'000	%		
i) Purchase machinery and equipment for new design and production centre	Before 31 December 2017	53,670	32,729	20,941	39.0		N1
ii) Estimated expenses in relation to the corporate exercise	Immediate	1,107	1,107	–	–		
		54,777	33,836	20,941			

(In RM)			Proposed	Actual	Deviation		
Purpose	Intended	Utilisation	Utilisation	Amount			
	Timeframe	RM'000	RM'000	RM'000	%		
i) Purchase machinery and equipment for new design and production centre	Before 31 December 2017	29,100	17,985	11,115	38.2		#
ii) Estimated expenses in relation to the corporate exercise	Immediate	600	600	–	–		
		29,700	18,585	11,115			

N1 *In line with the Group's strategic re-positioning of business focus, the Group is making appropriate alteration to the types of machinery and equipment to be invested in. Accordingly, a longer period is required for the remaining funds to be fully utilised. Barring any unforeseen circumstances, the Group expects the remaining funds to be fully utilised before 31 December 2017.*

Differential rate of deviation between RMB and RM was due to the fluctuations in exchange rate.

Additional Corporate Disclosure (cont'd)

1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISES (CONT'D)

Rights Issue in 2014

Total gross proceeds raised amounted to RM84.7 million (equivalent to approximately RMB153.05 million). The status of utilisation is as follows:

(In RMB)			Proposed	Actual	Deviation		
Purpose	Intended	Utilisation	Utilisation	Amount			
	Timeframe	RMB'000	RMB'000	RMB'000	%		
i) Construction of the second stage of the new Design & Production Centre	Within 3 years	151,246	–	151,246	100.0		N2
ii) Estimated expenses in relation to the corporate exercise	Immediate	1,807	1,807	–	–		
		153,053	1,807	151,246			

(In RM)			Proposed	Actual	Deviation		
Purpose	Intended	Utilisation	Utilisation	Amount			
	Timeframe	RM'000	RM'000	RM'000	%		
i) Construction of the second stage of the new Design & Production Centre	Within 3 years	83,700	–	83,700	100.0		N2
ii) Estimated expenses in relation to the corporate exercise	Immediate	1,000	1,000	–	–		
		84,700	1,000	83,700			

N2 The utilisation for the funds raised is expected to be within three (3) years from the commencement of Stage 2 Construction. All the funds are currently kept in the Group's banking account maintained with the Industrial and Commercial Bank of China.

Additional Corporate Disclosure (cont'd)

2. AUDIT AND NON-AUDIT SERVICES

Financial year ended 31 December 2016	Group RMB'000	Company RMB'000
Paid or payable to the external auditors:		
• Audit fees	524	434
• Non-audit fees	206	206

Remark

The non-audit fees incurred during the financial year under review were in respect of agreed-upon procedures performed in connection with the Group's corporate proposals.

3. MATERIAL CONTRACTS INVOLVING DIRECTORS AND MAJOR SHAREHOLDERS' INTEREST

There was no material contract (not being contract entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interests of the Directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

4. CONTRACT RELATING TO LOAN BY THE COMPANY

There was no contract relating to loan by the Company during the financial year under review.

5. RECURRENT RELATED PARTY TRANSACTIONS

There was no recurrent related party transaction entered into by the Company and its subsidiaries during the financial year under review.

6. EMPLOYEE SHARE SCHEME

An employee share option scheme ("ESOS") was approved by the shareholders at the Special General Meeting held on 10 April 2015, with the effective date for implementation on 17 April 2015 ("Scheme Effective Date").

The ESOS shall be in force for a duration of five (5) years from the Scheme Effective Date, being the date of full compliance with all relevant requirements stipulated in the Main Market Listing Requirements ("Listing Requirements") of Bursa Securities, and may be extended by the ESOS Committee at its discretion, without having to obtain approval from the shareholders, provided that the initial period of the ESOS and such extension of the ESOS made shall not in aggregate exceed the duration of ten (10) years from the Scheme Effective Date.

The maximum number of new shares that may be issued and allotted under the ESOS shall not exceed 15% of the Company's total issued and paid-up share capital (excluding treasury shares, if any) at any point of time during the duration of the ESOS.

During the financial year ended 31 December 2016, there is only one (1) ESOS in existence.

Additional Corporate Disclosure (cont'd)

6. EMPLOYEE SHARE SCHEME (CONT'D)

No options or shares were granted to the eligible employees during the financial year under review. A total of 198,224,000 options were granted in 2015, which had been fully exercised in the same year.

No options were granted to the following persons since the commencement of the ESOS and up to 31 December 2016:

- (i) Directors and chief executive;
- (ii) Directors and senior management; and
- (iii) Non-executive directors.

Accordingly, disclosures as required under Paragraph 27(b) to 27(d), Appendix 9C of the Listing Requirements are not applicable to the Company.

7. KEY SENIOR MANAGEMENT

The profile of the key senior management personnel can be accessed on the Company's corporate website at www.xidelang.com.my.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RMB'000	Company RMB'000
Profit/(Loss) for the financial year	6,934	(2,498)
Attributable to:		
Owners of the parent	6,934	(2,498)

DIVIDEND

No dividend has been paid, declared or proposed by the Company since the end of the previous financial year. The Directors do not recommend any dividend in respect of the financial year ended 31 December 2016.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year other than those disclosed in the financial statements.

PAR VALUE REDUCTION

During the financial year, the Company completed a par value reduction exercise pursuant to Sections 45 and 46 of the Companies Act 1981 of Bermuda to reduce the par value of the issued and paid-up share capital of the Company comprising 2,695,478,822 ordinary shares of USD0.03 each to USD0.01 each. As a consequence, the issued and paid up capital of the Company was decreased from RMB512,583,844 to RMB157,908,610.

Directors' Report (cont'd)

ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and paid-up share capital of the Company was decreased from RMB246,680,877 to RMB157,908,832 by way of:

- (a) bonus issue of 1,347,738,911 new ordinary shares of USD0.03 each ("Bonus Shares") on the basis of one (1) Bonus Shares for every one (1) existing ordinary shares held;
- (b) par value reduction via cancellation of USD0.02 of the par value of every existing issued and unissued share of USD0.03; and
- (c) issuance of 3,332 new ordinary shares of USD0.01 each for cash vide the exercise of 3,332 detachable Warrants 2015/2018 at exercise price of RM0.04 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised.

The newly issued shares rank *pari passu* in all respects with the existing shares of the Company. There were no other issues of shares during the financial year.

There were no issues of debentures during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

The ESOS of the Company came into effect on 13 May 2015 and 28 July 2015. The ESOS shall be in force for a period of five (5) years ("the option period") from the effective date of the scheme. The main features of the ESOS are as follows:

- (a) Eligible employees are those who are confirmed employees of the Group and have served full time in the Group or under an employment contract for a fixed duration and has been in the employment of the Group for such period;
- (b) The maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company (excluding treasury shares) at any point of time during the duration of the scheme;
- (c) The options granted may be exercised any time within the option period from the date of offer;
- (d) The option price of a new ordinary share under the ESOS is based on the five (5)-day volume weighted average market price of the shares immediately preceding the date of offer with a discount of not more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time during the duration of the scheme;
- (e) The options granted are not entitled to dividends or voting rights. Upon exercise of the options, the shares issued rank *pari passu* in all respects with the existing ordinary shares of the Company; and
- (f) The employees to whom the options have been granted would be given opportunity to participate in the equity of the Company and thereby relate their contribution directly to the performance of the Group.

*Directors' Report
(cont'd)*

OPTIONS GRANTED OVER UNISSUED SHARES (CONT'D)

Warrants

Pursuant to the Bonus Issue of the Company on 27 January 2016, the Company issued 181,499,212 free detachable Warrants (Warrants 2014/2017) and issued 440,619,890 free detachable Warrants (Warrants 2015/2018).

In accordance with the Deed Poll dated 9 December 2013, the holders of the existing Warrants 2014/2017 were entitled to an adjustment to the exercise price and the number of warrants, pursuant to the Bonus Issue on 27 January 2016. Accordingly, an 181,499,212 of Warrants 2014/2017 which the warrants remain unexercised as at 14 January 2016 was issued with a fair value of RM0.0002 and an exercise price of RM0.18. The exercise price of RM0.18 was subsequently adjusted to RM0.06 pursuant to the par value reduction on 23 June 2016. The details of the warrant reserve arising from this exercise are disclosed in Note 11(d).

In accordance with the Deed Poll dated 17 June 2015, the holders of the existing Warrants 2015/2018 were entitled to an adjustment to the exercise price and the number of warrants, pursuant to the Bonus Issue on 27 January 2016. Accordingly, an 440,619,890 of Warrants 2015/2018 which the warrants remain unexercised as at 14 January 2016 was issued with an exercise price of RM0.115. The exercise price of RM0.115 was subsequently adjusted to RM0.04 pursuant to the par value reduction on 23 June 2016.

Other than above, no options were granted to any person to take up unissued ordinary shares of the Company during the financial year.

DIRECTORS

The Directors who have held office since the date of the last report are:

Ding LiHong
Dato' Mohamed Nazim Bin Abdul Razak
Ding PengPeng
Ding PengWan
Wong Yoke Nyen
Zhu GuoHe
Woon Yeow Thong
Lin YingYu

Directors' Report (cont'd)

DIRECTORS' INTERESTS

The Director holding office at the end of the financial year and his beneficial interests in ordinary shares and warrants in the Company during the financial year ended 31 December 2016 as recorded in the Register of Directors' Shareholdings kept by the Company were as follows:

	[----- Number of ordinary shares of USD0.01 each -----]			
	Balance as at 1.1.2016	Allotted	Disposed	Balance as at 31.12.2016
Shares in the Company				
Indirect interest:				
Ding PengPeng*	450,000,000	450,000,000	–	900,000,000

	[----- Number of warrants of RM0.04 each -----]			
	Balance as at 1.1.2016	Allotted	Lapsed	Balance as at 31.12.2016
Warrants in the Company				
Indirect interest:				
Ding PengPeng*				
Warrant 2015/2018	149,999,999	149,999,999	–	299,999,998

* By virtue of shares held by HongPeng International Holdings Limited.

By virtue of his interests in the ordinary shares of the Company, Ding PengPeng is also deemed to be interested in the ordinary shares of all the subsidiaries to the extent that the Company has an interest.

None of the other Directors holding office at the end of the financial year held any interest in ordinary shares and warrants of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than the following:

- (i) remuneration received or due and receivable by certain Directors as Directors/executives of the subsidiaries; and
- (ii) deemed benefits arising from related party transactions as disclosed in Note 20 to the financial statements.

There were no arrangements during and at the end of the financial year, to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except for the warrants issued as disclosed in Note 11(d) to the financial statements.

Directors' Report
(cont'd)

OTHER INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that there are no known bad debts to be written off and that provision need not be made for doubtful debts; and
 - (ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (c) The Directors are not aware of any circumstances:
 - (i) which would necessitate the writing off of bad debts or the making of provision for doubtful debts in the financial statements of the Group and of the Company;
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
 - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) In the opinion of the Directors:
 - (i) there has not arisen any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of operations of the Group and of the Company for the financial year in which this report is made; and
 - (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

- (e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (g) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

*Directors' Report
(cont'd)*

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 26 to the financial statements.

ULTIMATE HOLDING COMPANY

The Directors regard HongPeng International Holdings Limited, a company incorporated in British Virgin Islands, as the ultimate holding company.

AUDITORS

The auditors, BDO, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors.

Ding PengWan
Director

14 April 2017

Lin YingYu
Director

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 98 to 133 have been drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

In the opinion of the Directors, the information set out in Note 27 to the financial statements on page 134 has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

Ding PengWan
Director

Lin YingYu
Director

14 April 2017

STATUTORY DECLARATION

We, Ding PengWan and Lin YingYu, being the Directors primarily responsible for the financial management of XiDeLang Holdings Ltd, do solemnly and sincerely declare that the financial statements set out on pages 98 to 134 are, to the best of our knowledge and belief, correct and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed at Kuala Lumpur this
14 April 2017

Ding PengWan

Lin YingYu

Before me:

INDEPENDENT AUDITORS' REPORT

to the members of XiDeLang Holdings Ltd (Incorporated in Bermuda)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of XiDeLang Holdings Ltd, which comprise statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 98 to 133.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ('By-Laws') and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

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

Recoverability of trade receivables

As at 31 December 2016, trade receivables that had been past due but not impaired was RMB29,656,000. The details of trade receivables have been disclosed in Note 8 to the financial statements.

Management recognises impairment losses on trade receivables based on specific known facts or circumstances or management judgement on customers' abilities to pay.

The determination of whether trade receivables are recoverable involves significant management judgement.

*Independent Auditors' Report
(cont'd)*

Key Audit Matters (Cont'd)

Recoverability of trade receivables (Cont'd)

Audit responses

The audit procedures with the involvement of component auditors included the following:

- (i) evaluated the credit process operated by management over the recoverability of trade receivables of the Group;
- (ii) critically assessed recoverability of receivables that were past due but not impaired with reference to their historical bad debt expense, ageing profiles of the counter parties and past historical repayment trends; and
- (iii) assessed cash receipts subsequent to the end of the reporting period for its effect in reducing amounts outstanding as at the end of the reporting period.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Independent Auditors' Report (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent Auditors' Report (cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

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

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

Other Reporting Responsibilities

The supplementary information set out in Note 27 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance with Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO
AF : 0206
Chartered Accountants

Lee Ken Wai
3185/07/17 (J)
Chartered Accountant

14 April 2017
Kuala Lumpur

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2016

	Note	Group		Company	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	4	555,720	569,409	–	–
Land use rights	5	49,113	50,330	–	–
Investments in subsidiaries	6	–	–	631,916	631,916
		604,833	619,739	631,916	631,916
Current assets					
Inventories	7	7,350	7,179	–	–
Trade and other receivables	8	238,629	265,204	195,490	198,350
Current tax assets		1,555	1,942	–	–
Cash and bank balances	9	562,208	508,649	12	16
		809,742	782,974	195,502	198,366
TOTAL ASSETS		1,414,575	1,402,713	827,418	830,282
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	10	157,909	246,681	157,909	246,681
Reserves	11	1,092,687	996,981	667,749	581,475
TOTAL EQUITY		1,250,596	1,243,662	825,658	828,156
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	12	20,044	19,546	–	–
Current liabilities					
Trade and other payables	13	133,935	129,505	1,760	2,126
Borrowings	14	10,000	10,000	–	–
Current tax liabilities		–	–	–	–
		143,935	139,505	1,760	2,126
TOTAL LIABILITIES		163,979	159,051	1,760	2,126
TOTAL EQUITY AND LIABILITIES		1,414,575	1,402,713	827,418	830,282

These financial statements have been approved by the Board of Directors of the Company on 14 April 2017.

Lin YingYu
Director

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2016

	Note	Group		Company	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	15	503,834	544,812	–	–
Cost of sales		(419,906)	(441,619)	–	–
Gross profit		83,928	103,193	–	–
Other income		2,061	2,748	12	70
Distribution costs		(259)	(933)	–	–
Administrative and other expenses		(74,022)	(92,078)	(2,510)	(3,919)
Finance costs		(438)	(560)	–	–
Profit/(Loss) before tax	16	11,270	12,370	(2,498)	(3,849)
Tax expense	17	(4,336)	(5,572)	–	–
Profit/(Loss) for the financial year		6,934	6,798	(2,498)	(3,849)
Other comprehensive income, net of tax		–	–	–	–
Total comprehensive income/(loss)		6,934	6,798	(2,498)	(3,849)
Profit/(Loss) attributable to: Owners of the parent		6,934	6,798	(2,498)	(3,849)
Total comprehensive income/ (loss) attributable to: Owners of the parent		6,934	6,798	(2,498)	(3,849)
Earnings per ordinary share attributable to equity holders of the Company (RMB):					
Basic	22	0.0026	0.0027		
Diluted	22	0.0026	0.0027		

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2016

Group	Non-distributable					Distributable					Total equity RMB'000
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share redemption reserve RMB'000	Warrant reserve RMB'000	Statutory surplus reserve RMB'000	Merger deficit RMB'000	Exchange translation reserve RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	
Balance at 1 January 2015	699,209	(1)	-	-	47,685	35,034	(204,906)	33,401	-	574,437	1,184,859
Profit for the financial year	-	-	-	-	-	-	-	-	-	6,798	6,798
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-	-	6,798	6,798
Transactions with owners											
Transfer to statutory reserve	-	-	-	-	-	1,398	-	-	-	(1,398)	-
Share options granted under ESOS	-	-	-	-	-	-	-	-	13,099	-	13,099
Ordinary shares issued pursuant to:											
- Exercise of ESOS	36,914	-	15,087	-	-	-	-	-	(13,099)	-	38,902
- Exercise of warrants	4	-	-	-	-	-	-	-	-	-	4
Par value reduction	(489,446)	-	-	489,446	-	-	-	-	-	-	-
Unexercised warrants lapsed	-	-	-	-	(23,710)	-	-	-	-	23,710	-
Total transactions with owners	(452,528)	-	15,087	489,446	(23,710)	1,398	-	-	-	22,312	52,005
Balance at 31 December 2015	246,681	(1)	15,087	489,446	23,975	36,432	(204,906)	33,401	-	603,547	1,243,662

Consolidated Statement of Changes in Equity
(cont'd)

Group	Note	[-----] Non-distributable					[-----] Distributable				
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Warrant reserve RMB'000	Statutory surplus reserve RMB'000	Merger deficit RMB'000	Exchange translation reserve RMB'000	Retained earnings RMB'000
Balance at 1 January 2016		246,681	(1)	15,087	489,446	23,975	36,432	(204,906)	33,401	603,547	1,243,662
Profit for the financial year		-	-	-	-	-	-	-	-	6,934	6,934
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-	-	-	6,934	6,934
Transactions with owners											
Transfer to statutory reserve		-	-	-	-	-	1,457	-	-	(1,457)	-
Ordinary shares issued pursuant to bonus issue	10	265,903	-	-	(265,903)	-	-	-	-	-	-
Par value reduction	10	(354,675)	-	-	354,675	-	-	-	-	-	-
Fair value on additional warrants issued pursuant to bonus issue of shares		-	-	-	-	57	-	-	-	(57)	-
Total transactions with owners		(88,772)	-	-	88,772	57	1,457	-	-	(1,514)	-
Balance at 31 December 2016		157,909	(1)	15,087	578,218	24,032	37,889	(204,906)	33,401	608,967	1,250,596

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2016

Company	Note	[-----] Non-distributable [-----]				[-----] Distributable [-----]			
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share redemption reserve RMB'000	Warrant reserve RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2015		699,209	(1)	-	-	47,685	-	33,107	780,000
Loss for the financial year		-	-	-	-	-	-	(3,849)	(3,849)
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	-	(3,849)	(3,849)
Transactions with owners									
Share options granted under ESOS		-	-	-	-	-	13,099	-	13,099
Ordinary shares issued pursuant to:									
- Exercise of ESOS	10	36,914	-	15,087	-	-	(13,099)	-	38,902
- Exercise of warrants	10	4	-	-	-	-	-	-	4
Par value reduction	10	(489,446)	-	-	489,446	-	-	-	-
Unexercised warrants lapsed		-	-	-	-	(23,710)	-	23,710	-
Total transactions with owners		(452,528)	-	15,087	489,446	(23,710)	-	23,710	52,005
Balance at 31 December 2015		246,681	(1)	15,087	489,446	23,975	-	52,968	828,156

Statement of Changes in Equity
(cont'd)

Company	Note	[----- Non-distributable -----]		-----] Distributable		Total equity RMB'000		
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Share redemption reserve RMB'000		Warrant reserve RMB'000	Retained earnings RMB'000
Balance at 1 January 2016		246,681	(1)	15,087	489,446	23,975	52,968	828,156
Loss for the financial year		-	-	-	-	-	(2,498)	(2,498)
Other comprehensive income, net of tax		-	-	-	-	-	-	-
Total comprehensive loss		-	-	-	-	-	(2,498)	(2,498)
Transactions with owners								
Ordinary shares issued pursuant to bonus issue	10	265,903	-	-	(265,903)	-	-	-
Par value reduction	10	(354,675)	-	-	354,675	-	-	-
Fair value on additional warrants issued pursuant to bonus issue of shares		-	-	-	-	57	(57)	-
Total transactions with owners		(88,772)	-	-	88,772	57	(57)	-
Balance at 31 December 2016		157,909	(1)	15,087	578,218	24,032	50,413	825,658

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2016

	Note	Group		Company	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before tax		11,270	12,370	(2,498)	(3,849)
Adjustments for:					
Amortisation of land use rights	5	1,217	1,217	–	–
Depreciation of property, plant and equipment	4	14,089	13,903	–	–
Interest expense		438	560	–	–
Interest income		(2,049)	(2,095)	–	–
Inventories written off	7	–	61	–	–
Loss on disposal of property, plant and equipment		–	409	–	–
Property, plant and equipment written off	4	10	61	–	–
Share options granted under ESOS		–	13,099	–	–
Unrealised gain on foreign exchange		(12)	(24)	(12)	(24)
Operating profit/(loss) before working capital changes		24,963	39,561	(2,510)	(3,873)
Changes in working capital:					
Inventories		(171)	3,850	–	–
Trade and other receivables		26,575	(126,690)	–	–
Trade and other payables		4,430	44,909	(366)	491
Cash generated from/(used in) operations		55,797	(38,370)	(2,876)	(3,382)
Income tax paid		(3,451)	(8,576)	–	–
Net cash from/(used in) operating activities		52,346	(46,946)	(2,876)	(3,382)

Statements of Cash Flows
(cont'd)

	Note	Group		Company	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Repayments from a subsidiary		–	–	2,860	2,605
Interest received		2,049	2,095	–	–
Proceeds from disposal of property, plant and equipment		–	134	–	–
Purchase of property, plant and equipment	4	(410)	(2,865)	–	–
Net cash from/(used in) investing activities		1,639	(636)	2,860	2,605
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown of borrowings		10,000	10,000	–	–
Interest paid		(438)	(560)	–	–
Proceeds from exercise of:					
- ESOS		–	39,485	–	–
- Warrants		–	4	–	4
Repayments of borrowings		(10,000)	(10,000)	–	–
Net cash (used in)/from financing activities		(438)	38,929	–	4
Net increase/(decrease) in cash and cash equivalents		53,547	(8,653)	(16)	(773)
Effect of changes in exchange rate		12	(612)	12	(29)
Cash and cash equivalents at beginning of financial year		508,649	517,914	16	818
Cash and cash equivalents at end of financial year	9	562,208	508,649	12	16

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE INFORMATION

The Company (喜得狼控股有限公司) is incorporated in Bermuda under the Bermuda Companies Act as an exempt company limited by shares and registered as a foreign company in Malaysia under the Malaysian Companies Act, 1965 and listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office of the Company in Bermuda is located at Clarendon House, 2, Church Street, Hamilton HM11, Bermuda. The registered office of the Company in Malaysia is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur.

The principal places of business of the Company are located at XiDeLang Industry Park, Neikeng Town, Jinjiang City, Fujian Province, the Peoples' Republic of China ("PRC").

The ultimate holding company of the Company is HongPeng International Holdings Limited, a company incorporated in the British Virgin Islands.

The financial statements are presented in Renminbi ("RMB"). All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated. The functional currency of the Company and its subsidiaries in PRC are RMB.

The English names of certain companies/parties referred to in the financial statements represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 6 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company as set out on pages 98 to 133 have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs"). However, Note 27 to the financial statements set out on page 134 has been prepared in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad.

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

Notes to the Financial Statements
(cont'd)

4. PROPERTY, PLANT AND EQUIPMENT

Group	Factory buildings and warehouse RMB'000	Staff accommodation and amenities RMB'000	Infrastructure RMB'000	Plant and machinery RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fitting and other equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Carrying amount									
At 1 January 2016	281,605	200,046	42,516	14,661	1,002	1,029	10,632	17,918	569,409
Additions	-	-	-	350	30	-	30	-	410
Written off	-	-	-	(10)	-	-	-	-	(10)
Depreciation charge for the financial year	(6,078)	(4,317)	(917)	(1,676)	(111)	(158)	(832)	-	(14,089)
At 31 December 2016	275,527	195,729	41,599	13,325	921	871	9,830	17,918	555,720
At 31 December 2016									
Cost	298,826	212,279	45,116	19,235	1,501	1,754	12,475	17,918	609,104
Accumulated depreciation	(23,299)	(16,550)	(3,517)	(5,910)	(580)	(883)	(2,645)	-	(53,384)
Carrying amount	275,527	195,729	41,599	13,325	921	871	9,830	17,918	555,720

Notes to the Financial Statements
(cont'd)

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Factory buildings and warehouse RMB'000	Staff accommodation and amenities RMB'000	Infrastructure RMB'000	Plant and machinery RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fitting and other equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Carrying amount									
At 1 January 2015	287,683	204,364	43,434	14,609	1,121	1,188	10,734	17,918	581,051
Additions	-	-	-	2,145	-	-	720	-	2,865
Disposals	-	-	-	(527)	(3)	-	(13)	-	(543)
Written off	-	-	-	(50)	(2)	-	(9)	-	(61)
Depreciation charge for the financial year	(6,078)	(4,318)	(918)	(1,516)	(114)	(159)	(800)	-	(13,903)
At 31 December 2015	281,605	200,046	42,516	14,661	1,002	1,029	10,632	17,918	569,409
At 31 December 2015									
Cost	298,826	212,279	45,116	18,898	1,471	1,754	12,445	17,918	608,707
Accumulated depreciation	(17,221)	(12,233)	(2,600)	(4,237)	(469)	(725)	(1,813)	-	(39,298)
Carrying amount	281,605	200,046	42,516	14,661	1,002	1,029	10,632	17,918	569,409

(a) All items of property, plant and equipment are initially measured at cost. After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Notes to the Financial Statements
(cont'd)

4. **PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

- (b) Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The estimated useful lives represent common life expectancies applied in the industries within which the Group operates. The principal annual depreciation rates are as follows:

Factory buildings and warehouse	2.26%
Staff accommodation and amenities	2.26%
Infrastructure	2.26%
Plant and machinery	10%
Electronic equipment	10% - 33.33%
Motor vehicles	10%
Furniture, fitting and other equipment	10% - 20%

Construction-in-progress represents construction costs incurred for the corporate office and is stated at cost. Construction-in-progress is not depreciated until such time when the asset is available for use.

- (c) At the end of the reporting period, factory buildings and warehouse, staff accommodation and amenities, infrastructure and construction-in-progress with total carrying amounts of RMB530,773,000 (2015: RMB542,085,000) have been charged to licensed banks for banking facilities granted to the Group.

5. **LAND USE RIGHTS**

	Group	
	2016 RMB'000	2015 RMB'000
At 1 January	50,330	51,547
Amortisation charge for the financial year	(1,217)	(1,217)
At 31 December	49,113	50,330
Cost	60,860	60,860
Accumulated amortisation	(11,747)	(10,530)
Carrying amount	49,113	50,330

- (a) Land use rights represent up-front payment to acquire long-term interests in the usage of land and are stated at cost less accumulated amortisation and impairment losses, if any.
- (b) The Group has assessed and classified land use rights of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term.
- (c) The Group was granted land use rights for a period of fifty (50) years in relation to the lands situated in PRC.
- (d) During the financial year, land use rights with carrying amount of RMB43,999,000 (2015: RMB45,087,000) have been charged to licensed banks for the banking facilities granted to the Group.

Notes to the Financial Statements (cont'd)

6. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016 RMB'000	2015 RMB'000
Unquoted equity shares, at cost	194,712	194,712
Equity loan to a subsidiary	437,204	437,204
	631,916	631,916

- (a) Investments in subsidiaries are measured at cost.
- (b) Equity loan represents non-trade loan granted by the Company to a subsidiary for which settlement is neither planned nor likely to occur in the foreseeable future and is intended to provide the subsidiary with a long-term source of additional capital. It is, in substance, an addition to the investment in the subsidiary of the Company and accordingly, is accounted for in accordance with MFRS 127 *Separate Financial Statements* as part of the investment in the subsidiary and measured at cost.
- (c) The Directors of the Company assessed the nature of the amount owing by a subsidiary and determined a portion of the outstanding balance of the amount owing by a subsidiary amounting to RMB437,204,000 (2015: RMB437,204,000) shall constitute an equity loan to the subsidiary, which is unsecured, interest-free and is considered to be part of the net investment in foreign operation of the Company.

The details of the subsidiaries are as follows:

Name of company	Country of incorporation	Effective interest in equity		Principal activities
		2016	2015	
Hong Kong XinYuanChan International Holdings Co., Limited ("XinYuanChan") #	Hong Kong Special Administrative Region ("HKSAR")	100%	100%	Investment holding
<u>Subsidiary of XinYuanChan</u>				
HongPeng (Fujian) Shoes & Garments Co., Ltd. ("HPFJ") #	PRC	100%	100%	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment

Notes to the Financial Statements
(cont'd)

6. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows (Cont'd):

Name of company	Country of incorporation	Effective interest in equity		Principal activities
		2016	2015	
Subsidiaries of HPFJ				
Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. ("CDHP") #	PRC	100%	100%	Design, manufacturing and marketing of sports shoes
XiDeLang Sports Goods Co., Ltd. ("XDLSG") #	PRC	100%	100%	The registered scope of business under its business license is manufacturing of shoes and apparel. It is the registered owner of the proprietary of the Group "XiDeLang" brand

Subsidiaries not audited by BDO.

7. INVENTORIES

	Group	
	2016 RMB'000	2015 RMB'000
At cost		
Raw materials	2,880	1,365
Work-in-progress	2,735	852
Finished goods	1,735	4,962
	<hr/>	<hr/>
	7,350	7,179

- (a) Cost of inventories is determined using the weighted average formula.
- (b) In the previous financial year, the Group wrote off inventories of RMB61,000, which were included in cost of sales.
- (c) Cost of inventories of the Group recognised as an expense during the financial year amounted to RMB341,372,000 (2015: RMB373,525,000).

Notes to the Financial Statements
(cont'd)

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade receivables				
Third parties	237,783	264,358	–	–
Other receivable				
Amount owing by a subsidiary	–	–	195,490	198,350
Loans and receivables	237,783	264,358	195,490	198,350
Prepayments	846	846	–	–
	238,629	265,204	195,490	198,350

- (a) Trade and other receivables exclude prepayments are classified as loans and receivables, and measured at amortised cost using the effective interest method.
- (b) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group is one hundred and twenty days (120) days (2015: one hundred and twenty days (120) days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (c) Amount owing by a subsidiary is unsecured, interest-free and payable upon demand in cash and cash equivalents.
- (d) Trade and other receivables are denominated in RMB.
- (e) The ageing analysis of trade receivables of the Group are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	208,127	216,672
Past due, not impaired		
1 to 30 days	29,656	33,167
31 to 60 days	–	14,519
	29,656	47,686
	237,783	264,358

Notes to the Financial Statements
(cont'd)

8. **TRADE AND OTHER RECEIVABLES (CONT'D)**

- (e) The ageing analysis of trade receivables of the Group are as follows (Cont'd):

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

Receivables that are past due but not impaired

Trade receivables that are past due but not impaired mainly arose from active corporate clients with healthy business relationships, in which management is of the view that the amounts are recoverable based on past payment history. The trade receivables that are past due but not impaired are unsecured in nature.

- (f) The credit quality of trade receivables as at the end of reporting period were assessed as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Counterparties without external credit ratings		
Group A	11,169	21,505
Group B	226,614	242,853
	237,783	264,358

Group A refers to new customers that started business with the Group less than twelve (12) months.

Group B refers to existing customers who have been with the Group more than twelve (12) months and with no defaults in the past.

- (g) The following shows the total amount due from the top ten (10) major customers as at the end of reporting period, which represents 37% (2015: 45%) of the total trade receivables. Other than as mentioned, the Group has no significant concentration of credit risk.

	Group	
	2016	2015
	RMB'000	RMB'000
Trade receivables	87,926	118,358

- (h) The Company does not have any significant concentration of credit risk other than the amount owing by a subsidiary, which constitutes 100% (2015: 100%) of total receivables of the Company as at the end of each reporting period.

Notes to the Financial Statements
(cont'd)

9. CASH AND BANK BALANCES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash in hand	40	76	–	–
Cash at bank	562,168	508,573	12	16
	562,208	508,649	12	16

(a) The currency exposure profiles of cash and bank balances are as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Renminbi	562,187	508,605	–	–
Ringgit Malaysia	12	16	12	16
US Dollar	9	28	–	–
Hong Kong Dollar	*(1)	*(1)	–	–
As per statements of financial position	562,208	508,649	12	16

*(1) Represent RMB80 (2015: RMB80).

- (b) Cash at bank of the Group of RMB562,168,000 (2015: RMB508,573,000) are subject to weighted average interest rate of 0.30% (2015: 0.30%).
- (c) No sensitivity analysis for foreign currency risk is prepared at the end of the reporting period as the Group and the Company do not have significant exposure to foreign currency risk.
- (d) The following table demonstrates the sensitivity analysis of the Group if interest rates at the end of each reporting period changed by ten (10) basis points with all other variables held constant:

	Group	
	2016 RMB'000	2015 RMB'000
Profit after tax		
- Increase by 0.1% (2015: 0.1%)	427	381
- Decrease by 0.1% (2015: 0.1%)	(427)	(381)

Notes to the Financial Statements
(cont'd)

10. SHARE CAPITAL

	Group and Company					
	2016		2015			
	Number of shares '000	USD'000	RMB'000	Number of shares '000	USD'000	RMB'000
Ordinary shares of USD0.01/USD0.03 each:						
Authorised ordinary shares	10,000,000	300,000	1,828,467	10,000,000	300,000	1,828,467
Issued and fully paid ordinary shares:						
Balance as at 1 January	1,347,740	40,432	246,681	1,149,497	114,950	699,209
Transfer to capital redemption reserve pursuant to par value reduction (Note 11)	–	(53,909)	(354,675)	–	(80,465)	(489,446)
Issuance pursuant to:						
- employee share options scheme (Note 19)	–	–	–	198,224	5,946	36,914
- warrants	3	–	–	19	1	4
- bonus issue	1,347,739	40,432	265,903	–	–	–
Balance as at 31 December	2,695,482	26,955	157,909	1,347,740	40,432	246,681

- (a) During the financial year, the Company completed a par value reduction exercise pursuant to Sections 45 and 46 of the Companies Act 1981 of Bermuda to reduce the par value of the issued and paid-up share capital of the Company comprising 2,695,478,822 ordinary shares of USD0.03 each to USD0.01 each. As a consequence, the issued and paid up capital of the Company was decreased from RMB512,583,844 to RMB157,908,610.
- (b) During the financial year, the issued and paid-up share capital of the Company was decreased from RMB246,680,877 to RMB157,908,832 by way of:
- bonus issue of 1,347,738,911 new ordinary shares of USD0.03 each ("Bonus Shares") on the basis of one (1) Bonus Shares for every one (1) existing ordinary shares held;
 - par value reduction via cancellation of USD0.02 of the par value of every existing issued and unissued share of USD0.03; and
 - issuance of 3,332 new ordinary shares of USD0.01 each for cash vide the exercise of 3,332 detachable Warrants 2015/2018 at exercise price of RM0.04 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised.

Notes to the Financial Statements (cont'd)

10. SHARE CAPITAL (CONT'D)

- (c) In the previous financial year, the Company completed a par value reduction exercise pursuant to Sections 45 and 46 of the Companies Act 1981 of Bermuda to reduce the par value of the issued and paid-up share capital of the Company comprising 1,149,497,012 ordinary shares of USD0.10 each to USD0.03 each. As a consequence, the issued and paid up capital of the Company was decreased from RMB699,209,364 to RMB209,762,809.
- (d) In the previous financial year, the issued and paid-up share capital of the Company was increased from RMB209,762,809 to RMB246,680,877 by way of:
- (i) issuance of 100 new ordinary shares of USD0.03 each for cash vide the exercise of 100 detachable Warrants 2012/2015 at exercise price of RM0.35 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised pursuant to the Deed Poll dated 15 March 2012;
 - (ii) issuance of 19,799 new ordinary shares of USD0.03 each for cash vide the exercise of 19,799 detachable Warrants 2015/2018 at exercise price of RM0.115 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised pursuant to the Deed Poll dated 17 June 2015; and
 - (iii) issuance of 172,424,000 and 25,800,000 new ordinary shares of USD0.03 each for cash pursuant to the exercise of Employees' Share Options Scheme with the exercise prices of RM0.115 and RM0.145 respectively.
- (e) The owners of the parent are entitled to receive dividend as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

11. RESERVES

	Note	Group		Company	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Non-distributable:					
Treasury shares	(a)	(1)	(1)	(1)	(1)
Share premium	(b)	15,087	15,087	15,087	15,087
Capital redemption reserve	(c)	578,218	489,446	578,218	489,446
Warrant reserve	(d)	24,032	23,975	24,032	23,975
Statutory surplus reserve	(e)	37,889	36,432	–	–
Merger deficit	(f)	(204,906)	(204,906)	–	–
Exchange translation reserve	(g)	33,401	33,401	–	–
Distributable:					
Retained earnings		608,967	603,547	50,413	52,968
		1,092,687	996,981	667,749	581,475

Notes to the Financial Statements
(cont'd)

11. RESERVES (CONT'D)

(a) Treasury shares

On 26 August 2010, the Company repurchased 1,000 units of its issued shares from the open market at an average price of RM0.48 per share. The repurchased shares were financed by internally generated fund. The shares repurchased are being held as treasury shares.

(b) Share premium

Share premium arose from the proceeds in excess of the nominal value of shares issued from exercised of Employees' Share Option Scheme.

(c) Capital redemption reserve

Capital redemption reserve represents reserve arising from par value reduction. This capital redemption reserve would be used in subsequent bonus issue of shares.

(d) Warrant reserve

Warrant reserve represents the fair value assigned to the Warrants 2014/2017 of RM0.0002 (2015: RM0.731). The fair value was determined using the Black-Scholes-Merton option pricing model.

The warrant reserve would be transferred to the share premium account upon the exercise of warrants and the warrant reserve in relation to the unexercised warrants at the expiry of the warrants would be transferred to retained earnings.

The salient features of the Warrants 2014/2017 are as follows:

- (i) Each Warrant will entitle its registered holder during the exercise period to subscribe for one (1) new ordinary share at the exercise price, subject to adjustment in accordance with the provision of the Deed Poll;
- (ii) The exercise price of each warrant has been fixed at RM0.06, subject to adjustment under certain circumstances in accordance with the provision of the Deed Poll; and
- (iii) The Warrants shall be exercisable at any time within a period of three (3) years including and commencing from the issue date up to the expiry date.

In the previous financial year, the unexercised Warrants 2012/2015 lapsed and expired on 24 April 2015. Accordingly, the warrant reserve arose from Warrants 2012/2015 was transferred to retained earnings upon expiry of the warrants.

As at 31 December 2016, unexercised warrants of the Company are as follows:

Warrants	Date issued	Exercise price RM	No. of warrants over ordinary shares '000	Warrant expiry date
Warrants 2014/2017	23 January 2014	0.06	181,500	20 January 2017
	28 January 2016	0.06	181,500	20 January 2017
Warrants 2015/2018	9 July 2015	0.04	440,620	2 July 2018
	28 January 2016	0.04	440,616	2 July 2018

Notes to the Financial Statements (cont'd)

11. RESERVES (CONT'D)

(e) Statutory surplus reserve

Pursuant to applicable PRC regulations, the subsidiaries of the Company incorporated in PRC are required to allocate 10% of their net profit for the financial year (after offsetting prior financial year losses, if any) to the statutory surplus reserve until it reaches 50% of their registered capital respectively. The transfer to the reserve must be made before distribution of dividend to equity holders. The statutory surplus reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the respective subsidiaries, provided that the balance after such issue is not less than 25% of its registered capital.

(f) Merger deficit

The merger deficit arose from the merger of XinYuanChan based on the difference between the amount recorded as cost of merger, which comprised the share capital issued by the Company of USD30,000,000 (RMB204,915,000), and the nominal value of XinYuanChan's share capital merged under the pooling of interest method of accounting as follows:

	Group RMB'000
Cost of merger	204,915
Less: Share capital of XinYuanChan (HKD10,000)	(9)
Merger deficit	204,906

(g) Exchange translation reserve

The exchange translation reserve represents exchange differences arising from Company's investment in foreign operation and monetary items which form part of the Group's net investment in foreign operation.

Notes to the Financial Statements
(cont'd)

12. DEFERRED TAX LIABILITIES

The deferred tax liabilities of the Group are made up of the following:

	Taxable temporary differences RMB'000	Total RMB'000
Balance as at 1 January 2016	19,546	19,546
Recognised in profit or loss (Note 17)	498	498
Balance as at 31 December 2016	20,044	20,044
Balance as at 1 January 2015	19,014	19,014
Recognised in profit or loss (Note 17)	532	532
Balance as at 31 December 2015	19,546	19,546

The Group is subject to income taxes in the tax jurisdiction in PRC. According to the New Corporate Income Tax Law ("CIT") and the Detailed Implementation Regulations ("DIR"), dividend distributed to a foreign investor by Foreign Invested Enterprises ("FIE") incorporated in PRC would be subject to a withholding tax of 5% to 10%. PRC tax authorities have granted a special tax concession which states that from 1 January 2008 onwards, dividend distributed out of a FIE's profit arising in year 2008 and beyond, to be distributed to the foreign investors as dividend shall be subject to withholding tax.

According to the Arrangement Between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income and Prevention of Tax Evasion ("Arrangement for Avoidance of Double Taxation"), withholding tax on dividend to a Hong Kong company, which owns directly at least 25% of the capital of the subsidiary in PRC, is 5%, whereas in any other case, 10% of the dividend.

During the financial year, the Directors have reconsidered the above tax exposure in light of the dividend policy and accordingly, have estimated the deferred tax liabilities in respect of the temporary differences associated with the share of net assets of PRC subsidiaries and the tax base of the Group's cost of investments in the subsidiaries based on the prevailing applicable withholding tax rate of 5%.

Notes to the Financial Statements (cont'd)

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade payables				
Third parties	101,753	100,743	–	–
Other payables and accruals				
Amount owing to a Director	555	986	450	881
Other payables	13,240	12,438	–	–
Accruals	18,387	15,338	1,310	1,245
	32,182	28,762	1,760	2,126
	133,935	129,505	1,760	2,126

- (a) Trade and other payables are classified as other financial liabilities, and measured at amortised cost using the effective interest method.
- (b) Trade payables are non-interest bearing and the normal trade credit term granted to the Group is one hundred and twenty (120) days (2015: ninety (90) days).
- (c) Amount owing to a Director represents advances and payments made on behalf, which are unsecured, interest-free and payable upon demand in cash and cash equivalents.
- (d) The currency exposure profiles of payables are as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Renminbi	132,439	127,643	264	264
Ringgit Malaysia	1,496	1,862	1,496	1,862
	133,935	129,505	1,760	2,126

Notes to the Financial Statements
(cont'd)

13. TRADE AND OTHER PAYABLES (CONT'D)

- (e) The table below summarises the maturity profile of the trade and other payables of the Group at the end of the reporting period based on contractual undiscounted repayment obligations.

Group	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
31 December 2016	133,935	–	–	133,935
31 December 2015	129,505	–	–	129,505
Company				
31 December 2016	1,760	–	–	1,760
31 December 2015	2,126	–	–	2,126

- (f) No sensitivity analysis for foreign currency risk is prepared at the end of the reporting period as the Group and the Company do not have significant exposure to foreign currency risk.

14. BORROWINGS

	Group	
	2016 RMB'000	2015 RMB'000
Secured		
Short term bank loans	10,000	10,000

- (a) Borrowings are classified as other financial liabilities, and measured at amortised cost using the effective interest method.
- (b) The short term bank loans are secured by factory buildings and warehouse, infrastructure and land use rights with carrying amount of RMB275,527,000 (2015: RMB281,605,000), RMB20,800,000 (2015: RMB21,258,000) and RMB21,097,000 (2015: RMB21,620,000) respectively are subject to weighted average interest rates of 4.35% (2015: 4.45%).
- (c) On 28 September 2013, the Group obtained a 6-year term loan facility amounting to RMB130,000,000 from a bank. The term loan facility is secured by factory buildings and warehouse, infrastructure and land use rights with carrying amount of RMB275,527,000 (2015: RMB281,605,000), RMB20,800,000 (2015: RMB21,258,000) and RMB21,097,000 (2015: RMB21,620,000) respectively. The credit facility has yet to be utilised as at the end of the reporting period.

Notes to the Financial Statements (cont'd)

14. BORROWINGS (CONT'D)

- (d) On 10 September 2014, the Group obtained credit facilities from a bank up to RMB96,270,000. The credit facilities are secured by staff accommodation and amenities, infrastructure, construction-in-progress and land use rights with carrying amount of RMB195,729,000 (2015: RMB200,046,000), RMB20,799,000 (2015: RMB21,258,000), RMB17,918,000 (2015: RMB17,918,000) and RMB22,902,000 (2015: RMB23,467,000) respectively. The credit facilities have yet to be utilised as at the end of the reporting period.
- (e) The table below summarises the maturity profile of the borrowing at the end of the reporting period based on contractual undiscounted repayment obligations.

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
31 December 2016	10,000	–	–	10,000
31 December 2015	10,000	–	–	10,000

- (f) The following table demonstrates the sensitivity analysis of the Group if interest rates at the end of each reporting period changed by ten (10) basis points with all other variables held constant:

	Group	
	2016 RMB'000	2015 RMB'000
Profit after tax		
- Increase by 0.1% (2015: 0.1%)	(8)	(8)
- Decrease by 0.1% (2015: 0.1%)	8	8

- (g) All borrowings are denominated in RMB.

Notes to the Financial Statements
(cont'd)

15. REVENUE

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Sales of goods	503,834	544,812	–	–

(a) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with delivery of goods and acceptance by customers.

(b) Interest income

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

16. PROFIT/(LOSS) BEFORE TAX

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Profit/(Loss) before tax is arrived at after charging:				
Auditors' remuneration:				
- statutory audits				
- current year	524	515	434	396
- over provision	(5)	–	–	–
- other services	206	109	206	109
Directors' remunerations:				
- fees	567	604	567	604
- salaries and other emoluments	2,828	2,860	37	54
Interest expense on bank borrowings	438	560	–	–
Loss on disposal of property, plant and equipment	–	409	–	–
Operating lease payments	–	268	–	–
Research expenses	2,079	3,363	–	–
And crediting:				
Interest income	2,049	2,095	–	–
Realised gain on foreign exchange	–	599	–	17
Unrealised gain on foreign exchange	12	24	12	24

Notes to the Financial Statements
(cont'd)

17. TAX EXPENSE

	Group	
	2016 RMB'000	2015 RMB'000
Current tax expense based on profit for the financial year		
- PRC income tax	3,838	5,040
Deferred tax (Note 12)		
Relating to origination and reversal of temporary differences	498	532
	4,336	5,572

Tax expense for respective taxation authorities are calculated at the rates prevailing in those jurisdictions.

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rates of the Group are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Profit before tax	11,270	12,370
Tax at the domestic rates applicable to profits in the countries concerned	2,844	3,098
Tax effect in respect of:		
Income not subject to tax	(3)	(25)
Non-deductible expenses	631	1,771
Deferred tax assets not recognised	366	196
Withholding tax on undistributable profits of PRC subsidiaries	498	532
	4,336	5,572

The Company was incorporated in Bermuda under the Bermuda Companies Act as an exempt company and is not subject to tax on income under the Bermuda Tax Law. Hence, no tax reconciliation has been prepared.

Notes to the Financial Statements
(cont'd)

17. TAX EXPENSE (CONT'D)

The amounts of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Unused tax losses		
- Expire by 31 December 2016	–	1,074
- Expire by 31 December 2017	578	578
- Expire by 31 December 2018	4,664	4,664
- Expire by 31 December 2019	5,560	5,560
- Expire by 31 December 2020	783	783
- Expire by 31 December 2021	1,462	–
	13,047	12,659

Deferred tax assets of a subsidiary have not been recognised in respect of these temporary differences as it is not probable that taxable profit of a subsidiary would be available against which the deductible temporary differences could be utilised.

The amounts and the availability of the unused tax losses to be carried forward up to the periods as disclosed above are subject to the agreement of the local tax authority.

18. EMPLOYEE BENEFITS

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Wages, salaries and bonuses	67,927	60,635	567	604
Contributions to defined contribution plan	2,960	3,311	–	–
Share options granted under share options scheme	–	13,099	–	–
Other benefits	37	54	37	54
	70,924	77,099	604	658

- (a) Included in the employee benefits of the Group are Executive Directors' remuneration amounting to RMB2,791,000 (2015: RMB2,806,000).

Notes to the Financial Statements (cont'd)

18. EMPLOYEE BENEFITS (CONT'D)

(b) The remuneration of Directors and other key management personnel during the financial year was as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Directors' remunerations				
- fees	567	604	567	604
- salaries and other emoluments	2,828	2,860	37	54
	3,395	3,464	604	658
Other key management personnel				
- short term employee benefits	1,172	630	-	-
	4,567	4,094	604	658

(c) Pursuant to the relevant laws and regulations of PRC, the Group has participated in a basic pension insurance for the employees arranged by local Labour and Social Security Bureau, whereby the subsidiaries incorporated in PRC make contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are recognised as a liability after deducting any contribution already paid and as an expense in the period in which the employees render their services. When employees retire, the local Labour and Social Security Bureau shall be responsible for the payment of the basic pension benefits to the retired employees.

19. EMPLOYEES SHARE OPTION SCHEME ("ESOS")

ESOS of the Company came into effect on 13 May 2015 and 28 July 2015. The ESOS shall be in force for a period of five (5) years from the effective date of the scheme. The main features of the ESOS are as follows:

- Eligible employees are those who are confirmed employees of the Group and have served full time in the Group or under an employment contract for a fixed duration and has been in the employment of the Group for such period;
- The maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company (excluding treasury shares) at any point of time during the duration of the scheme;
- The options granted may be exercised any time within the option period from the date of offer;
- The option price of a new ordinary share under the ESOS is based on the five (5)-day volume weighted average market price of the shares immediately preceding the date of offer with a discount of not more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time during the duration of the scheme;
- The options granted are not entitled to dividends or voting rights. Upon exercise of the options, the shares issued rank pari passu in all respects with the existing ordinary shares of the Company; and
- The employees to whom the options have been granted would be given opportunity to participate in the equity of the Company and thereby relate their contribution directly to the performance of the Group.

Notes to the Financial Statements
(cont'd)

19. EMPLOYEES SHARE OPTION SCHEME ("ESOS") (CONT'D)

The details of the options over the ordinary shares of the Company in the previous financial year are as follows:

	Option price RM	[----- Number of options over ordinary shares of USD0.03 each -----]				Outstanding as at 31.12.2015 '000	Exercisable as at 31.12.2015 '000
		Outstanding as at 1.1.2015 '000	Movements during the financial year				
			Granted '000	Exercised '000			
Date of offer							
13 May 2015	0.115	–	172,424	(172,424)	–	–	
28 July 2015	0.145	–	25,800	(25,800)	–	–	
		–	198,224	(198,224)	–	–	
Weighted average exercise prices (RM)		–	0.119	0.119	–	–	

20. RELATED PARTY DISCLOSURES

(a) Identities of related parties

The Company has controlling related party relationship with its direct and indirect subsidiaries and its ultimate holding company.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Rental paid to a Director of the Company	–	268	–	–

The related party transactions described above have been established under negotiated commercial terms.

Notes to the Financial Statements (cont'd)

21. CAPITAL MANAGEMENT

The primary objective of the capital management of the Group is to ensure that entities of the Group would be able to continue as going concerns whilst maximising the return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from that in the previous financial year.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2016 and 31 December 2015.

The Group monitors capital by reference to its indebtedness position. The strategy of the Group is to maintain the balance between debt and equity and to ensure sufficient operating cash flows to repay its liabilities as and when they fall due. As at the end of the reporting period, the gearing ratio of the Group (which is financial debts divided by total equity plus financial debts) is calculated as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Borrowings	10,000	10,000	–	–
Trade and other payables	133,935	129,505	1,760	2,126
Total liabilities	143,935	139,505	1,760	2,126
Less: Cash and bank balances	(562,208)	(508,649)	(12)	(16)
Net (cash)/debt	(418,273)	(369,144)	1,748	2,110
Total equity	1,250,596	1,243,662	825,658	828,156
Net (cash)/debt	(418,273)	(369,144)	1,748	2,110
Total	832,323	874,518	827,406	830,266
Gearing ratio	*	*	0.2%	0.3%

* Gearing ratio is not presented as the Group is in net cash position as at 31 December 2016 and 31 December 2015.

Pursuant to the requirements of Practice Note No. 17/2005 of the Bursa Malaysia Securities Berhad, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the twenty-five percent (25%) of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40.0 million (RMB74.0 million). The Company has complied with this requirement for the financial year ended 31 December 2016.

The Group is not subject to any other externally imposed capital requirements.

Notes to the Financial Statements
(cont'd)

22. EARNINGS PER SHARE

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2016 RMB'000	2015 RMB'000
Profit attributable to equity holders of the parent	6,934	6,798
Weighted average number of ordinary shares in issue (in '000)	1,347,740	1,255,436
Effect of bonus issue (in '000)	1,347,740	1,255,436
Adjusted weighted average number of ordinary shares applicable to basic earnings per ordinary share (in '000)	2,695,480	2,510,872
Basic earnings per ordinary share (RMB)	0.0026	0.0027

(b) Diluted

The diluted earnings per ordinary share is same as the basic earnings per share because the effect of the assumed conversion of warrants outstanding will be anti-dilutive and the Company has no other dilutive potential ordinary share in issue as at the end of the reporting period.

Notes to the Financial Statements (cont'd)

23. OPERATING SEGMENTS

The activities of the Group are predominantly in designing, manufacturing and marketing of sports shoes as well as designing and marketing of sports apparel, accessories and equipment within PRC. The operations of the Group are concentrated in Jinjiang City, Fujian Province of PRC, which represents its principal place of business and in which the assets and liabilities of the Group is located.

Due to the similarities in the business operations between the two operating subsidiaries in PRC, the chief operating decision maker of the Group, the Chief Executive Officer (“CEO”) of the Group in this context manages the operations within the Group as a whole in single segment and relies on internal reports which are similar to those currently disclosed externally to make decisions about allocation of resources.

The Group evaluates performance on the basis of revenue from operation. The analysis is as follows:

	Own branding manufacturer RMB'000	Original design manufacturer RMB'000	Other RMB'000	Total RMB'000
2016				
Revenue	350,496	153,338	–	503,834
Interest income	1,996	53	*(1)	2,049
Finance cost	(438)	–	–	(438)
Net finance income	1,558	53	*(1)	1,611
2015				
Revenue	403,967	140,845	–	544,812
Interest income	2,052	43	*(2)	2,095
Finance cost	(560)	–	–	(560)
Net finance income	1,492	43	*(2)	1,535

*(1) Represent RMB123.

*(2) Represent RMB223.

Notes to the Financial Statements
(cont'd)

23. OPERATING SEGMENTS (CONT'D)

Accordingly, no further segmental analysis is available for disclosure except for the following entity-wide disclosures as required by MFRS 8 *Operating Segments*:

Revenue by region

During the financial year, the Group derived all of its revenue from PRC. In view of the vast geographical areas within PRC, customers can be stratified on a regional basis within PRC. The following is an analysis of the revenue of the Group by region by location of customers, irrespective of the origin of the goods/services:

	Revenue by region	
	2016 RMB'000	2015 RMB'000
Within PRC:		
- Eastern region	24,501	28,238
- Southern region	256,271	260,420
- Western region	124,173	140,877
- Northern region	98,889	115,277
	503,834	544,812

In this context, the regions are grouped in the following manner by the Group:

- Eastern region includes Jiangsu and Shandong.
- Southern region includes Fujian, Hubei, Hunan, Jiangxi and Anhui.
- Western region includes Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu, Xinjiang and Shaanxi.
- Northern region includes Beijing, Henan, Heilongjiang, Liaoning, Shanxi and Jilin.

Revenue by products

The following is an analysis of the revenue of the Group by products:

	Revenue by products	
	2016 RMB'000	2015 RMB'000
Sports shoes	484,349	408,877
Sports apparel, accessories and equipment	19,485	135,935
	503,834	544,812

The Group does not have significant reliance on a single major customer, with whom the Group transacted ten percent (10%) or more of its revenue during the financial year.

Notes to the Financial Statements (cont'd)

24. CAPITAL COMMITMENT

	Group	
	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of purchase of property, plant and equipment:		
Approved but not contracted for	40,248	40,658

25. ADOPTION OF NEW MFRSS AND AMENDMENT TO MFRSS

25.1 New MFRS adopted during the financial year

The Group and the Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year.

Title	Effective Date
MFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to MFRS 116 and MFRS 138 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to MFRS 116 and MFRS 141 <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to MFRS 127 <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRSs <i>Annual Improvements to 2012 - 2014 Cycle</i>	1 January 2016
Amendments to MFRS 101 <i>Disclosure Initiative</i>	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016

The adoption of the above Standards had no material impact on the financial statements of the Group and the Company, other than the adoption of Amendments to MFRS 101 *Disclosure Initiative*, which resulted in the following:

- (a) Grouping together supporting information for items presented in the statements of financial position, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows, in the order in which each statement and each line item is presented.
- (b) Disclosures of only significant accounting policies comprising the measurement bases used in preparing the financial statements and other accounting policies that are relevant to the financial statements.

Notes to the Financial Statements
(cont'd)

25. **ADOPTION OF NEW MFRSS AND AMENDMENT TO MFRSS (CONT'D)**

25.2 **New MFRSSs that have been issued, but only effective for annual periods beginning on or after 1 January 2017**

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group and the Company.

Title	Effective Date
Amendments to MFRS 12 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarification to MFRS 15	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The Group and the Company is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.

26. **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

- (a) On 27 January 2016, the Company announced that 1,347,738,911 new ordinary shares of USD0.03 each ("Bonus Shares") were issued on the basis of one (1) Bonus Share for every one (1) existing ordinary share held by the entitled shareholders of the Company ("Bonus Shares"). As a consequence of the Bonus Issue:
- a) 440,619,890 additional Warrants 2015/2018 were issued, on the basis of one (1) Bonus Share for every one (1) existing ordinary share, pursuant to the Deed Poll dated 17 June 2015; and
 - b) 181,499,212 additional Warrants 2014/2017 were issued, on the basis of one (1) Bonus Share for every one (1) existing ordinary share, pursuant to the Deed Poll dated 9 December 2015.
- (b) On 23 June 2016, the Company reduced its par value of the issued and paid-up share capital of the Company comprising 2,695,478,822 ordinary shares of USD0.03 each to USD0.01 each pursuant to Sections 45 and 46 of the Companies Act 1981 of Bermuda; and
- (c) On 19 August 2016, the Company issued 3,332 new ordinary shares of USD0.01 each for cash vide the exercise of 3,332 detachable Warrants 2015/2018 at exercise price of RM0.04 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised pursuant to the Deed Poll dated 17 June 2015.

Notes to the Financial Statements
(cont'd)

27. SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED PROFITS OR LOSSES

The retained earnings as at the end of each reporting period may be analysed as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Total retained earnings of the Company and its subsidiaries				
- Realised	652,197	646,267	50,401	52,944
- Unrealised	12	24	12	24
	652,209	646,291	50,413	52,968
Less : Consolidation adjustments	(43,242)	(42,744)	-	-
Total retained earnings	608,967	603,547	50,413	52,968

LIST OF GROUP PROPERTIES

Location	Description	Existing/ Intended usage	Tenure / Approximate age of the building	Land area / Built-up area (square metres)	Net book value @ 31 December 2016 (RMB'000)
Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, China	Land use right	An industrial land (vacant)	Leasehold for 50 years (from 22.05.2006 to 22.05.2056)	840	4,336
Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, China	Land use right	An industrial land (vacant)	Leasehold for 50 years (from 22.05.2006 to 22.05.2056)	576	778
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, China	Land use right	An industrial land (site for new factory building and employees dormitories)	Leasehold for 50 years (from 31.07.2007 to 05.06.2057)	33,183	21,097
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, China	Land use right	An industrial land (site for new office building and employees dormitories)	Leasehold for 50 years (from 31.07.2007 to 25.06.2057)	34,561	22,902
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, China	Buildings	Headquarter and Design & Production Centre	Leasehold for 50 years (from 31.07.2007 to 25.06.2057) Age of the buildings: - Approximately 3 years	51,700 / 114,453	512,855
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, China	Construction in progress	Stage-2 Design & Production Centre	Leasehold for 50 years (from 31.07.2007 to 25.06.2057)	16,000 / 52,000 (upon completion)	17,918

ANALYSIS OF SHAREHOLDINGS

as at 21 March 2017

Authorised Share Capital : USD300,000,000
 Class of Shares : Ordinary shares of USD0.01 each
 Voting Rights : One (1) vote per ordinary share

SHARE CAPITAL

ANALYSIS BY SIZE OF HOLDINGS

Size of holdings	No. of holders	% of holders	No. of shares held	% of issued capital
1 - 99	47	1.064	1,754	0.000
100 - 1,000	200	4.530	60,504	0.002
1,001 - 10,000	404	9.151	2,574,312	0.096
10,001 - 100,000	2,201	49.853	110,905,358	4.114
100,001 - 134,774,057 (*)	1,561	35.357	1,681,939,226	62.399
134,774,058 and above (**)	2	0.045	900,000,000	33.389
Total (***)	4,415	100.000	2,695,481,154	100.000

Remark:

- * Less than 5% of issued shares
- ** 5% & above of issued shares
- *** Excluding 1,000 treasury shares

SUBSTANTIAL SHAREHOLDERS

(As per Register of Substantial Shareholders)

	Direct Interest	
	No. of shares held	% of issued capital
HONGPENG INTERNATIONAL HOLDINGS LIMITED	900,000,000	33.389

Analysis of Shareholdings (cont'd)

DIRECTOR'S INTEREST

(As per Register of Director's Shareholdings)

Name of Director	Indirect Interest	
	No. of shares held	% of issued capital
Ding PengPeng [^]	900,000,000	33.389

[^] Deemed interested by virtue of his major shareholdings in HongPeng International Holdings Limited

THIRTY LARGEST SHAREHOLDERS AS AT 21 MARCH 2017

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
1	HONGPENG INTERNATIONAL HOLDINGS LIMITED	710,000,000	26.340
2	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HONGPENG INTERNATIONAL HOLDINGS LIMITED	190,000,000	7.049
3	UOBM NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	120,347,800	4.465
4	JF APEX NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DING SIZU (MARGIN)	60,000,000	2.226
5	JF APEX NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN JINGXUAN (MARGIN)	60,000,000	2.226
6	JF APEX NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DING HONGKE (MARGIN)	60,000,000	2.226
7	JF APEX NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DING SHUWEI (MARGIN)	60,000,000	2.226
8	ZHANG TIANCAI	40,010,000	1.484
9	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN HUOMENG	40,000,000	1.484
10	M & A NOMINEE (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	38,300,000	1.421
11	LIN JINGBO	38,053,000	1.412
12	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN JINGXUAN	36,040,200	1.337
13	DING CHAOHUI	36,000,000	1.336
14	AFFIN HWANG NOMINEES (ASING) SDN BHD EXEMPT AN FOR PHILLIP SECURITIES (HONG KONG) LTD (CLIENTS' ACCOUNT)	29,057,224	1.078
15	DING MAOYUAN	28,848,000	1.070

Analysis of Shareholdings (cont'd)

THIRTY LARGEST SHAREHOLDERS (CONT'D) AS AT 21 MARCH 2017

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
16	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHEW WENG CHOY	24,000,000	0.890
17	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR CHEONG HO LENG (MY0083)	20,000,000	0.742
18	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR TAN KOH WAH (MY1842)	16,200,000	0.601
19	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KUEK ENG MONG	15,313,800	0.568
20	TEE AH SWEE	12,086,400	0.448
21	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MOHAMAD BOLHAIR BIN REDUAN	11,600,000	0.430
22	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE CHEE MING	11,137,100	0.413
23	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR TAN SEW CHING (MY1749)	11,000,000	0.408
24	ANG YEW WAH	10,319,600	0.383
25	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH YOK TEK (022)	9,000,000	0.334
26	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR OCBC SECURITIES PRIVATE LIMITED (CLIENT A/C-NR)	8,180,000	0.304
27	CHUNG CHEE YANG	8,000,000	0.297
28	UNG ENG HUAT	8,000,000	0.297
29	BIJAK TULUS SDN BHD	7,603,800	0.282
30	TANG MEE CHENG	7,500,000	0.278
TOTAL		1,726,596,924	64.055

ANALYSIS OF WARRANTS HOLDINGS

as at 21 March 2017

Total Warrants Issued – “Warrant C” : 881,236,448

WARRANT C

ANALYSIS BY SIZE OF HOLDINGS

Size of holdings	No. of holders	% of holders	No. of warrants held	% of issued warrants
1 - 99	474	14.061	25,036	0.003
100 - 1,000	362	10.739	101,382	0.011
1,001 - 10,000	817	24.236	4,658,976	0.529
10,001 - 100,000	1,338	39.692	46,359,796	5.261
100,001 - 44,061,822 (*)	378	11.213	272,211,910	30.890
44,061,823 and above (**)	2	0.059	557,879,348	63.306
Total	3,371	100.000	881,236,448	100.000

Remark:

* Less than 5% of issued warrants

** 5% & above of issued warrants

SUBSTANTIAL WARRANT HOLDERS

	Direct Interest	
	No. of warrants held	% of issued warrants
UOBM NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	491,212,682	55.741
M & A NOMINEE (ASING) SDN BHD SANSTON FINANCIAL GROUP LIMITED FOR HONGPENG INTERNATIONAL HOLDINGS LIMITED	66,666,666	7.565

Analysis of Warrants Holdings (cont'd)

DIRECTOR'S INTEREST

(As per Register of Director's Warrant Holdings)

Name of Director	Indirect Interest	
	No. of warrants held	% of issued warrants
Ding PengPeng^	299,999,998	34.043

^ Deemed interested by virtue of his major shareholdings in HongPeng International Holdings Limited

THIRTY LARGEST WARRANT HOLDERS AS AT 21 MARCH 2017

WARRANT C

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
1	UOBM NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	491,212,682	55.741
2	M & A NOMINEE (ASING) SDN BHD SANSTON FINANCIAL GROUP LIMITED FOR HONGPENG INTERNATIONAL HOLDINGS LIMITED	66,666,666	7.565
3	M & A NOMINEE (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	15,517,000	1.761
4	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR TAN SEW CHING (MY1749)	13,273,266	1.506
5	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR CHEONG HO LENG (MY0083)	12,209,666	1.386
6	M & A NOMINEE (ASING) SDN BHD SANSTON FINANCIAL GROUP LIMITED FOR HONG KONG HONGSHENG INVESTMENT COMPANY LIMITED	12,000,000	1.362
7	ANG YEW WAH	8,922,666	1.013
8	NG LEE SAN	7,333,332	0.832
9	CHAI CHAT LEONG	6,000,000	0.681
10	LIN JINGBO	5,272,200	0.598
11	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM KIM CHONG (E-KPG)	5,000,000	0.567
12	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YEOH CHOON HUAT (E-TAI/TPD)	4,600,000	0.522
13	TANG MEE CHENG	4,446,200	0.505
14	TAI KIM FONG	4,000,000	0.454
15	LIEW VOON SHIN	3,533,300	0.401

Analysis of Warrants Holdings
(cont'd)

**THIRTY LARGEST WARRANT HOLDERS (CONT'D)
AS AT 21 MARCH 2017**

WARRANT C

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
16	GOH CHING SEE	3,400,066	0.386
17	HLIB NOMINEES (TEMPATAN) SDN BHD HONG LEONG BANK BHD FOR HO AH CHAI	3,400,000	0.386
18	ENG LAY HOONG	3,200,000	0.363
19	JOSHUA GOH WEN-HANN	3,100,000	0.352
20	TAN GUAT KHIM	3,058,666	0.347
21	TAN WAH KIONG	3,009,800	0.341
22	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YAP SOON LEE (E-SS2)	2,916,600	0.331
23	LYE MING ZH	2,903,332	0.329
24	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR WANG QINGYUN	2,868,600	0.325
25	CHONG KIAM PEH	2,800,000	0.318
26	ANG CHUN WEI	2,759,800	0.313
27	UNG ENG HUAT	2,666,666	0.303
28	WANG TSUN SIANG	2,666,666	0.303
29	LIM PAY KAON	2,304,066	0.261
30	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ALVIN LAU LEE JEN	2,133,332	0.242
TOTAL		703,174,572	79.794

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XIDELANG HOLDINGS LTD

(Bermuda Company No. 43136)
(Incorporated as an exempted Company in Bermuda under the Companies Act 1981 of Bermuda)
(Malaysian Foreign Company No. 995210-W)
(Registered as a Foreign Company in Malaysia under the Companies Act 1965 of Malaysia)

FORM OF PROXY

Number of shares held	
CDS Account No.	

.....
Telephone no. (During office hours)

I/We NRIC/ Passport/ Company No.
(Full Name in Capital Letters)

of
(Full Address)

being a member(s) of **XIDELANG HOLDINGS LTD** (Incorporated in Bermuda under the Companies Act 1981 of Bermuda – Company No. 43136) (Registered as a Foreign Company in Malaysia under the Companies Act 1965 of Malaysia - Company No. 995210-W)

hereby appoint NRIC/ Passport No.
(Full Name in Capital Letters)

of
(Full Address)

and/or failing him/her, NRIC/ Passport No.
(Full Name in Capital Letters)

of
(Full Address)

or the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf at the Eighth Annual General Meeting of the Company to be held at Dewan Putra Perdana 1, Level 1, Putrajaya Shangri-La Hotel, Taman Putra Perdana, Presint 1, 62000 Wilayah Persekutuan, Putrajaya, Malaysia on Tuesday, 20 June 2017 at 10.00 a.m. and at any adjournment thereof. The proxy is to vote in the manner indicated below, with an "X" in the appropriate spaces. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

NO.	ORDINARY RESOLUTIONS	FOR	AGAINST
1.	Approval of the payment of Directors' Fees of RMB567,346 for the financial year ended 31 December 2016.		
2.	Re-election of Ding PengPeng who retires pursuant to the Company's Bye-Law 86.		
3.	Re-election of Wong Yoke Nyen who retires pursuant to the Company's Bye-Law 86.		
4.	Re-appointment of Messrs BDO as Auditors of the Company and to authorise the Board of Directors to fix their remuneration.		
5.	Proposed Renewal of Authority for Xidelang Holdings Ltd to Purchase its own Shares Pursuant to the Prevailing Laws, Main Market Listing Requirements and Bye-Laws.		
6.	Authority to Issue Shares.		

Dated this day of 2017

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:-

Proxy	No. of units	Percentage (%)
1		
2		
Total		100

.....
Signature of Unit holder/Common Seal

Notes:

- i. A member shall be entitled to appoint up to two (2) proxies to attend and vote at the same meeting. A proxy may but need not be a member of the Company. Where a member appoints more than one (1) proxy the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.
- ii. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 of Malaysia, it may appoint at least one (1) proxy in respect of each securities account it holds which is credited with ordinary shares of the Company.
- iii. Where a member of the company is an exempt authorised nominee which holds ordinary shares in the company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
- iv. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointer is a corporation, the proxy form must be executed under its Common Seal or under the hand of an office, attorney or other person duly authorised to sign the same.
- v. The instrument appointing a proxy must be deposited at the Company's registered office in Malaysia i.e. Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, at the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting i.e. on or before 10.00 a.m., Sunday, 18 June 2017 or any adjournment thereof.
- vi. Only members whose names appear in the Record of Depositors as at 13 June 2017 will be entitled to attend and vote at the meeting or appoint proxy (proxies) to attend and vote on their behalf.



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AFFIX
STAMP

XIDELANG HOLDINGS LTD
(Malaysian Foreign Company No. 995210-W)
UNIT 30-01, LEVEL 30, TOWER A
VERTICAL BUSINESS SUITE
AVENUE 3, BANGSAR SOUTH
NO. 8, JALAN KERINCHI
59200 KUALA LUMPUR

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 **喜得狼[®]**
XiDeLang Holdings Ltd

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