



XPD Soccer Gear Group Limited

Annual Report

ABN 96 169 695 283

For the year ended 31 December 2016

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Corporate Information

XPD Soccer Gear Group Limited Shares (ASX Code: XPD)

Directors

Mr Jiameng Zhang, Managing Director and Chief Executive Officer (*Appointed 6 November 2014*)
Mr Andrew Smith, Non-Executive Director & Chairman of the Board (*Appointed Chairman 29 June 2016*)
Mr Shui-Chiao Chang, Non-executive Deputy Chairman (*Appointed Deputy Chairman and resigned as Non-Executive Chairman 29 June 2016*)
Mr Andrew Plympton, Non-Executive Director and Chairman of the Audit and Risk Management Committee (*Appointed Chairman of Audit and Risk on 29 June 2016*)
Mr Robert Gibson, Non-Executive Director (*Appointed 29 June 2016, resigned 1 March 2017*)
Ms Peiya Zhuang, Executive Director (*Appointed 29 June 2016*)
Mr Benjamin Meikle, Non-Executive Director (*Resigned 29 June 2016*)
Mr Jiashun Zhang, Executive Director and Chief Operations Officer (*Resigned 29 June 2016*)

Company Secretary

Mr Ting Jiang

Registered Office

Level 1, Exchange Tower
530 Little Collins Street
Melbourne VIC 3000

Share Registry

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000

Banker

ANZ
Collins Place
55 Collins Street
Melbourne VIC 3000

Auditor

Grant Thornton Audit Pty Ltd
Level 3, 170 Frome Street
Adelaide SA 5000

Website Address

www.xpdsoccer.com.au

All monetary amounts in this report are in Australian dollars unless stated otherwise. The financial year begins on 1 January and ends on 31 December each year.

Directors' Report

The Directors of XPD Soccer Gear Group Limited ('XPD') present their Report together with the financial statements of the consolidated entity, being XPD ('the Company') and its Controlled Entities ('the Group') for the year ended 31 December 2016.

Director details

The following persons were Directors of XPD during or since the end of the financial year.

Mr Jiameng Zhang

Managing Director and CEO (Appointed 6 November 2014)

Mr Zhang is responsible for overall management of XPD Group's business and strategic planning. He has over 15 years of experience in the sportswear industry and has successfully built the XPD brand into a well-recognised sportswear brand in particular soccer footwear brand in China.

Mr Zhang holds an Executive Master of Business Administration from Huaqiao University China.

He is the deputy Chairman of Fujian Provincial Football Association and the Chairman of Jinjiang City Football Association.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- 150,825,047

Interest in options:

- None

Mr Andrew Smith

Non-Executive Director (Appointed 31 January 2015)

Non-Executive Chairman of the Board (Appointed 29 June 2016)

Andrew's business career has focussed on finance and the financial markets in the Asia Pacific. Utilising the experience gained in his working career, he is now involved with a number of non-executive and consulting positions.

He was formerly the Managing Director and Chief Executive of the stockbroking and corporate finance group Intersuisse Ltd (now Phillip Capital) from 2000 to 2010, and Executive Director of Phillip Asset Management Ltd from 2008 to 2010. Prior to that Andrew was Chairman of the Sedgwick Group in the Asia Pacific from 1995 to 2000.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- 340,000

Interest in options:

- None

Mr Shui-Chiao Chang

Non-executive Deputy Chairman (Appointed Deputy Chairman 29 June 2016)

Mr Chang is the founder of XPD Group and has played a vital role in the early development of XPD Group's business.

Mr Chang is an experienced entrepreneur and has over 24 years of experience in the sportswear industry in China.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- 99,601,518

Interest in options:

- None

Mr Andrew Plympton

Non-Executive Director (Appointed 21 February 2015)

Chairman of the Audit and Risk Management Committee (Appointed Chairman of Audit and Risk on 29 June 2016)

Mr Plympton brings a wealth of experience in a diverse range of commercial activities. He has had 35 years in the financial services area as either Managing Director/Executive Chairman of a number of international insurance brokers and risk managers with added skill in captive management.

In the public company sector Mr Plympton has been active for over 10 years and has served as either Non-Executive Chairman or Non-Executive Director of nine companies.

In addition Mr Plympton is an Executive Member of the Australian Olympic Committee and Director of the Australian Olympic Foundation Limited, a Commissioner of the Australian Sports Commission.

Other current listed company Directorships:

- Harris Technology Group Limited (ASX: HT8)
- Energy Mad Limited (NZX:MAD) (Appointed 5 March 2009)

Previous listed company Directorships (last 3 years):

- KNeoMedia Limited (ASX:KNM) (26 August 2010 – 21 October 2015)
- Newsat Limited (ASX:NWT) (18 February 2010 – 30 June 2014)
- Sunbridge Group Limited (ASX:SBB) (23 July 2013 – 30 December 2014)

Interests in shares:

- 20,000

Interest in options:

- None

Mr Robert Gibson

Non-Executive Director (Appointed 29 June 2016, Resigned 1 March 2017)

Mr Rob Gibson has 29 years of experience in stockbroking which includes the provision of strategic and stockbroking advice to many small cap companies. He is an adviser of Morgans Financial.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- 500,000

Interest in options:

- None

Ms Peiya Zhuang

Executive Director (Appointed 29 June 2016)

Ms Zhuang is the chief sales officer at XPD and is responsible for sales, marketing and managing distributors. Ms Zhuang has over 10 years of experience in marketing and sales in the sportswear sector in China. Ms Zhuang joined XPD in 2005 and holds a diploma of Footwear Design from Quanzhou Huaguang College.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- None

Interest in options:

- None

Mr Benjamin Meikle

Non-Executive Director (Resigned 29 June 2016)

Mr Meikle is an experienced finance professional with expertise across capital and global markets. He began his career at the Commonwealth Bank in the Australian equity team and gained experience at a range of Australian owned investment firms.

Mr Meikle is now Head of International Advisory at Carnbrea & Co Limited, which is a multi-family office and wealth advisory boutique, serving the wealth management needs of high net worth families.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- None

Interest in options:

- None

Mr Jiashun Zhang

Executive Director and COO (resigned as Executive Director/COO 29 June 2016)

Mr Zhang is responsible for XPD Group's purchase and production operations. He has over 14 years of experience in the sportswear industry in China.

Mr Zhang holds a Bachelor of Commerce from Xiamen University.

Other current listed company Directorships:

- None

Previous listed company Directorships (last 3 years):

- None

Interests in shares:

- 15,794,004

Interest in options:

- None

Company Secretary

Mr Ting Jiang is a qualified Certified Practising Accountant in Australia and has broad experience in corporate finance, corporate advisory and legal practice, and has completed a range of capital market transactions in both Australia and China. Mr Jiang was appointed 18 November 2014.

Principal activities

During the year, the principal activities of entities within the Group were: designing, developing, manufacturing, distributing and marketing sportswear with a focus on soccer wear under the “XPD” brand.

There have been no significant changes in the nature of these activities during the year.

Review of operations and financial results

FY2016 has been an outstanding year for XPD Group. The team has delivered continued growth in revenue. We continued to increase XPD distributors and retail outlets in China, and invested significantly in XPD brand marketing and promotion.

Key highlights:

- Sales revenue of FY2016 increased by 14.2% to \$116.8 million when compared to FY2015 as a result of continued expansion of sales channels and increased sales of XPD brand footwear in particular soccer footwear.
- The gross profit margin has been maintained at 33.1% despite competitive environment.
- Net profit after income tax decreased by 17.4% to \$13.4 million for FY2016 from \$16.2 million in FY2015. The decrease in net profit during the year was primarily due to an increase in sales and marketing expenses aimed at growing the brand.
- Total sales and marketing expenses for FY2016 amounted to approximately \$14.4 million (FY2015: \$6.9 million), representing an increase of 109.6% from FY 2015. The increase was mainly attributable to increased expenses associated with store renovation, advertising, promotion activities for our brand and increase in staff costs.
- Total administrative expenses for FY2016 amounted to \$3.95 million (FY2015: \$3.09 million), representing an increase of 28.9% when compared to FY2015. The increase was mainly caused by increased staff costs, consulting costs and rental expenses.
- Foreign exchange translation loss of \$4.458 million, arising from the depreciation of RMB against AUD during the year.
- Maintained a strong cash position of \$43.06 million as at 31 December 2016 with sound net operating cash inflow of \$8.82 million.

Review of operations and financial results (cont.)

Operations review

Economic conditions and Chinese government policy encouraging football continue to underpin demand for XPD's products.

The combination of Chinese government policy in support of the sport industry, especially the development of the football sector, and increases in Chinese people's discretionary income, has enabled XPD to continue to enjoy revenue growth fuelled by young consumers (students and youth groups) demand for soccer sportswear.

Most recently China's Football Association has reported that China plans to increase the number of football academies by 2025 from 20,000 to 50,000.

Each school will be able to train 1,000 young players, thus fulfilling the goal of having 50 million competent young players in China.

According to the association, the government has also ordered the construction of 70,000 football fields to support the implementation of youth football development plan.

Distribution and Retail Sales

The XPD retail outlets, which are owned and operated either by the company's distributors or by independent third parties, have provided an effective retail channel for XPD's products throughout China.

The Group continued to increase the number of distributors and retail outlets. As at 31 December 2016, the total number of XPD retail outlets was 2102, representing a net increase of 40 outlets when compared to FY2015.

During 2016, the Company commenced a program of refurbishment to selected retail stores with the objectivity of improving and standardising XPD's brand presentation and enhancing sales.

The Company has observed a 10% uplift in sales from these stores in the month following the refurbishment. Total cost incurred of \$ 7 million. XPD believes the retail refurbishment would have a useful life and positive effect on sales for up to five years.

XPD's has positioned its brand towards lower tier cities in China, in particular the third and fourth tier cities (prefecture level cities and county level cities). The combination of faster economic growth, growing disposable income and XPD's product price point combine to maximise sales in this market.

It is evident that competition is more intense in the first and second tier cities (the main provincial capital and some coastal cities), and consumer groups have higher loyalty towards international or the larger domestic brands. For this reason, most of the XPD retail stores are located in tier three or four cities.

E-commerce

China has become the fastest and largest trading market for global e-commerce development. The company believes e-commerce is a rapidly growing and efficient way to distribute XPD's products, especially shopping through the mobile phone and tablet.

Using e-commerce, the company can broaden our sales channels beyond the limits of region and time to sell and promote our products and brand.

The company continues to grow our sales using third party e-commerce platforms including Tmall, JD.com, Paixie.net and see this increasing in the future.

Campus soccer

In line with Chinese Governments' move to make soccer a compulsory part of the national curriculum and to further promote soccer among youngsters in China, XPD continues to strengthen its R&D and product lines in junior soccer wear and has launched a children/youth soccer series.

To enhance the company's brand, XPD sponsored football leagues and individual football clubs at primary and middle school and college levels, and continues to expand the model combining "school + XPD+ soccer club", where XPD provide soccer products, soccer club provide coaches, and schools provide the players.

Marketing and promotion

Brand marketing and promotion is crucial to the company's continuing success in the sportswear industry, specifically in the football equipment market. To build and maintain a consistent brand message to the company's consumers, XPD has employed a focused marketing strategy with an emphasis on soccer since 2005. Such a strategy is not at the exclusion of other sports, but with over 60% of sales in soccer, this is where XPD gets maximum brand recognition.

During FY2016, XPD invested significantly in marketing and promotion. XPD used various traditional media channels such as commercial television, outdoor, newspapers and magazines, whilst increasing its investment through social media promotion activities. In order to build young people's understand the XPD brand, the company will in future put more investment into new media including campus media, the internet, mobile terminals, digital marketing, so that more young consumer groups can get access to XPD's brand and product information.

Production

In recent years the company's footwear products have been manufactured using both the Group's own production facility located in Jinjiang City, and outsourced contract manufacturers. The Company believes that maintaining and growing in-house production capabilities has several advantages including better control over quality, the production process, and greater ability and flexibility to respond promptly to market changes.

We are also able to use our own production facilities to enhance our bargaining power over contract manufacturers. All apparels and accessories production are outsourced.

The company leased new production facilities in Henan Province in 2016. Plant and equipment has been installed to enable two shoe production lines to operate. After some minor delays, the facility is now "production ready" and following testing and employment, production will commence in May 2017.

Review of operations and financial results (cont.)

Henan Yuanlong

The investment represents a 28% share interest in Henan Yuanlong Industrial Co.,Ltd (“HYI”) which is located in Henan Province, China. HYI is a PRC company specifically incorporated to develop a commercial manufacturing park of which XPD is a tenant. During the year ended 31 December 2016, XPD entered into a lease for 2 manufacturing sites and a dormitory in HYI manufacturing park.

On the basis of the interest in HYI held by the Group, the investment was assessed to not be controlled by the Group yet elements of significant influence are present. As a result the investment is recognised as an associate and equity accounting of the Group’s share of Profit or Loss is recognised.

Significant changes in the state of affairs

During the year, the following changes occurred within the Group:

- *Issue of share capital:*
 - On 26 April 2016, XPD Soccer Gear Group Limited introduced a dividend reinvestment plan to allow eligible shareholders to reinvest dividends on their shareholding to acquire additional shares in the Group at a discounted market price (5% discount on average market price) and issued 16,125,801 ordinary shares with a total value of \$2.67 million net of issuance cost; and
 - On 19 May 2016, XPD Soccer Gear Group Limited issued 35 million ordinary shares at \$0.21 per share to the distributors of XPD Group to raise \$7.35 million.

Dividends

On 28 February 2017, the Directors resolved not to pay a final dividend.

During the year, an unfranked final dividend of \$1,086,890 (\$0.01 per share) was paid on 30 May 2016 in respect of the year ended 31 December 2015. The Dividend Reinvestment Plan (DRP) was in operation and shares were allocated based on the DRP issue price that was advised to the market.

Events arising since the end of the reporting period

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- *the entity’s operations in future financial years*
- *the results of those operations in future financial years; or*
- *the entity’s state of affairs in future financial year*

Likely developments, business strategies and prospects

The development of the sports sector has been designated as a China national strategy, with specific goals including the promotion of national participation of sports activities, enhancement of the sports industry, sports entertainment, sports culture and related industries, and boost in related consumption to create a RMB5 trillion market by 2025.

With the improvement of people's living standard in China, people's awareness of health and growing popularity of sports participation, consumers will place more emphasis on the functional and quality features of sportswear products. With soccer gaining popularity across China, demand for related soccer products will continue to surge as a result of more participants in this sport.

XPD has developed a comprehensive strategy to deliver continued growth through various initiatives:

- strengthen market research to better understanding consumer needs.
- integration of brand marketing activities, and cooperation with professional brand integration agencies, to maximise brand positioning, brand vision, brand communication.
- planning, upgrading, and enhancing brand awareness and influence.
- increase the number of regional sales distributors and expand retail sales network, based on the market needs.
- innovating new products using new technologies and materials, so as to enhance product sales and build brand premium.
- greater focus on the development of football equipment products, while increasing R&D and manufacturing in sportswear for other sports categories, in particular badminton and table tennis.
- increase sales revenue and margins to support the company and distributors and retailers.
- grow the business through vertical and horizontal acquisitions of upstream and downstream enterprises, leading to reduced operating costs, increased sales, and a higher return on investment.

The Company expects FY2017 to be a year of further growth.

Directors' meetings

The number of Directors Meetings (including meetings of Committees of Directors) held during the year, and the number of meetings attended by each Director is as follows:

Directors' name	Board Meetings		Audit and Risk Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B
Jiameng Zhang	6	6	-	-	-	-
Andrew Smith	6	6	2	2	2	2
Peiya Zhuang	3	1	-	-	-	-
Jiashun Zhang	3	1	-	-	-	-
Shui-Chiao Chang	6	1	-	-	-	-
Ben Meikle	3	3	1	1	1	1
Robert Gibson	3	3	1	1	1	1
Andrew Plympton	6	6	2	2	2	2

*Jiashun Zhang and Ben Meikle resigned on 29 June 2016 and Ms Peiya Zhuang and Mr Robert Gibson were appointed on the same date. Mr Robert Gibson subsequently resigned on 1 March 2017.

Where:

- column A is the number of meetings the Director was entitled to attend
- column B is the number of meetings the Director attended

Unissued shares under option

There are no share options issued by the Company.

Remuneration Report (audited)

The Directors of XPD Soccer Gear Group Limited ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other key management personnel, prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration;
- B. Details of remuneration;
- C. Service agreements;
- D. Share-based remuneration;
- E. Other information;
- F. Interest in options; and
- G. Interest in shares

A Principles used to determine the nature and amount of remuneration

The principles of the Group's executive strategy and supporting incentive programs and frameworks are:

- *to align rewards to business outcomes that deliver value to shareholders*
- *to drive a high performance culture by setting challenging objectives and rewarding high performing individuals*
- *to ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent*

The Group has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The Board has established a Nomination and Remuneration Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Team.

The Committee may engage independent remuneration consultants to provide any necessary information to assist in the discharge of its responsibilities as required. The remuneration structure that has been adopted by the Group consists of the following components:

- *fixed remuneration being annual salary.*

The Nomination and Remuneration Committee assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Team.

Annual Bonus

XPD Soccer Gear Group Limited pays out cash bonuses annually at the directors' discretion to all staff, including executive Key Management Personnel, employed at Jinjiang Chaoda Shoes and Garments Co., Limited, the Group's operating subsidiary in China. The payment is not contractual and paid at the directors discretion.

Use of Remuneration Consultants

No Remuneration consultant has been engaged by the Company during the year (2015: none).

Voting and comments made at the Company's last Annual General Meeting

XPD received more than 98% of "yes" votes on its remuneration report for the 2015 financial report. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration or nomination process.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year:

Item	2016	2015
EPS (cents)	3.23	7.12
Dividends (cents per share)	-	1.0
Net profit / loss (\$)	13,405,461	16,236,799
Share price (\$)^(a)	0.095	0.200

(a) Share price as at close of trade 31 December.

XPD Soccer Gear Group Limited and its Controlled Entities
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B Details of remuneration

Details of the nature and amount of each element of the remuneration of each Key Management Personnel (KMP) of XPD Soccer Gear Group Limited are shown in the table below:

Director and other Key Management Personnel remuneration										
	Year	Short term employee benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments	Total	Performance based percentage of remuneration
		Cash salary and fees	Annual bonus	Non-monetary benefits	Superannuation	Long service leave	Termination payments	Options		
Executive Directors										
Jiameng Zhang	2016	129,008	24,314	-	-	-	-	-	153,322	
Managing Director and Chief Executive Officer (Appointed 6 November 2014)	2015	38,466	6,411	-	-	-	-	-	44,877	-
Jiashun Zhang	2016	45,937	-	-	-	-	-	-	45,937	-
Executive Director and Chief Operations Officer (resigned as Executive Director/COO 29 June 2016)	2015	17,951	2,992	-	-	-	-	-	20,943	-
Peiya Zhuang	2016	50,945	12,157	-	-	-	-	-	63,102	-
Executive Director (appointed 29 June 2016)	2015	-	-	-	-	-	-	-	-	-
Non-Executive Directors										
Shui-Chiao Chang	2016	97,255	18,235	-	-	-	-	-	115,490	-
Deputy Chairman, Non-executive Deputy Chairman (appointed Deputy Chairman and resigned as Chairman 29 June 2016)	2015	37,825	6,411	-	-	-	-	-	44,236	-
Andrew Smith	2016	76,984	-	-	-	-	-	-	76,984	
Non-Executive Director & Chairman of the Board (Appointed Chairman 29 June 2016)	2015	25,000	-	-	-	-	-	-	25,000	-
Andrew Plympton	2016	48,000	-	-	-	-	-	-	48,000	-
Non-Executive Director, Chairman of the Audit and Risk Management Committee (Appointed Chairman of Audit and Risk 29 June 2016)	2015	48,000	-	-	-	-	-	-	48,000	-
Robert Gibson	2016	24,000	-	-	-	-	-	-	24,000	-
Non-Executive Director (appointed 29 June 2016, resigned 1 March 2017)	2015	-	-	-	-	-	-	-	-	-
Benjamin Meikle	2016	28,000	-	-	-	-	-	-	28,000	-
Non-Executive Director (resigned 29 June 2016)	2015	48,000	-	-	-	-	-	-	48,000	-
Key Management Personnel										
Renfeng Xiu,	2016	32,418	-	-	-	-	-	-	32,418	-
Former Chief Finance Officer (resigned as CFO 30 September 2016)	2015	25,430	4,274	-	-	-	-	-	29,704	-
Yiyu Guo	2016	12,230	4,052	-	-	-	-	-	16,282	-
Current Chief Financial Officer (appointed as CFO 1 October 2016)	2015	-	-	-	-	-	-	-	-	-
Ting Jiang	2016	48,000	-	-	-	-	-	-	48,000	-
Company Secretary	2015	48,000	-	-	-	-	-	-	48,000	-
2016 Total	2016	592,777	58,758	-	-	-	-	-	651,535	-
2015 Total	2015	288,672	20,088	-	-	-	-	-	308,760	

C Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a Service Agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary	Term of agreement	Notice
Jiameng Zhang Managing Director and Chief Executive Officer (appointed 6 November 2014)	145,872 p.a.	5 Years	30 Days
Peiya Zhuang Executive Director (appointed ED 29 June 2016)	72,936 p.a.	5 Years	30 Days
Yiyu Guo Current Chief Financial Officer (appointed as CFO 1 October 2016)	48,624 p.a.	5 Years	30 Days

D Share-based remuneration

There were no options or equity instruments issued by XPD to directors or KMP as part of their remuneration.

E Other Information

Transaction with related parties and key management personnel

The following comprises transactions with entities in which the Directors have an interest:

	2016 \$	2015 \$
Jinjiang XPD Import and Export Ltd		
Sales made to the related party	3,589,472	2,672,260
Payment received from the related party	3,887,455	2,703,095
	2016 \$	2015 \$
Shaohua Zhang^{(a) (b)}		
Cash advanced to the related party	412,169	1,806,192
Payment received from the related party	412,169	1,806,192
	2016 \$	2015 \$
Henan Yuanlong Industrial Co., Ltd		
Share of Loss from investment in associate	674,422	-
Rental expense – recognised in profit and loss	293,496	-
Rental payment – included in operating cash flows	293,496	-
	2016 \$	2015 \$
Jiameng Zhang (Director)		
Purchases made on behalf of Company by the related party	1,585,355	1,624,301
Repayment to the related party	2,099,186	782,600
Short-term advance to the related party ^(c)	1,786,634	-

(a) Shaohua Zhang is a relative of Mr. Zhang Jiameng (Managing Director).

(b) Shaohua Zhang has provided personal guarantee over short-term borrowing of the Group as at 31 December 2016 (Refer Note 21).

(c) Short-term advance has been subsequently received by the Group post year-end.

E Other Information (cont.)

Balances with related parties and key management personnel

Amounts receivable from and payable to key management personnel and their related entities at balance date arising are as follows:

	Receivable from related party	Investment in Associate	Payable to related party
2016			
	\$	\$	\$
Jinjiang XPD Import and Export Ltd	677,686	-	-
Henan Yuanlong Industrial Co., Ltd	-	14,952,520	-
Zhang Jiameng (Director)	1,434,404	-	-
	2,112,090	14,952,520	-
2015			
	\$	\$	\$
Jinjiang XPD Import and Export Ltd	1,026,140	-	-
Henan Yuanlong Industrial Co., Ltd	-	15,790,280	-
Zhang Jiameng (Director)	-	-	841,701
	1,026,140	15,790,280	841,701

Related party balances comprise trade receivables and payables which have arisen from the normal course of business and related party loans. Amounts payable to Mr Jiameng Zhang relate to IPO and other expenses incurred on behalf of the company that are due for reimbursement. Investment in related party relates to investment in associate (refer Note 18). No specific terms and conditions have been attached to the above transactions.

F Interest in options

No options issued or outstanding as at 31 December 2016. (2015: none)

XPD Soccer Gear Group Limited and its Controlled Entities
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G Interest in shares

	Opening balance	Received as compensation	Options exercised	Net Change Other	Closing Balance	% of Total Shares on Issue
Executive Directors						
Jiameng Zhang ⁽¹⁾ Managing Director and Chief Executive Officer (Appointed 6 November 2014)	140,882,900	-	-	9,942,147	150,825,047	34.710%
Jiashun Zhang ⁽²⁾ Executive Director and Chief Operations Officer (resigned as Executive Director/COO 29 June 2016)	15,321,477	-	-	472,527	15,794,004	3.635%
Peiya Zhuang Executive Director (appointed ED 29 June 2016)	-	-	-	-	-	-
Non-Executive Directors						
Shui-Chiao Chang ⁽¹⁾ Deputy Chairman, Non-executive Deputy Chairman (appointed Deputy Chairman and resigned as Chairman 29 June 2016)	93,921,934	-	-	5,679,584	99,601,518	22.921%
Andrew Smith ⁽³⁾ Non-Executive Director & Chairman of the Board (Appointed Chairman 29 June 2016)	40,000	-	-	300,000	340,000	0.078%
Andrew Plympton Non-Executive Director, Chairman of the Audit and Risk Management Committee (Appointed Chairman of Audit and Risk 29 June 2016)	25,000	-	-	(5,000)	20,000	0.005%
Robert Gibson Non-Executive Director (appointed 29 June 2016, resigned 1 March 2017)	-	-	-	500,000	500,000	0.115%
Benjamin Meikle Non-Executive Director (resigned 29 June 2016)	-	-	-	-	-	-
Key Management Personnel						
Renfeng Xiu, Former Chief Finance Officer (resigned as CFO 30 September 2016)	-	-	-	-	-	-
Yiyu Guo Current Chief Financial Officer (appointed as CFO 1 October 2016)	-	-	-	-	-	-
Ting Jiang Company Secretary	67,500	-	-	(67,500)	-	-
Total	250,258,811	-	-	16,821,758	267,080,569	61.464%

⁽¹⁾ Shares held by Chou Qin International Co., Ltd in which Non-executive Chairman, Shui-Chiao Chang and Managing Director, Jiameng Zhang have a 40% and 60% interest respectively. Jiameng Zhang held 149,402,276 of shares via 60% ownership in Chou Qin International while 1,422,771 held directly by Jiameng Zhang. Shui-Chiao Chang held 99,601,518 via 40% ownership in Chou Qin International.

⁽²⁾ Shares held by Meng Shun Da Group Co., Ltd in which Executive Director, Jiashun Zhang has a 100% interest. Closing balance is noted as the amount of shares held at 30 June 2016.

⁽³⁾ 10,000 shares held directly by Chairman, Andrew Smith. Indirect holdings held through Smith Super Investment Pty Ltd (310,000 shares), Andrew Smith Investment Pty Ltd (10,000 shares) and Lisa Mary Smith (10,000 shares).

End of audited Remuneration Report.

Environmental legislation

XPD Soccer Gear Group Limited operations are not subject to any particular or significant environmental regulation under a law of the People's Republic of China, Hong Kong and the Commonwealth or of a State or Territory in Australia.

Indemnities given to, and insurance premiums paid for, auditors and officers

Insurance of officers

During the year, XPD Soccer Gear Group Limited paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Group against a liability incurred as such by an officer.

Indemnity of auditors

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Non-audit services

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

Non-audit services (cont.)

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 12 to the financial statements.

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included in this financial report and forms part of this Directors' Report.

Proceedings of behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Signed in accordance with a resolution of the Directors



Andrew Smith
Chairman
31 March 2017

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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF XPD SOCCER GEAR GROUP LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of XPD Soccer Gear Group Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 31 March 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Corporate Governance Statement

XPD Soccer Gear Group Ltd is committed to the implementation and maintenance of good corporate governance practices. The Statement sets out the extent to which XPD Soccer Gear Group Ltd Board has followed the best practice recommendations set by the ASX Corporate Governance Council (the Principles and Recommendations) during the 12-month period to 31 December 2016.

The Statement is accurate and up to date as at 31st March 2017. The disclosures in this Statement respond to the ASX Corporate Governance Council's Third Edition of its Corporate Governance Principles and Recommendations.

The statement and corporate governance policy, which includes below, are posted on the XPD Soccer Gear Group website: www.xpdsoccer.com.au

- Board Charter
- Board Performance Evaluation Policy
- Code of Conduct
- Audit and Risk Management Committee Charter
- Remuneration and Nomination Committee Charter
- Security Trading Policy
- Continuous Disclosure Policy
- Shareholder Communications Policy
- Diversity Policy

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 \$	2015 \$
Revenue	8	116,757,028	102,255,795
Cost of sales		(78,059,449)	(68,454,015)
Gross profit		38,697,579	33,801,780
Other revenues	8	129,825	135,726
Sales and marketing expenses	9	(14,373,436)	(6,856,501)
Capital raising expenses		-	(818,177)
Administration expenses	9	(3,952,957)	(3,087,401)
Research and Development		(525,129)	-
Finance costs	10	(347,737)	(647,868)
Share of loss from associate accounted for using equity method	18	(674,422)	-
Profit before income tax		18,953,723	22,527,559
Income tax expense	11	(5,548,262)	(6,290,760)
Profit for the year attributable to members of the parent		13,405,461	16,236,799
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translating foreign operations		(4,458,247)	2,180,345
Total comprehensive income for the year attributable to members of the parent		8,947,214	18,417,144
Earnings per share on profit attributable to ordinary equity holders			
Basic earnings per share (cents per share)	7	3.23	7.12
Diluted earnings per share (cents per share)	7	3.23	7.12

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 \$	2015 \$
Current assets			
Cash and cash equivalents	13	43,061,705	37,748,751
Trade and other receivables	14	25,430,471	18,557,430
Inventories	15	6,599,332	8,150,271
Total current assets		75,091,508	64,456,452
Non-current assets			
Property, plant and equipment	16	6,363,795	7,054,825
Land use rights	17	611,814	659,866
Investment in associate	18	14,287,086	15,790,280
Deferred tax assets	19	1,193,336	-
Total non-current assets		22,456,031	23,504,971
Total assets		97,547,539	87,961,423
Current liabilities			
Trade and other payables	20	9,832,898	4,988,889
Financial liabilities	21	985,507	11,049,465
Current tax liabilities	22	1,637,169	1,538,720
Total current liabilities		12,455,574	17,577,074
Long-term financial liabilities	21	-	422,200
Total non-current liabilities		-	422,200
Total liabilities		12,455,574	17,999,274
Net assets		85,091,965	69,962,149
Equity			
Issued capital	23	23,745,343	13,728,653
Reserves	26	3,768,363	8,226,610
Retained earnings		57,578,259	48,006,886
Total equity		85,091,965	69,962,149

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Issued Capital \$	Retained earnings \$	Foreign Exchange Reserve \$	Statutory Reserves \$	Total \$
Balance at 1 January 2015		2,766,334	33,047,446	3,386,330	1,382,576	40,582,686
Profit after income tax expense for the year		-	16,236,799	-	-	16,236,799
Other comprehensive income		-	-	2,180,345	-	2,180,345
Total comprehensive income for the year		-	16,236,799	2,180,345	-	18,417,144
Transactions with owners in their capacity as owners						
Shares issued		11,874,988	-	-	-	11,874,988
Transaction costs relating to shares issued		(912,669)	-	-	-	(912,669)
Transfer to statutory reserves		-	(1,277,359)	-	1,277,359	-
Balance at 31 December 2015		13,728,653	48,006,886	5,566,675	2,659,935	69,962,149
Balance at 1 January 2016		13,728,653	48,006,886	5,566,675	2,659,935	69,962,149
Profit after income tax expense for the year		-	13,405,461	-	-	13,405,461
Other comprehensive income		-	-	(4,458,247)	-	(4,458,247)
Total comprehensive income for the year		-	13,405,461	(4,458,247)	-	8,947,214
Transactions with owners in their capacity as owners						
Issuance of share capital	23	10,016,690	-	-	-	10,016,690
Dividends to shareholders	25	-	(3,834,088)	-	-	(3,834,088)
Balance at 31 December 2016		23,745,343	57,578,259	1,108,428	2,659,935	85,091,965

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers		108,899,415	118,055,410
Payments to suppliers and employees		(93,297,477)	(97,776,064)
Government grant received		-	4,712
Interest received		129,825	128,431
Finance costs paid		(347,737)	(647,869)
Income tax paid		(6,561,510)	(6,739,115)
Net cash provided by operating activities	29	8,822,516	13,025,505
Cash flows from investing activities			
Payment for the purchase of property, plant and equipment		(260,510)	(45,963)
Net cash (used in) investing activities		(260,510)	(45,963)
Cash flows from financing activities			
Payment of capital raising costs		-	(830,994)
Repayment of short-term borrowing		(7,525,036)	(9,123,742)
Dividend paid		(998,897)	-
Proceeds from shares issued		7,350,000	11,814,988
Proceeds from short-term borrowing		685,992	9,740,646
Net cash (used in) financing activities		(487,941)	11,600,898
Net change in cash and cash equivalents held		8,074,065	24,580,440
Cash and cash equivalents at beginning of financial year		37,748,751	12,635,117
Effect of exchange rates on cash holdings in foreign currencies		(2,761,111)	533,194
Cash and cash equivalents at end of financial year	13	43,061,705	37,748,751

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 Nature of operations

XPD Soccer Gear Group Limited and subsidiaries' ('the Group') principal activities include development, manufacturing, marketing and distribution of sportswear with a focus on soccer gear.

The Group operates in two business segments, sportswear under its owned XPD brand and OEM business for overseas brands in one geographical area, being the People's Republic of China.

There were no significant changes in the nature of the Group's principal activities during the year ended 2016.

2 General information and statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). XPD Soccer Gear Group Limited is a for-profit entity for the purpose of preparing the financial statements.

XPD Soccer Gear Group Limited is the Group's Ultimate Parent Company. XPD Soccer Gear Group Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Exchange Tower Level 1, 530 Little Collins Street, Melbourne VIC 3000, Australia.

The consolidated financial statements for the year ended 31 December 2016 were approved and authorised for issue by the Board of Directors on 31 March 2017.

3 Changes in accounting policies

3.1 New and revised standards that are effective for these financial statements

The Group applied a number of amendments to accounting standards applicable for the first time for the financial year beginning 1 January 2016.

The amendments below did not impact the consolidated financial statements and disclosures of the Group:

- *AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for acquisitions of Interests in Joint Operations (AASB 1 & AASB 11); and*
- *AASB 2015-2 Amendments to Australian Accounting Standards – disclosure Initiative: Amendments to AASB 101.*

In addition, several other standard amendments and interpretations were applicable for the first time in 2016, but were not relevant to the Company and do not impact the Group's annual consolidated financial statements.

3.2 Accounting Standards issued but not yet effective and not been adopted early by the Group

Australian Accounting Standards and Interpretations that have been recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, as set out below.

AASB 9 Financial Instruments (December 2014) (Application date: 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- b Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- d Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- e Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
 - the remaining change is presented in profit or loss

3 Changes in accounting policies (cont.)

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2016.

AASB 15 Revenue from Contracts with Customers (Application date: 1 January 2018)

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

In May 2015, the AASB issued ED 260 *Income of Not-for-Profit Entities*, proposing to replace the income recognition requirements of AASB 1004 *Contributions* and provide guidance to assist not-for-profit entities to apply the principles of AASB 15. The ED was open for comment until 14 August 2015 and the AASB is currently in the process of redeliberating its proposals with the aim of releasing the final amendments in late 2016.

Note that ASIC included the disclosure of the impact of AASB 15 as a key focus area for the 31 December 2015 reporting season, so it is important for Directors to ensure that 30 June 2016 financial reports disclose the specific impact of AASB 15.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2016.

3 Changes in accounting policies (cont.)

AASB 16 Leases (Application date: 1 January 2019)

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

4 Summary of accounting policies

4.1 Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 31 December 2016. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Business combination

XPD Soccer Gear Group Limited, China Soccer Holdings Co., Limited and Jinjiang Chaoda Shoes and Garments Co., Limited were owned and controlled by the same shareholders before and after the business combination, and as the control was not transitory, therefore the business combination represented a common control combination.

Business combination involving entities under common control is scoped out under AASB3 Business Combination. AASB provides no guidance on the accounting for these types of transactions; however requires an entity to develop an accounting policy. The two most common methods utilised are the purchase method and the pooling of interest –type method (predecessor value method).

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties, both before and after the business combination, and control is not transitory.

4 Summary of accounting policies (cont.)

Management has determined the pooling of interest-type method to be the most appropriate. The pooling of interest –type method requires the financial statements to be prepared using the predecessor book value without any step up to fair value. The difference between any consideration given and aggregate book value of the assets and liabilities of the acquired entity are recorded as an adjustment to equity. This may be recorded in retained earnings / reserve and no additional goodwill is created by the transaction. The comparatives have been presented as if the combination had occurred from the date when the combining entities first came under the control of the controlling parties.

All transaction costs incurred in relation to the business combination are expensed to profit and loss. The business combination was performed and completed during 2015.

Comparative Financial Statement Presentation

The consolidation financial statements can be presented using one of two methods. The first method, being the consolidated financial statements can incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Alternatively the consolidated financial statements can incorporate acquired entity's results only from the date on which the transaction occurred.

Management have determined to use option one – reporting comparatives as though the Group had always been combined.

4.3 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian Dollars (\$AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the Australian Dollars are translated into Australian Dollars upon

4 Summary of accounting policies (cont.)

consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Australian Dollars at the closing rate at the reporting date. Income and expenses have been translated into Australian Dollars at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

4.4 Segment reporting

The Group has two operating segments: manufacturing of own brand (XPD) and original equipment manufacturer for others' brand (OEM). In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group (see Note 1).

The measurement policies the Group uses for segment reporting under AASB 8 are the same as those used in its financial statements.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

4.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from sales of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Grant revenue is recognised at the point of receipt.

All revenue is stated net of the amount of value added tax (VAT) and goods and services tax (GST).

4 Summary of accounting policies (cont.)

4.6 Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

4.7 Land use rights

Land use rights have a finite life/period of rights and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of land use rights over their remaining terms/period of rights. The cost represents up-front payments to relevant government authorities for long-term interests for usage of land.

4.8 Property, plant and equipment

Property, Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

Class of Fixed Asset	Depreciation Rate	Depreciation Basis
Office equipment	20%	Straight line
Manufacturing equipment	10%	Straight line
Motor vehicle	20%	Straight line
Buildings	5%	Straight line

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

4 Summary of accounting policies (cont.)

4.9 Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (benefit).

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

4.10 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

4 Summary of accounting policies (cont.)

4.11 Investments in associates and joint arrangements

Associates are those entities over which the Group is able to exert significant influence but which are not subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method. Interests in joint operations are accounted for by recognising the Group's assets (including its share of any assets held jointly), its liabilities (including its share of any liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expense (including its share of any expenses incurred jointly).

Any goodwill or fair value adjustment attributable to the Group's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

4.12 Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases.

Finance leases are capitalised by recording at asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful life or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

4.13 Financial instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

4 Summary of accounting policies (cont.)

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Classification and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short-term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy.

Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined

4 Summary of accounting policies (cont.)

by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are held at fair value with changes in fair value taken through the financial assets reserve directly in equity.

Financial liabilities

The Group's financial liabilities include trade and other payables and short-term borrowings. Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of equity investments classified as available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the profit or loss.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

4 Summary of accounting policies (cont.)

4.14 Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

4.15 Value Added Tax (VAT) / Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT & GST, except where the amount of VAT & GST incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT & GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT & GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.

4.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.17 Store renovation support

Store renovation support are costs associated with renovation of retail stores and sites held by distributor and agents. Store renovation support costs are recognised as profit or loss in the period in which they are incurred.

4.18 Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on high quality corporate bonds with terms to maturity that match the expected timing of cash flows

4.19 Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

4 Summary of accounting policies (cont.)

4.20 Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates.

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

Key estimates — Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgement – Investment in Associates

The Group recognises an investment in associate in accordance with AASB 128. The directors have made the judgement that due to the XPD representation on the board and the percentage of ownership of the equity (28%) that the group is able to have a significant influence over the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not control or jointly control the associate.

5 Business Combination – prior period

Pursuant to a share sale deed dated 16 February 2015 XPD Soccer Gear (“XPD”) issued 349,999,990 ordinary shares to the existing shareholders of China Soccer Holdings Co., Limited and its controlled entities (“China Soccer Group”) as purchase consideration for 100% of the share capital of that entity.

Through this transaction effective control of China Soccer Group passed to the shareholders of XPD. The transaction is one referred to in AASB 3 Business Combinations as a common control transaction, as the nature and substance of this transaction is a group restructure where following the reconstruction XPD took control of China Soccer Group with no change in underlying control.

As XPD was incorporated specifically for the purpose of this transaction and the subsequent equity raising, the fair value of the equity instruments issued has been estimated by reference to the value of historical (China Soccer Group’s) net assets as of 31 December 2014.

The following was extracted from the audited financial information of China Soccer Group as at 31 December 2014:

The assets and liabilities of China Soccer Group were:

	\$
Cash and cash equivalents	12,635,117
Trade and other receivables	16,030,378
Inventories	5,994,092
Prepayments	567,099
Property, plant and equipment	7,252,452
Intangible assets	594,459
Investment in an associate	14,915,120
Trade and other payables	(3,295,900)
Financial liabilities	(12,233,190)
Current tax liabilities	(1,876,941)
Total net assets acquired	40,582,686
Accounted for as:	
Issued capital	2,766,334
Reserves	4,768,906
Retained earnings	33,047,446
	40,582,686

6 Segment reporting

Management identifies its operating segments based on the Group's product category and service offerings, which represent the main products and services provided by the Group. The Group's two (2) main operating segments are:

- Own-brand sales (XPD brand)
- Contract third-party sales (OEM)

The Company operates predominately in one geographical area where sales revenue is generated and non-current assets are located, being the People's Republic of China. Group assets and liabilities are not specifically allocated across operating segments.

During the year to 31 December 2016, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

For the year ended 31 December 2016	Own-brand \$	Contract third-party \$	Total \$
Revenue from external customers	113,822,489	2,934,539	116,757,028
COGS for external sales	(75,790,817)	(2,268,632)	(78,059,449)
Segment Result	38,031,672	665,907	38,697,579
Interest Income			129,825
Finance costs			(347,737)
Depreciation and amortisation			(174,982)
Other expenses			(18,676,540)
Share of loss from associate			(674,422)
Profit/(loss) before income tax			18,953,723
Income tax expense			(5,548,262)
Profit after income tax			13,405,461

For the year ended 31 December 2015	Own-brand \$	Contract third-party \$	Total \$
Revenue from external customers	100,069,071	2,186,724	102,255,795
COGS for external sales	(66,465,340)	(1,988,675)	(68,454,015)
Segment Result	33,603,731	198,049	33,801,780
Interest Income			128,431
Finance costs			(647,868)
Depreciation and amortisation			(191,247)
Other expenses			(10,563,537)
Profit/(loss) before income tax			22,527,559
Income tax expense			(6,290,760)
Profit after income tax			16,236,799

Group assets and liabilities are not specifically allocated across operating segments.

7 Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Company as the numerator, i.e. no adjustments to profits were necessary during the year to 31 December 2016:

	2016	2015
Profit used to calculate basic EPS	13,405,461	16,236,799
Weighted average number of shares used in basic and diluted EPS	414,449,602	227,911,099

On 26 April 2016, XPD Soccer Gear Group Limited introduced a dividend reinvestment plan to allow eligible shareholders to reinvest dividend on their shareholding to acquire additional shares in the Group at discounted market price (5% discount on average market price).

On 19 May 2016, XPD Soccer Gear Group Limited further issued 35 million ordinary shares at \$0.21 per share to the distributors of XPD Group.

The EPS calculation for 31 December 2016 is based on the current period weighted average number of shares.

8 Revenue

	2016 \$	2015 \$
Operating activities		
Sales of goods	116,757,028	102,255,795
Total Revenue	116,757,028	102,255,795
Non-operating activities		
Government grant	-	4,712
Interest received	129,825	128,431
Other non-operating income	-	2,583
Total Other Revenue	129,825	135,726

9 Expenses

9.1 Sales and marketing expenses

	2016 \$	2015 \$
Advertising, promotion, exhibition and sponsorship	6,381,910	6,143,902
Salary expenses	436,930	317,345
Transportation expense	136,158	149,717
Store renovation expenses ^(a)	7,026,889	-
Other sales and marketing expenses	391,549	245,537
Total sales and marketing expenses	14,373,436	6,856,501

(a) The renovation expenses do not meet the definition of assets and have been expensed as incurred. The store renovations have been undertaken by independent contractors.

9 Expenses (cont.)

9.2 Administration expenses

	2016	2015
	\$	\$
Employee expenses	2,059,357	1,335,982
Director fees	144,200	116,200
Depreciation and amortisation – head office	171,817	186,941
Office expense	10,389	33,933
Accounting and audit expense	148,182	147,700
Hospitality expense	411,006	150,239
Legal and consulting expense	5,930	432,157
Travel expense	10,127	21,772
Telecommunication expense	11,517	15,440
Stamp duty expense	54,600	50,824
Union membership expense	63,424	59,237
Vehicle expense	20,197	28,369
Donation to schools and community	-	106,850
Rental expense – Associate	293,496	-
Other administration expense	548,715	401,757
Total administration expenses	3,952,957	3,087,401

9.3 Depreciation and amortisation expenses

	2016	2015
	\$	\$
Included in:		
Sales and marketing expenses	3,165	4,305
Administration expenses	171,817	186,941
Cost of sales	423,276	454,662
Total depreciation and amortisation expenses	598,258	645,908

9.4 Salary and employee expenses

	2016	2015
	\$	\$
Included in:		
Sales and marketing expenses	436,930	317,345
Administration expenses	2,059,357	1,335,982
Cost of sales	6,304,975	6,545,631
Total salary and employee expenses	8,801,262	8,198,958

10 Finance Costs

Finance costs for the reporting periods consist of the following:

	2016	2015
	\$	\$
Interest expense	342,727	640,164
Other expenses	5,010	7,704
Total finance costs	347,737	647,868

11 Income Tax Expense

The reported tax expenses in profit or loss are as follows:

	2016	2015
	\$	\$
The components of tax expense comprise:		
Current tax	5,548,262	6,290,760
Total income tax expense	5,548,262	6,290,760
Reconciliation of tax expense		
Profit before income tax	18,953,723	22,527,559
Prima facie tax payable on profit before income tax at 30% (2015: 30%)	5,686,117	6,758,268
Adjustment to income tax expense due to:		
Differences in taxation rates in foreign subsidiaries	(988,503)	(1,005,052)
Foreign losses not recognized (Hong Kong)	429	375,746
Losses in the parent entity not recognised (Australia)	244,473	161,798
Losses in the investment in associate not recognised	168,606	-
Over/under accrual in prior periods	437,140	-
Income tax attributable to the Group	5,548,262	6,290,760
The applicable weighted average effective tax rate are as follows:	29%	28%

The Company is subject to the income tax law of Australia and its subsidiaries, China Soccer Holdings Co., Limited and Jinjiang Chaoda Shoes and Garment Co., Limited are subject to the income tax law of Hong Kong (16.5%) and People's Republic of China (PRC) (25%) respectively.

As at 31 December 2016, XPD Soccer Gear Group Ltd (parent entity) had an estimated available tax loss of approximately \$ 1.95 million (2015: \$ 1.32 million). Tax losses in the parent entity have not been recognised as an asset as it is likely they will not be utilised due to the parent entity's holding nature of operations. Tax losses of the subsidiary, China Soccer Holdings Ltd is not recognised as an asset as they are unlikely to be realised due to the nature of the entity being a holding company.

12 Auditors' Remuneration

During the financial year the following fees were paid or payable for services provided by the auditors of the Company, its network firms and unrelated firms:

	2016	2015
	\$	\$
Remuneration of the auditor of the Company		
- auditing or reviewing the financial report	147,000	134,000
- investigating accountant's report	-	45,000
Total audit services	147,000	179,000
Non-audit services		
- taxation services	3,500	5,000
Total non-audit services	3,500	5,000
Total auditor's remuneration	150,500	184,000

13 Cash and Cash Equivalents

Cash and cash equivalents include the following components:

	2016	2015
	\$	\$
Cash on hand	99,569	21,028
Cash at bank	42,962,136	36,298,668
Security deposit for notes payable	-	1,429,055
Total cash and cash equivalent	43,061,705	37,748,751

14 Trade and Other Receivables

Trade and other receivables consist of the following:

	2016	2015
	\$	\$
Trade receivables ^(a)	23,647,498	18,442,253
Other receivables ^(b)	1,782,973	115,177
Total current trade and other receivables	25,430,471	18,557,430

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The Group does not hold any collateral as security over any receivable balances, nor does it hold any restrictions of title.

The average credit period on sales of goods is 90 days. Extended credit terms may be provided through negotiation with customers. No interest is charged on the trade receivables.

The age of trade receivables past due but not impaired is as follows:

	2016	2015
	\$	\$
90 – 180 days	-	11,241
181 – 365 days	-	-
Total	-	11,241

^(a) Within trade receivable is an amount receivable from Jinjiang XPD Import and Export Ltd, a related party, amounting to \$0.68 million (2015: \$1.03 million).

^(b) Other receivables include short term advances to related party, Mr Zhang Jiameng which has been recovered subsequent to year end.

15 Inventories

	2016	2015
	\$	\$
Raw materials	1,947,019	2,569,048
Finished goods	964,477	1,595,324
Work in progress	3,687,836	3,985,899
Net inventory	6,599,332	8,150,271

Inventory has been determined to be valued at the lower of cost and net realisable value at reporting date. There has been no provision for obsolete stock raised in the current financial period.

16 Property, plant and equipment

	2016	2015
	\$	\$
Machinery and Office Equipment		
At cost	1,854,236	1,958,125
Accumulated depreciation	(1,126,109)	(1,004,294)
Total Machinery and Office Equipment	728,127	953,831
Buildings		
At cost	8,287,854	8,752,206
Accumulated depreciation	(2,918,935)	(2,666,747)
Total Buildings	5,368,919	6,085,459
Motor Vehicles		
At cost	56,484	59,648
Accumulated depreciation	(50,245)	(44,134)
Total Motor Vehicles	6,239	15,514
Construction in Progress		
At cost	260,510	-
Accumulated depreciation	-	-
Total Construction in Progress	260,510	-
Accounting Software		
At cost	5,597	5,910
Accumulated depreciation	(5,597)	(5,889)
Total Accounting Software	-	21
Total property, plant and equipment	6,363,795	7,054,825

Movement in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Machinery and Office Equipment	Buildings	Motor Vehicles	Construction in Progress	Accounting Software	Total
	\$	\$	\$	\$	\$	\$
Balance at 31 December 2014	1,087,362	6,140,867	24,223	-	1,117	7,253,569
Depreciation expense	(199,763)	(420,850)	(10,255)	-	(1,197)	(632,065)
Net exchange differences	66,232	365,442	1,546	-	101	433,321
Balance at 31 December 2015	953,831	6,085,459	15,514	-	21	7,054,825
Additions	-	-	-	260,510	-	260,510
Depreciation expense	(177,462)	(398,990)	(8,567)	-	(21)	(585,040)
Net exchange differences	(48,242)	(317,550)	(708)	-	-	(366,500)
Balance at 31 December 2016	728,127	5,368,919	6,239	260,510	-	6,363,795

17 Land use rights

	2016 \$	2015 \$
At Cost	690,446	729,131
Accumulated Amortisation	(78,632)	(69,265)
Total Land Use Rights	611,814	659,866

Movements in Carrying Amounts

Movements in the carrying amounts for land use right between the beginning and the end of the current financial year:

	Land use rights \$	Total \$
Balance at 31 December 2014	593,342	593,342
Additions	45,963	45,963
Amortisation expense	(13,843)	(13,843)
Net exchange differences	34,404	34,404
Balance at 31 December 2015	659,866	659,866
Amortisation expense	(13,218)	(13,218)
Net exchange differences	(34,834)	(34,834)
Balance at 31 December 2016	611,814	611,814

Land use rights relate to the following:

Location	Use of property	Land area (sq.metres)	Tenure
Land Registration – Jin (2011) Serial Number (00673) Jinjiang City Chenli Town Huzhong Village	Industrial Plant	6,478	43 years (valid until 19 July 2060)

18 Investment in associate

Investment in Henan Yuanlong Industrial Co., Ltd

The investment represents a 28% share interest in Henan Yuanlong Industrial Co., Ltd (“HYI”) a company which is located in Henan Province, China. HYI was specifically incorporated to develop a commercial manufacturing park of which XPD is now a tenant. During the year ended 31 December 2016, XPD entered into a lease of 2 manufacturing sites and a dormitory. On the basis of the interest in HYI held by the Group, the investment was assessed to not be controlled by the Group yet elements of significant influence are present. As a result, the Group’s share of profit or loss is recognised.

During the year, the Group recognised its share of loss totalling \$674,422 as a result of the equity accounting. The loss generated by HYI was a result of the manufacturing park not full occupied at year end.

	2016	2015
	\$	\$
Opening balance	15,790,280	14,915,120
Share of loss	(674,422)	-
Net exchange differences	(828,772)	875,160
Net carrying value	14,287,086	15,790,280

The following financial information reflects the amounts presented in the financial statements of the associate:

	2016	2015
	\$	\$
Total current assets	821,104	1,710,221
Total non-current assets	51,144,911	59,021,625
Total assets	51,966,015	60,731,846
Total liabilities	602,859	-
Total non-current liabilities	-	-
Total liabilities	602,859	-
Net assets	51,363,156	60,731,846
Group’s share of net assets	14,381,684	15,790,280

	2016	2015
	\$	\$
Financial Performance		
Revenue	411,677	-
Total comprehensive income / (loss)	(2,066,238)	-

19 Deferred tax asset

Deferred taxes arising from temporary differences as a result of different treatment on distributor store renovation support recognised for accounting and tax purposes can be summarised as follows:

	2016	2015
	\$	\$
Non-Current		
Deferred Expense – distributor renovation support ^(a)	1,193,336	-
Total deferred tax asset	1,193,336	-

^(a)In the PRC, the distributor support expenses are deferred and deductible over a 2-year period.

20 Trade and Other Payables

	2016	2015
	\$	\$
Current		
Trade payables	6,770,216	2,100,969
Other taxes payable	1,221,956	1,113,745
Salary payable	1,496,647	959,885
Other payables	344,079	814,290
Total trade and other payables	9,832,898	4,988,889

21 Financial Liabilities

The financial liabilities of the Group include the following:

	2016	2015
	\$	\$
Current		
Notes payable	-	3,208,719
Short term borrowings ^{(a) (b)}	985,507	7,840,746
	985,507	11,049,465
Non-Current		
Long term borrowing	-	422,200
	-	422,200

^(a) Interest rates for short term borrowings are between 6.09% and 8.50% per annum for the current financial year (2015: 6.09% to 7.80% per annum). The current year weighted average interest rate for the loan balance is 7.07% per annum (2015: 7.34% per annum).

^(b) \$985,507 of borrowings are secured by related parties of Zhang Shaohua, Chong Shui-Chiao and Zhang Jiashun and non-related entity and individuals.

22 Taxation

	2016	2015
	\$	\$
Current tax liabilities - Income tax payable	1,637,169	1,538,720
Total income tax payable	1,637,169	1,538,720

23 Issued Capital

	2016	2015	2016	2015
	No. of shares	No. of shares	\$	\$
<u>Fully paid ordinary shares</u> ⁽¹⁾				
Balance at beginning of the period/incorporation ⁽²⁾	383,408,833	10	13,728,653	10
Acquisition of China Soccer Group ⁽²⁾	-	349,999,990	-	7,966,312
IPO share issue, net of related issuance expenses	-	33,075,500	-	5,702,331
Share-based payment	-	333,333	-	60,000
Share issued through share placement ⁽³⁾	35,000,000	-	7,350,000	-
Share issued through dividend reinvestment plan ⁽⁴⁾	16,125,801	-	2,666,690	-
End of the year	434,534,634	383,408,833	23,745,343	13,728,653

- 1) Fully paid ordinary shares carry one vote per share and carry the right to dividends.
- 2) XPD Soccer Gear Group Limited was incorporated on 22 May 2014 with 10 ordinary shares. Pursuant to a Share Sale Deed dated 16 February 2015 the Company has issued additional 349,999,990 ordinary shares to the existing shareholders of China Soccer Group as purchase consideration for 100% of the share capital of China Soccer Group.
- 3) On 19 May 2016, XPD Soccer Gear Group Limited issued 35 million ordinary shares at \$ 0.21 per share to the distributors of XPD Group.
- 4) On 26 April 2016, XPD Soccer Gear Group Limited has introduced a dividend reinvestment plan to allow eligible shareholders to reinvest dividend on their shareholding to acquire additional shares in the Group at discounted market price (5% discount on average market price).

24 Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

	2016	2015
	\$	\$
Total liabilities	12,455,574	17,999,274
Less: cash and cash equivalents	(43,061,705)	(37,748,751)
Net liabilities/(Net cash and cash equivalents)	(30,606,131)	(19,749,477)
Total equity	85,091,965	69,962,149
Net liabilities/(Net cash and cash equivalent) to equity ratio	(36%)	(28%)

25 Dividends

During the year, an unfranked final dividend of \$1,086,890 (1 cent per share) was paid on 30 May 2016 in respect of the year ended 31 December 2015. The Dividend Reinvestment Plan (DRP) was in operation and shares were allocated based on the DRP issue price that was advised to the market.

26 Reserves

	2016	2015
	\$	\$
Statutory reserve	2,659,935	2,659,935
Foreign translation reserve	1,108,428	5,566,675
Total reserves	3,768,363	8,226,610

Statutory reserve

Pursuant to the current People's Republic of China Company Law, Chaoda is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches minimal 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

Foreign Currency Translation Reserve

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi and Hong Kong Dollars) into presentational currency of the Group (Australian Dollars).

27 Commitments

Leasing Commitments

The Group has entered into commercial lease of 2 manufacturing buildings (30,000 sqm) and 1 dormitory (10,500 sqm) from Henan Yuanlong Industrial Co., Ltd commencing 1 June 2016. The term of the lease is 5 years.

	2016	2015
	\$	\$
Payable – minimum lease payments		
- Not later than 12 months	561,319	-
- Between 12 months and 5 years	1,917,841	-
- Greater than 5 years	-	-
Total	2,479,160	-

Capital Commitments

The Group has entered into capital commitment to purchase new plant & equipment for future production totalling AUD \$1.64 million which are payable within 12 months on delivery of the machinery.

28 Events After the Report Date

There are no matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- the entity's operations in future financial years
- the results of those operations in future financial years; or
- the entity's state of affairs in future financial year

29 Cash Flow Information

Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

	2016	2015
	\$	\$
Operating Profit/(Loss) after income tax	13,405,461	16,236,799
Non-cash flows in operating surplus/(deficit)		
Depreciation/Amortisation	598,258	645,908
Share based payment	-	60,000
Share of Loss from Associate	674,422	-
Changes in assets and liabilities		
(Increase)/Decrease in trade receivables	(7,857,613)	(1,586,453)
(Increase)/Decrease in prepayments	-	600,374
(Increase)/Decrease in inventory	1,109,536	(1,804,469)
(Increase)/Decrease in trade payables and accruals	4,944,181	1,417,923
Increase/(Decrease) in notes payable	(3,038,480)	(2,096,223)
Increase/ (Decrease) in deferred tax asset	(1,193,336)	-
Increase/(Decrease) in income tax payable	180,087	(448,354)
Cash flows from operations	8,822,516	13,025,505

30 Related party transactions

30.1 Details of Key Management Personnel during the financial period are as follows:

Directors:

Mr Jiameng Zhang, Managing Director and Chief Executive Officer (*Appointed 6 November 2014*)
Mr Andrew Smith, Non-Executive Director & Chairman of the Board (*Appointed Chairman 29 June 2016*)
Mr Shui-Chiao Chang, Non-executive Deputy Chairman (*Appointed Deputy Chairman and resigned as Non-Executive Chairman 29 June 2016*)
Mr Andrew Plympton, Non-Executive Director and Chairman of the Audit and Risk Management Committee (*Appointed Chairman of Audit and Risk on 29 June 2016*)
Mr Robert Gibson, Non-Executive Director (*Appointed 29 June 2016, resigned 1 March 2017*)
Ms Peiya Zhuang, Executive Director (*Appointed 29 June 2016*)
Mr Benjamin Meikle, Non-Executive Director (*Resigned 29 June 2016*)
Mr Jiashun Zhang, Executive Director and Chief Operations Officer (*Resigned 29 June 2016*)

Other Key Management Personnel:

Mr Ting Jiang (Company Secretary)

30 Related party transactions (cont.)

30.2 Aggregate compensation made to Key Management Personnel

	2016	2015
	\$	\$
Short-term employee benefits	651,535	308,760
Post-employment benefits	-	-
Long-term employee benefits	-	-
Share-based payments	-	-
Total compensation to Key Management Personnel	651,535	308,760

Further details of the remuneration of key management personnel is disclosed in the Remuneration Report contained in the Director's Report.

a. Transaction with related parties and key management personnel

The following comprises transactions with entities in which the Directors have an interest:

	2016	2015
	\$	\$
Jinjiang XPD Import and Export Ltd		
Sales made to the related party	3,589,472	2,672,260
Payment received from the related party	3,887,455	2,703,095
	2016	2015
	\$	\$
Shaohua Zhang^{(a) (b)}		
Cash advanced to the related party	412,169	1,806,192
Payment received from the related party	412,169	1,806,192
	2016	2015
	\$	\$
Henan Yuanlong Industrial Co., Ltd		
Share of Loss from investment in associate	674,422	-
Rental expense – recognised in profit and loss	293,496	-
Rental payment – included in operating cash flows	293,496	-
	2016	2015
	\$	\$
Jiameng Zhang (Director)		
Purchases made on behalf of Company by the related party	1,585,355	1,624,301
Repayment to the related party	2,099,186	782,600
Short-term advance to the related party ^(c)	1,786,634	-

^(a) Shaohua Zhang is a relative of Mr. Zhang Jiameng (Managing Director).

^(b) Shaohua Zhang has provided personal guarantee over short term borrowing of the Group as at 31 December 2016 (Refer Note 21).

^(c) Short-term advance has been subsequently received by the Group post year-end

30 Related party transactions (cont.)

b. Related party balances

Amounts receivable from and payable to key management personnel and their related entities at balance date arising are as follows:

	Receivable from related party	Investment in Associate	Payable to related party
2016			
	\$	\$	\$
Jinjiang XPD Import and Export Ltd	677,686	-	-
Henan Yuanlong Industrial Co., Ltd	-	14,952,520	-
Zhang Jiameng (Director)	1,434,404	-	-
	2,112,090	14,952,520	-
2015			
	\$	\$	\$
Jinjiang XPD Import and Export Ltd	1,026,140	-	-
Henan Yuanlong Industrial Co., Ltd	-	15,790,280	-
Zhang Jiameng (Director)	-	-	841,701
	1,026,140	15,790,280	841,701

Related party balances comprise trade receivables and payables which have arisen from the normal course of business and related party loans. Amounts payable to Mr Jiameng Zhang relate to IPO and other expenses incurred on behalf of the company that are due for reimbursement. Investment in related party relates to investment in associate (refer Note 18). No specific terms and conditions have been attached to the above transactions.

31 Financial Instrument Risk Management

Risk management objectives and policies

The Group is exposed to a variety of financial risks through its use of financial instruments.

Financial instruments used

The principal categories of financial instrument used by the Group:

- Trade receivables
- Cash at bank
- Trade and other payables
- Short-term borrowings
- Notes payable

The main types of risks are market risk, credit risk and liquidity risk.

This note discloses the Group's objectives, policies and processes for managing and measuring these risks.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to interest rate risk, customer concentration risk, and certain other price risks, which result from both its operating and investing activities

31 Financial Instrument Risk Management (cont.)

Financial instrument composition and maturity analysis

The table below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

Financial instrument composition and maturity analysis

	Weighted Average Effective Interest Rate		Interest Bearing Maturing within 1 Year		Interest Bearing Maturing within 2 Years		Non-interest Bearing Maturing within 1 Year		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets:										
- Cash and cash equivalents (Variable interest rate)	0.34%	0.30%	42,962,136	37,727,723	-	-	99,569	21,028	43,061,705	37,748,751
- Trade and other receivables	-	-	-	-	-	-	25,430,471	18,557,430	25,430,471	18,557,430
- Security deposits to suppliers	-	-	-	-	-	-	-	-	-	-
Total Financial Assets			42,962,136	37,727,723	-	-	25,530,040	18,578,458	68,492,176	56,306,181
Financial Liabilities:										
- Trade and other payables	-	-	-	-	-	-	9,832,898	4,988,889	9,832,898	4,988,889
- Short-term borrowings	7.29%	7.66%	985,507	7,840,746	-	-	-	-	985,507	7,840,746
- Notes payable	-	-	-	-	-	-	-	3,208,719	-	3,208,719
- Long-term borrowings	-	8.50%	-	-	-	422,200	-	-	-	422,200
Total Financial Liabilities			985,507	7,840,746	-	422,200	9,832,898	8,197,608	10,818,405	16,460,554
Net Financial Assets:									57,673,771	39,845,627

31 Financial Instrument Risk Management (cont.)

Interest rate risk sensitivity

Exposure to interest rate risk arises on financial assets and liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group's borrowings are within 1 year, and hence are subject to minimal fair value changes.

Customer concentration risk

The Group's exposure to customer concentration risk relates to its dependence on major customers. The Group's top 10 customers in 2016 generated 49% (\$57,704,640) (2014: 52% \$53,322,808) of the Group's revenues during the financial period.

Liquidity risk

Liquidity risk arises from the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt serving payments for financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

Remaining contractual maturities

The following table details the Group's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted Average Effective Interest Rate		Maturing within 1 Year		Maturing within 2 Year		Maturing within 5 Year		Total remaining contractual maturities	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Non-interest bearing:										
- Trade and other payables	-	-	9,832,898	4,988,889	-	-	-	-	9,832,898	4,988,889
- Notes payables	-	-	-	3,208,719	-	-	-	-	-	3,208,719
Total non-interest bearing			9,832,898	8,197,608	-	-	-	-	9,832,898	8,197,608
Interest bearing										
- Short term borrowing	7.29%	7.66%	989,836	8,160,819	-	-	-	-	989,836	8,160,819
- Long term borrowing	-	8.50%	-	-	-	461,725	-	-	-	461,725
Total interest bearing			989,836	8,160,819	-	461,725	-	-	989,836	8,622,544
Total			10,822,734	16,358,427	-	461,725	-	-	10,822,734	16,820,152

31 Financial Instrument Risk Management (cont.)

Price risk

The Group's financial instruments are not exposed to price risk.

Credit risk analysis

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions. The Group adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default. The utilisation of credit limits by customers is regularly monitored by line management. For significant transactions, customers are required to make sufficient prepayments in order to reduce the credit risk to an acceptable level.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	2016	2015
	\$	\$
Classes of financial assets		
Carrying amounts:		
Cash and cash equivalents	43,061,705	37,748,751
Cash advanced to suppliers	-	-
Trade and other receivables	25,430,471	18,557,430
Total	68,492,176	56,306,181

The Group's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Group's financial assets are secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

32 Controlled Entities

Details of subsidiaries controlled by the Company as at 31 December 2016 are as follows:

	Country of Incorporation	Percentage Owned (%) ⁽¹⁾	
		2016	2015
		%	%
XPD Soccer Gear Group Limited	Australia		
Subsidiaries of XPD Soccer Gear Group Limited:			
- China Soccer Holdings Co., Limited ⁽²⁾	Hong Kong	100	100
- Jinjiang Chaoda Shoes and Garment Co., Ltd	People's Republic of China	100	100

⁽¹⁾ Percentage of voting power is in proportion to ownership;

⁽²⁾ China Soccer Holdings Co., Limited is the intermediate parent entity of Jinjiang Chaoda Shoes and Garment Co., Ltd.

33 Cross guarantee

There is no deed of cross guarantee as at 31 December 2016 or 31 December 2015.

34 Non-controlling interest

No subsidiaries have a non-controlling interest.

35 Parent Information

Statement of Financial Position	\$ 2016	\$ 2015
Assets		
Current assets	6,127,249	6,163,695
Non-current assets	47,932,686	40,582,686
Total assets	54,059,935	46,746,381
Liabilities		
Current liabilities	3,477,460	1,723,301
Non-current liabilities	-	-
Total liabilities	3,477,460	1,723,301
Net assets	50,582,475	45,023,080
Equity		
Issued capital	56,361,697	46,338,340
Retained earnings	(5,779,222)	(1,315,260)
Total equity	50,582,475	45,023,080
	\$ 2016	\$ 2015
Statement of Profit or Loss and Other Comprehensive Income		
Total profit (loss)	(623,206)	(1,315,260)
Total comprehensive income	(623,206)	(1,315,260)

XPD Soccer Gear Group Limited (Parent Entity) was incorporated on 22 May 2014.
The parent entity had no contingent liabilities as at 31 December 2016 and 31 December 2015.
The parent entity had no commitments as at 31 December 2016 and 31 December 2015.

36 Company Details

The registered office of the Company is:

XPD Soccer Gear Group Limited
Exchange Tower' Level 1
530 Little Collins Street
Melbourne, VIC 3000 Australia

The principle place of business of the Company is:

Jinjiang Chaoda Shoes and Garment Co., Ltd
Huzhong Industrial Zone
Chendai Town, Jinjiang City
Fujian Province, China

Director's declaration

- 1 In the opinion of the Directors of XPD Soccer Gear Group Limited:
 - a The consolidated financial statements and notes of XPD Soccer Gear Group Limited are in accordance with the *Corporations Act 2001*, including
 - a Giving a true and fair view of its financial position as at 31 December 2016 and of its performance for the financial year ended on that date; and
 - b Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - b There are reasonable grounds to believe that XPD Soccer Gear Group Limited will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2016.
- 3 Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors



Andrew Smith
Chairman

Dated this 31st day of March 2017

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INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF XPD SOCCER GEAR GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of XPD Soccer Gear Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition Note 4.5 and 8 Revenue is a key driver to the Group. Sales revenue is generated from the manufacturing and sales of sportswear with a focus on soccer wear under the "XPD" brand. The Group's management focuses on revenue as a key driver by which the performance of the Group is measured. This area is a key audit matter due to the volume of transactions and the total balance of revenue.	Our procedures included, amongst others: <ul style="list-style-type: none"> • Documenting the processes and assessing the internal controls relating to revenue processing and recognition; • Testing the operating effectiveness of internal controls surrounding the existence and occurrence of revenues; • Reviewing a sample of revenue transactions to supporting documentation; • Assessing the revenue recognition policy for compliance with AASB 118 <i>Revenues</i>; • Performing analytical procedures to understand movements and trends in revenue for comparisons against expectations; • Understanding trade terms between related parties to ensure sales revenue have been appropriately recognised; and • Assessing the adequacy of the Group's disclosures within the financial statements.
Investment in Associate Note 4.11, 4.20 and 18 The carrying value of the Group's investment in an associate (Henan Yuan Long Industrial Co., Limited) amounted to \$14.3 million at 31 December 2016. The Group is required to assess whether any impairment indicators are present which may indicate the Group's investment in associate may be impaired. We have determined this is a key audit matter due to the judgements and estimates required in determining the value of the underlying asset values.	Our procedures included, amongst others: <ul style="list-style-type: none"> • Assessing the accounting method utilised by the Group for the investment against the Accounting Standards; • Considering any indicators of impairment of the investment; • Reviewing the profit or loss of the associate recognised in the consolidated financial report for compliance with AASB 128 <i>Investments in Associates and Joint Ventures</i>; • Evaluated management's assessment of future operations and nature of future cashflows; and • Assessing the adequacy of the Group's disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report 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 report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of XPD Soccer Gear Group Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



GRANT THORNTON AUDIT PTY LTD

Chartered Accountants



Justin Humphrey

Partner - Audit & Assurance

Adelaide, 31 March 2017

ASX Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at **17 March 2017**.

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
CITICORP NOMINEES PTY LIMITED	168,819,032
HSBC CUSTODY NOMINEES	68,787,051

Voting rights - Ordinary shares

The holders of Ordinary Shares are entitled to one vote per share at general meeting of the Company.

Distribution of equity security holders

Category	Number of equity security holders	Total Units	% of issued capital
1-1,000	10	1,195	0.000
1,001-5,000	36	144,157	0.033
5,001-10,000	112	1,029,154	0.237
10,001-100,000	543	26,543,400	6.108
100,001-99,999,999,999	274	406,816,728	93.621
Totals	975	434,534,634	100.000

Securities Exchange

The Company is listed on the Australian Securities Exchange, The Home exchange is Sydney.

Other information

XPD Soccer Gear Group Limited, incorporated and domiciled in Australia, is a publicly listed company (ASX:XPD) limited by shares.

Twenty largest shareholders

The names of the twenty largest holders of quoted equity securities are listed below

Name	Number of ordinary shares held	Percentage of capital held
CITICORP NOMINEES PTY LIMITED	168,819,032	38.851
HSBC CUSTODY NOMINEES	68,787,051	15.830
CHOU QIN INTERNATIONAL CO LTD	23,000,000	5.293
BNP PARIBAS NOMINEES PTY LTD	7,434,456	1.711
MS MENG MENG DONG	7,415,345	1.707
PACIFIC DEVELOPMENT	7,070,848	1.627
MRS JINNING LIANG	5,601,666	1.289
HSBC CUSTODY NOMINEES	4,340,220	0.999
MRS JING ZHANG	4,154,500	0.956
MORGAN STANLEY AUSTRALIA	3,726,532	0.858
TIERRA DE SUENOS SA	3,150,000	0.725
PERSHING AUSTRALIA NOMINEES	2,188,642	0.504
DOUGLAS FINANCIAL CONSULTANTS	2,000,000	0.460
KEYGROWTH TRADING PTY LTD	2,000,000	0.460
CJMCG FAMILY PTY LTD	2,000,000	0.460
MEJORITY CAPITAL LIMITED	1,948,640	0.448
HSBC CUSTODY NOMINEES	1,840,000	0.423
LILYFIELD HOLDINGS PTY LTD	1,750,000	0.403
HALCYON NOMINEES PTY LTD	1,600,000	0.368
MR ANGUS DOUGLAS	1,500,000	0.345
Total	320,326,932	73.717
Grand total	434,534,634	100.000