DONGXIANG

China Dongxiang (Group) Co., Ltd. 中國動向（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 3818

ANNUAL REPORT 2018/2019

CONTENTS

VISION & MISSION

VISION

BY UNITING OUTSTANDING
INDIVIDUALS AND STRIVING FOR MANAGERIAL
EXCELLENCE,
WE'LL LEAD THE
SPORTS FASHION INDUSTRY,
ALL WITH JOY AND PASSION

MISSION

TO BE THE MOST
PIONEERING AND DESIRED
SPORT-LIFE BRANDS


Kappa

Corporate Information

Executive Directors	Mr. Chen Yihong (Chairman) Mr. Zhang Zhiyong (Chief Executive Officer) Ms. Chen Chen
Independent Non-Executive Directors	Dr. Chen Guogang Mr. Gao Yu Mr. Liu Xiaosong (appointed and effective from 27 March 2019) Mr. Chen Johnny (resigned and effective from 27 March 2019)
Auditor	PricewaterhouseCoopers Certified Public Accountants
Legal Advisers	Norton Rose Fulbright Hong Kong Conyers Dill & Pearman (Cayman) Limited East & Concord Partners (Beijing)
Authorised Representatives	Mr. Gao Yu Ms. Wai Pui Man
Company Secretary	Ms. Wai Pui Man
Principal Share Registrar and Transfer Office	SMP Partners (Cayman) Limited Royal Bank House — 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Registered Office	Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands
Principal Place of Business in Hong Kong	Office Unit 9, 13/F, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong
Head Office in People's Republic of China	Building 21, No. 2 Jingyuanbei Street, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China
Principal Bankers	Morgan Stanley Asia International Limited Industrial and Commercial Bank of China
Website	www.dxsport.com

FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in Renminbi million unless otherwise stated)

	For the fifteen months ended 31 March 2019	For the fifteen months ended 31 March 2018	For the twelve months ended 31 December 2017	For the twelve months ended 31 December 2016	For the twelve months ended 31 December 2015	For the twelve months ended 31 December 2014
Sales	**2,144**	1,858	1,455	1,501	1,469	1,262
Operating profit	**1,040**	1,453	1,027	1,016	1,005	989
Profit before income tax	**1,026**	1,350	930	1,048	1,021	975
Profit attributable to equity holders	**866**	1,189	805	870	803	915
Gross profit margin (%) (before reversal of/ provision for impairment losses of inventories)	**58.9**	60.1	59.2	56.7	56.2	50.7
Net profit margin (%)	**40.4**	64.0	55.3	58.0	54.7	72.5
Earnings per share						
— basic (RMB cents)	**14.91**	21.36	14.51	15.79	14.56	16.61
— diluted (RMB cents)	**14.91**	21.36	14.51	15.79	14.56	16.61

The Company's financial year end date has been changed from 31 December to 31 March. Accordingly, the current financial period covers financial information of the fifteen months from 1 January 2018 to 31 March 2019 and a comparative period from 1 January 2017 to 31 December 2017. To enhance information comparability, the Company also voluntarily presented certain financial information of the fifteen months from 1 January 2017 to 31 March 2018 as directly comparable information.

	Note	**31 March 2019**	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Non-current assets		**7,176**	6,288	5,415	4,701	5,378
Current assets		**4,475**	4,634	5,730	5,880	5,931
Current liabilities		**1,118**	885	1,352	974	939
Net current assets		**3,357**	3,749	4,378	4,906	4,992
Total assets		**11,650**	10,921	11,145	10,581	11,309
Total assets less current liabilities		**10,532**	10,036	9,793	9,607	10,370
Equity holders' equity		**10,251**	9,585	9,658	9,531	10,340
Total assets per share (RMB cents)	1	**200.56**	196.94	202.15	191.94	205.21
Debt to equity holders' equity ratio	2	**0.14**	0.14	0.15	0.11	0.09

Notes:

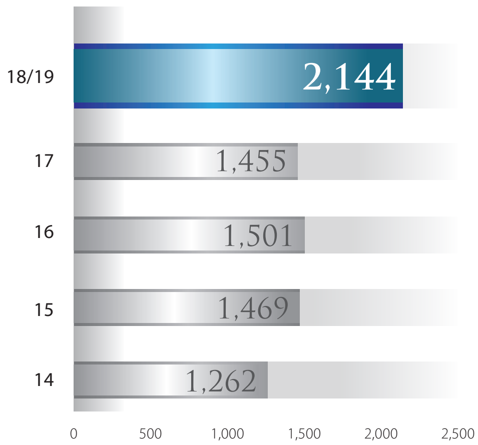
(1) The number of ordinary shares used in the calculation for the fifteen months ended 31 March 2019, for the twelve months ended 31 December 2017, 2016, 2015 and 2014, are 5,808,853,000 shares, 5,545,204,000 shares, 5,513,180,000 shares, 5,512,580,000 shares, and 5,511,030,000 shares, which were the weighted average number of shares for the periods.

(2) The debt to equity holders' equity ratio is calculated based on total liabilities of the Group divided by equity attributable to equity holders of the Company as at the reporting date.

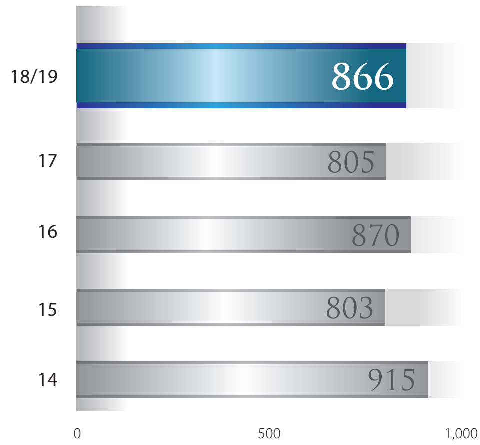
Five-Year Financial Highlights

(All amounts in Renminbi million unless otherwise stated)

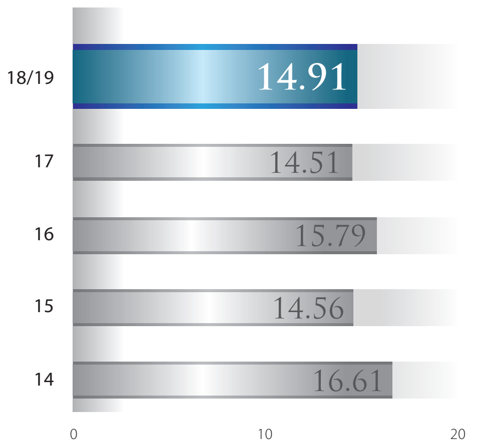
SALES



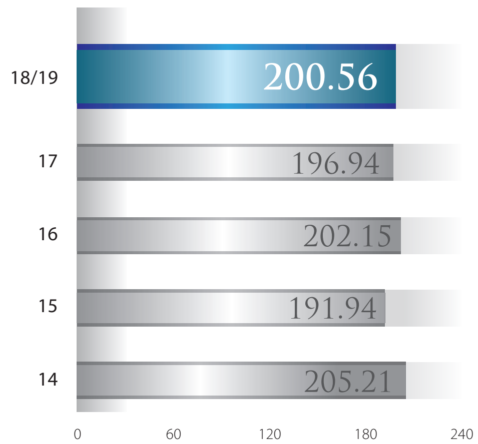
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



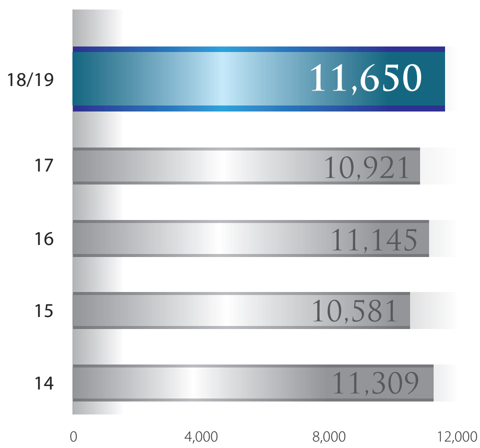
EARNINGS PER SHARE — BASIC (RMB CENTS)



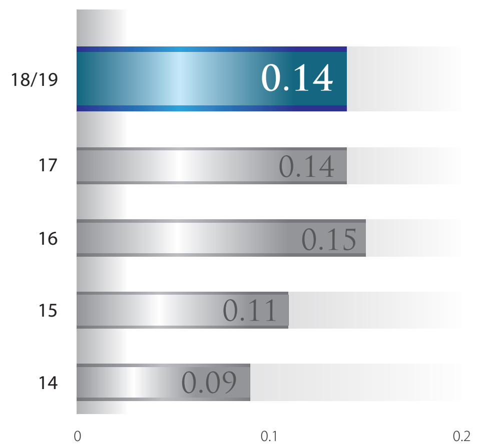
TOTAL ASSETS PER SHARE (RMB CENTS)



TOTAL ASSETS



DEBT TO EQUITY HOLDERS' EQUITY RATIO (TIMES)



Note: 18/19 is the financial data for the 15 months ended 31 March and 14 to 17 are the financial data for the 12 months ended 31 December.


Kappa
Kappa
FOR THE SPIRIT WITHIN
Kappa


Kappa
Kappa

Chairman's Statement

Dear Shareholders,

I am pleased to present on behalf of the Board our results for the fifteen months ended 31 March 2019 (the "Reporting Period"):

During the Reporting Period, downward pressure on global economic recovery has increased with sluggish growth in major economies and shrinkage in international trade and investment activities. China's economy, though, has faced increasing downward pressure imposed by a number of internal and external factors, such as deleveraging and China-US trade conflicts, and its macro-economic environment presents a struggle between upward momentum and downward pressure, thanks to, among others, the benefits of tax reduction as well as the policy favourable to the development of sports industry adopted by the Chinese government, size of domestic consumer market has been expanding this year, particularly sports consumption.

The Group's revenue for the reporting period was RMB2,144 million, while profit attributable to equity holders was RMB866 million. Basic and diluted earnings per share was RMB14.91 cents. As a reward to shareholders for their unfailing support, the Board of Directors has proposed to distribute 30% and 20% of the net profit attributable to equity holders for the fifteen months ended 31 March 2019 as final dividend and special final dividend, respectively, representing a dividend payout ratio of 50% for the full period.

China Dongxiang continued its reforms by adopting a series of effective measures and made some progress with interim achievements in line with expectation, even though the domestic and international economic environment was complicated and complex:

CHINA SEGMENT: LAUNCHING A NEW MODEL AND SECURING PRODUCT SUPPLY

In connection with our "Brand + Product" initiative, the Group reinforced cross-sector collaboration with celebrities and key opinion leaders (KOL) in various sectors in the Reporting Period to fully envision the fashion trends and strengthen our brand penetration. Kappa steps up with innovative spirit to infuse fashion elements into its product design, interpreting the brand spirit and the prevailing fashion trend with its own features. Above all, the latest design of Kappa's vulcanised shoes has been in line with international fashion trend, providing consumers a new footwear series with unique and youthful features. At the beginning of 2019, sales performance of our footwear segment was satisfactory, rolling in a "heatwave" to youngsters. In addition, Kappa has continued its all-out online and offline marketing efforts via the digital new media, entered into a deeper cooperation with informative media and fashion media for reaching target consumers in a more effective way, in order to boost our brand awareness and initiate an upgrade and transformation of fashion consumption. The Group has also endeavoured to develop a digitalised member recruitment programme for Kappa to increase members' repeat purchase and strengthen interactions with the members by omni-channel management of members and big data utilisation for precise marketing.

For the "Brand + Retail" business, the Group has stayed focusing on point-of-sale reform by optimising existing structure of our stores and actively managing the proportion of top stores, shopping mall stores and outlets. As at 31 March 2019, the Group had a total of 1,502 Kappa stores (including 295 Kappa Kid's stores), representing a net increase of 15 stores as compared to that at the end of 2017 (a net increase of 70 Kappa stores and a net decrease of 55 Kappa Kid's stores). The shopping mall stores accounted for 22% of the total numbers of our stores. Since 2019, first step of reform on relation building channel for customer adjustment has been completed, the direct-sale system and direct-franchised customers accounted for over 90% of our entire business. Thereafter, the Group will facilitate the interconnection between retail-end system of direct-franchised customers and our ERP system, creating accurate information for prompt movement of products. Meanwhile, the construction of two nationwide logistics and distribution centres will complete in the next quarter, omni-channel distribution of products, by then, will be available, securing prompt movement of products. In future, we will focus on regeneration of products for target consumers, providing key momentum for the development of our brand.

The Group has sought closer cooperation with reputable e-commerce platforms, such as Tmall, JD.com and vipshop.com, our e-commerce business for the period recorded a significant growth. The Group increased its efforts in online promotion of new products for the period, turning to precision marketing has accurately satisfied the demand of our customers, thus achieving a satisfactory sales performance.

Chairman's Statement

During the Reporting Period, we continued to steadily expand our marketing efforts on kid's wear business and achieved outstanding results. We have launched a sequence of effective marketing events for our kid's wear in order to further our brand awareness in kid's wear market, for example, Kappa has announced via social media platforms that it will continue to be the sole official sponsor of the "Chinese Football Boy" (中國足球小將) campaign 2019 for provision of sports gear as well as the Weibo hashtag of #Chinese Football Boy# secured more than 3 billion click views. In the reporting period, revenue from our kid's wear business reached RMB151 million, accounting for 8.6% of our revenue from China segment.

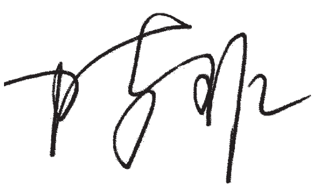
JAPAN SEGMENT: IMPROVEMENT IN FINANCIAL PERFORMANCE AND STEADY PROGRESS MADE ON REFORM

Our Japan business continued to undergo reforms. During the Reporting Period, revenue from Japan segment grew significantly with an improved financial condition. The Group has organised a number of marketing activities tailored to the characteristics of local consumer spending in Japan, facilitating steady development of our business in Japan. Meanwhile, the Group has placed great emphasis on the business development of PHENIX brand in China as well as overseas sales of PHENIX brand in Europe and other markets. According to the Opinions on Developing the Ice and Snow Sports with the 2022 Beijing Winter Olympics as an Opportunity issued by the General Office of the CPC Central Committee and the General Office of the State Council in March 2019, the development of the ice and snow fitness and leisure industry shall be accelerated, deeper integration of the ice and snow industry with related industries shall be promoted and the ice and snow equipment manufacturing industry shall be developed in an innovative manner. PHENIX China will prepare well in advance for the coming of Beijing 2022 Winter Olympics by focusing on omni-channel expansion, club member services and brand marketing, further increasing its brand awareness.

INVESTMENT SEGMENT: PROGRESS MADE IN A CAUTIOUS AND PRAGMATIC MANNER

As one of the key growth drivers of the Group, the investment business has provided our shareholders attractive return on investment in addition to the recent growth in valuation. The execution of the "dual-engine: business model of the Group dominated by sportswear and complemented by investment projects has entered into a mature stage. In 2019, our investment business achieved a healthy growth amid fluctuations in global capital markets. As at 31 March 2019, the Group reported net asset value of its investments of RMB8,668 million, and an excess of 50% surplus over the market capitalisation of the Group for the corresponding period. During the Reporting Period, the Group had investment net gains of RMB1,054 million. The price of shares in secondary market held by the Group, such as Alibaba, fluctuated to a certain extent as affected by the market, but the price during the reporting period remained substantially unchanged. Certain investment funds indirectly invested by the Group achieved a significant growth in value and the value of other investment funds with the priority of capital safety and reasonable return grew at different rates. Given the circumstances of global economic shrinkage and trade war, volatility of financial market has become higher, to respond to changing market situation, our investment team will take extra caution in selecting cooperation partners and investment projects, so as to secure our shareholders long-term returns from investments without sacrificing capital safety and effectiveness.

Finally, I wish to express sincere gratitude to my fellow Directors and all members of the staff for their hard work and contributions. I would also like to take this opportunity to thank all our partners and shareholders for their trust and longstanding support for the Group. In future, the market may be affected by the uncertainties brought about by Sino-US trade war, but we will continue to move forward and face challenges with confidence, offering our shareholders stable and good return.



Chen Yihong
Chairman

19 June 2019

Brand Portfolio

The Group is committed
to becoming one of the best multi-brand sportswear
enterprises in the PRC.

The Kappa Brand is our first brand and
with the strong presence and network developed
through the Kappa Brand, it has established solid
foundation for us to implement a multi-brand strategy.
The Group completed the acquisition of Phenix in 2008.

By utilising management's extensive experience in the
sportswear industry and our strong financial resources,
we will endeavor to identify and explore opportunities
to operate more international brands in the PRC and/or
regional markets.

Brand Portfolio

Kappa

- A renowned Italian sportswear brand founded in 1978
- Since 2002, the Group has been operating the Kappa Brand in the PRC market
- Enriched with Italian fashion elements, Kappa emerges as a leader in the China sports fashion market

Kappa Kids

- Genetic inheritance of Kappa brand
- A kid's sportswear brand with fashion attributes

phenix

- A top international ski brand with great emphasis on functional performance and fashionable style of equipment through excellence in every detail
- Its simple design yet eye-catching design represents a perfect blend of function and fashion
- It reflects detail-attentive peculiar styles of Japanese designers, and their R&D philosophy of positively absorbing the design features of other products and industries
- An outdoor product line that featured the fusion of fashion and functionality was officially launched in 2011

Management Discussion and Analysis

MACRO-ECONOMIC REVIEW

During the Reporting Period, downward pressure on global economic recovery has increased with sluggish growth in major economies and shrinkage in international trade and investment activities. According to the statistics compiled by the World Trade Organization and the United Nations Conference on Trade and Development, the World Trade Outlook Indicator for the first quarter of 2019 dropped to 96.3, the weakest since March 2010. The U.S. economy was unable to maintain its strong performance achieved in 2018 and its growth rate has been tapering off. The economy of Europe continued to be languish as affected by a number of internal and external factors, such as rising political risks and international trade conflicts. Japan's economy grew at a moderate pace in spite of stubbornly low inflation. As the Federal Reserve of the U.S. put rate rises on hold and the central bank of Europe and Japan maintained easing monetary policy, the financial pressure put on the emerging economies has been slightly relaxed in the first quarter of 2019 though the global economic slowdown may exert downward pressure on the emerging economies. The World Economic Outlook issued by International Monetary Fund in April 2019 projects a slowdown in growth in 2019 for 70% of the world economy. Global growth is projected to decline further to 3.3% in 2019.

China's economy faced increasing downward pressure imposed by a number of internal and external factors, such as deleveraging and China-US trade conflicts, in 2018, and China reported quarterly decline in gross domestic product (GDP). In 2019, China's macro-economic environment presents a struggle between upward momentum and downward pressure. Consumption has remained one of the vital stabilizer of China's economic growth, contributing 76.2% of the overall economic growth in 2018. Thanks to the policy direction addressed in the Government Work Report of the PRC, such as strengthening of infrastructure investment as well as tax and fee reduction, and monetary policy loosening, the market condition tends to become stronger, and China's economy starts to stay steady.

INDUSTRY REVIEW

According to the National Bureau of Statistics, China's total retail sales of consumer goods for the first quarter of 2019 amounted to RMB9.8 trillion, a year-on-year growth of 9.3%. Domestic consumer market has progressively expanded with upgrades of consumption pattern and structure through innovation, in particular sports consumption has shown signs of rapid expansion.

Strong growth momentum has sustained in China's sports industry. As stated in the Notice on Action Plan on Further Promoting Sports Consumption (2019–2020) jointly issued by the General Administration of Sport of China and the National Development and Reform Commission in January 2019, the total scale of sports consumption across the country is intended to reach RMB1.5 trillion by 2020, and the proportion of per capita sports consumption expenditure in total consumption will rise. According to the Opinions on Developing the Ice and Snow Sports with the 2022 Beijing Winter Olympics as an Opportunity issued by the General Office of the CPC Central Committee and the General Office of the State Council in March 2019, the development of the ice and snow fitness and leisure industry shall be accelerated, deeper integration of the ice and snow industry with related industries shall be promoted and the ice and snow equipment manufacturing industry shall be developed in an innovative manner.

More and more sportswear companies in China achieve their global expansion through merger and acquisitions as well as introduction of well-known international brands. With explosive growth in Marathon races and physical fitness awareness growing recently, running gear market continues to grow. Meanwhile, sports brands tend to infuse more fashion elements into their sportswear for satisfying diversified demand from consumers. In addition, as emphasized in the National Statistical Classification for Sports Industry 2019 issued by the General Administration of Sport of China and the National Bureau of Statistics of China in April 2019, research and development, design and manufacturing of sports products shall be promoted by introducing innovation and technology. Product intelligence will become a new growth driver of sportswear companies for development.

1.


3.


4.


2.


5.


6.


7.


1. Senior management of the Group delivers a speech on "When a sportswear brand embracing fashion…" at the 3rd Chinese Sports Industry Carnival organised by Lanxiong Sports

2. Donation ceremony for developing sports industry in Tibet by Kappa

3. The Kappa Kids Cup Chinese Football Boy Tournament

4, 5. The 1st #Kappa Kids New Star# National Youth Football Championship held in Nanjing

6, 7. Promotion event in Beijing for the launch of PLAYER KAPPA for advanced players "+++" jointly organised by KAPPA and Tmall New Sports Fashion IP


phenix
RICH
SMITH
VIVANT JOIE
GIRO
LEKI

BUSINESS REVIEW

In 2019, we launched a franchised and direct-franchise model to regain a net increase in number of stores for men's and women's sportswear and to ensure product supply. In connection with brand promotion, we continued to apply our integrated marketing and promotion strategy with full coverage of online-and-offline platforms, while launching cross-sector cooperation with well-known designers and IP and actively participating into international fashion events to enhance our brand image. Meanwhile, our investment business continued to report sound development in a volatile market, and generate stable long-term income for shareholders without sacrificing protection and safety of our investment.

Brand Building and Marketing

PRC — Kappa brand

In 2019, Kappa continued its all-out online and offline marketing efforts via the digital new media by reinforcing cross-sector collaboration with celebrities and key opinion leaders (KOL) in various sectors, to fully envision the fashion trends and strengthen our brand penetration, further enhancing the popularity of Kappa brand among consumers.

By sticking with our brand's core concept of "rebellious, passionate and outgoing", Kappa has been upgrading its cultural marketing by using fashion resources of personalised bundle. Since January 2019, Kappa has conducted business-to-customers marketing via the endorsement by self-media platforms. With 510,000 views, Kappa has successfully reached out to its target consumers and enhanced its reputation. Meanwhile, Kappa has conducted precision marketing via mainstream media platforms focusing on fashion, enhancing fashion identity of Kappa brand in the sportswear industry.

Kappa has also endeavoured to enter into a deeper cooperation with informative media and fashion media for increasing exposure of the brand and the products on all fronts. In January 2019, Lanxiong Sports organised the 3rd China Sports Industry Carnival in Beijing. As the cooperation partner of the Lanxiong Carnival, senior management of Kappa brand shared the views on sports fashion of the brand on the topic of "When a sportswear brand embracing fashion …", allowing consumers to gain more information about the associations of the brand. In February, Kappa undertook a review of its contribution to public welfare over the last decade through 10 mainstream official media to consolidate the image of the brand which bears corporate social responsibility, increasing consumers' loyalty to the brand. In March, Kappa promoted its new products for a new season via 10 fashion media in order to elevate the awareness of the products and fully optimise the network information about the brand. In addition, Kappa has done entertainment marketing by cooperating with a number of celebrities through Wechat Vlog for a large-scale brand promotion, leading to an upgrade and transformation of fashion consumption.

As the unique label representing the fashion DNA of Kappa, Kappa logo — Omini celebrates its 50th anniversary in 2019. Kappa organised nationwide exhibitions with a theme of "History Museum of Kappa" in Dalian, Changsha and Beijing for the 50th anniversary of the Omini Logo in May 2019, visually presenting the birth and the growth of Kappa Omini Logo and its fashion spirit. In addition, Kappa launched a K-TEE (History T) series combining the historic culture of the brand and the art of fashion.

In 2019, we continued to steadily expand our marketing efforts on kid's wear business and achieved outstanding results. For the launch of new product series, Kappa introduced tote bags and magic bags with classic side-strip logo, and promotional display for the new products was set up in 40 selected stores to promote the sales of the products. Mr. Donglu, a well-known football commentator, was invited to participate into the new product launch event for Kappa Kids 19 new Fall/Winter series, substantially increasing the exposure of our brand. In addition to offline sales, Kappa has announced via social media platforms that it will continue to be the sole official sponsor of the "Chinese Football Boy" (中國足球小將) campaign 2019 for provision of sports gear, the Weibo hashtag of #Chinese Football Boy# secured more than 3 billion click views. For outdoor marketing, "Chinese Football Boy Tournament — Kappa Kids Cup" in Chongqing has been in full swing, creating an electric atmosphere. Further, Kappa has sponsored the 1st Kappa Kids New Star National Youth Football Championship held in Nanjing and Champions Trophy Qualifiers China. Additionally, Kappa has participated the "Start following your dream", a charity sale, organised by Lebo Football, expanding the reputation and influence of our brand in kids' wear market.

Japan — Kappa brand

Since the beginning of 2019, Kappa has implemented a series of effective marketing strategies tailored to the characteristics of local consumer spending in Japan, further raising the brand awareness of Kappa and achieving stronger recognition of the brand on the part of consumers. Kappa football took the advantages brought about by the zeal for football to maximise the exposure of its football outfit series via multi-channels, such as magazines, TV programmes and internet, fully covering online and offline marketing. For Kappa Golf, we have placed greater emphasis on operation of social media, on top of maintaining exposure of products by sponsoring renowned female golfers. In addition, Kappa has revitalised its Training Wear series characterised by both functionality and fashion design, the series has become the choice for top athletics in Japan for playing competitions, greatly attracting consumers' attention.

Japan — PHENIX brand

PHENIX SKI has maintained its leading position in skiing market in Japan for its "high quality and functional excellence". To further expand its market share and brand value, PHENIX opened its flagship store in Hakuba, Kitaazumi District, Nagano, one of the best ski destinations in the world. The grand opening ceremony of the "PHENIX STORE HAKUBA" was held in December 2018. In addition to ski and outdoor sports products, "ALK PHENIX" series products and "Kappa" products, as well as skateboard rental service are available in the flagship store to attract more ski lovers, further increasing the market penetration of the brand. More importantly, the multi-channel promotion strategies, such as TV, magazines, internet and social media, have played an important role in marketing PHENIX OUTDOOR series products.

Product Design and Research and Development

Apparel Series

In 2019, Kappa steps up with innovative spirit to infuse fashion elements into its product design, highlighting the brand concept of "rebellious, passionate and outgoing". Each apparel line has its own unique style, interpreting the brand spirit and the prevailing fashion trend with its own features.

BANDA Series

In 2019, BANDA series maintains the streetwear style with a touch of sexiness. Stylishness meeting with trendiness anew redefines the "unisex fashion", demonstrating the unique apparel attributes of Kappa. The tracksuit is an ideal combination of fashion elements, retro fabric and big silhouette logo, with the details of zip-front closure, an adjustable drawstring and belt in a wide range of vibrant colours, it not only accentuates the brand's DNA but also satisfies the demand for showing individual's personality. In addition, the Washed Series, a brand new tracksuit of BANDA, with textile washing treatment revitalises the retro fashion in popular colours of Pantone, showing a dazzling wit of fashion.

LABS Series

By adhering to the concept of #PEOPLE ON THE MOVE# and the brand concept of "rebellious, passionate and outgoing", bold cut and colours are used in Kappa LABS series with streetwear design, creative combination of upside-down OMINI logo and globe pattern as well as the details of split sleeves, label and weaved string, offering fashionistas a new experience. The series also includes skatewear style, demonstrating cool and chic style of Generation Z with no fuss no muss attitude.

WMNS Women's Series

Kappa Spring 2019 WMNS series creates a bold mix-and-match of cream dress and red wide leg trousers, such cool combination is a true showstopper shinning with a chic charm. The ruby-red silk jacket with classic BANDA design of Kappa along the sleeves, recapturing the splendour and elegance. Simplicity is elegant, the basic combination of high quality T-shirt and shorts in white with vertical sequence of logos woven on the back of the top, forming visual aesthetics of symmetry. By knocking down traditional barriers, satin material with highly glossy surface is used for infusing the comfort tracksuit with fashion elements, leading to a new fashion trend.

Authentic Series

Kappa Authentic Summer 2019 series presents a simple design with sequence of OMINI logo and different colour blocks printed on, trend lovers are entrapped by the brand's enchantment. The design of striped and pure colour T-shirts with the classic Kappa logo imposes itself as a trend, simplicity with a sense of freshness perfectly creates a summer's tone.

Shoes Series

In the first quarter of 2019, Kappa focused on two major shoe styles, retro-inspired shoes and vulcanised shoes, by perusing current shoe trends, characteristics of existing channels and demand of consumers. The design of retro-inspired shoes emphasised the roundness of the shape with a thick sole, pairing up well with prevailing trendy trousers. The design of vulcanised shoes emphasised personalisation and comfort. In 2019, Kappa will launch an upgraded generation of its vulcanised shoes series. For the promotion of shoe products, we will progressively strengthen storytelling marketing, such as multi-dimensional crossovers and collaborations, in order to encourage artistic creation, attracting more young consumers. Meanwhile, design, research and development of shoes will be conducted in a target-oriented manner by targeting different channels, product categories and consumer groups, with an aim to guarantee the comfort of our shoes.

Accessories Series

For the first quarter of 2019, design of Kappa's accessories turned to the chic style of younger generation, such change is in line with the general direction of the brand. For example, an assortment of single-trap products with creative and trendy design has been launched following the trend of rising popularity of simplicity and lightweight among young generation, the product series strikes a balance between fashionability and practicality. In particular, the "Jelly Handbag" newly launched for girls has been well received and liked by quaintrelles at the time when crystal clear bag becoming fashionable. In addition, Kappa has launched high waisted tights in multiple colours this season, the colourful tights not only draw much shoppers' attention at visual merchandising, but also offer consumers more colours to mix and match outfits.

OMNI-CHANNEL RETAIL NETWORK

During the period under review, the Group continued to optimise its retail network and enhance store efficiency through the implementation of its brand-oriented business model. As at 31 March 2019, the Group had a total of 1,502 Kappa stores (including 295 Kappa Kid's stores), representing a net increase of 15 stores as compared to the end of 2017 (a net increase of 70 Kappa stores and a net decrease of 55 Kappa Kid's stores). For the first quarter of 2019, the sales network formed by Kappa retail stores continued to cover all major provincial capitals and other major large cities and towns in China.

In the first quarter of 2019, our e-commerce operations steadily developed in an increasingly competitive market. With the on-going implementation of multi-platform strategy, our sales performance through vipshop.com, Tmall and JD.com continued to grow. In addition to participating into promotion activities held by well-known e-commerce platforms at material times, we have organised a wide range of offline promotion activities to facilitate the integration between our online and offline business operations. Also, we have increased our efforts in online promotion of new products through video clips and live-streaming shopping, in addition to offering wider product variety on e-commerce platforms, in order to attract more customers.

Increasing the contributions of group investment projects

During the Reporting Period, certain investment funds indirectly invested by the Group achieved a significant growth in value and the value of other investment funds with the priority of capital safety and reasonable return progressively grew. The price of shares in Alibaba held by the Group fluctuated to a certain extent as affected by the market, but the price during the reporting period remained substantially unchanged. The Group continued to monitor the size and risks of investment funds in cautious and prudent approach with the priority of capital safety and reasonable return by pooling the Group's considerable experience in investment and risk management. In future, the Group will continue to strengthen cooperation with investment partners, exercise extra caution and release the value of investment projects in a timely manner, so as to secure stable returns from investments without sacrificing capital safety and effectiveness.

OUTLOOK

Global economic prospects in 2019 remains uncertain and financial market will be characterised by a number of challenges and uncertainties. However, with the support of positive factors, such as favourable policies implemented by the government, increasing upgrade of the structure of consumer spending and the rise in popularity of fitness exercise, the sports gear industry will have an enormous potential for development. On the back of its unique brand ethos, diverse development strategies and prudent investment model, China Dongxiang has been able to sustain steady growth in business and sound shareholders' return.

Looking forward, China Dongxiang will keep up the spirit of Kappa, a century-old sportswear brand, to take advantage of good opportunities in the sports industry and follow the latest fashion trend by reasonably using resources for product innovation and upgrades as well as exploration of promotion and marketing channels for the brand, creating greater value. As a listed company, China Dongxiang will continue to look at correlation between assets and capital from a global perspective and identify suitable timing and leverage to integrate capital and sports in a better way.

ADDITIONAL DISCLOSURES

Principal risks and uncertainties facing the Group

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. The Group will further improve its risk management, closely monitor the following risks and seek to adopt responsive measures. This annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

(i) Risks relating to macro-economic fluctuations

The Group principally operates its business in Mainland China, and macro-economic fluctuation may have material impacts, in a mid-to-long run, on economic policies, spending environment and spending power in China, adversely affecting the revenue and profitability of the Group in the future.

(ii) Risks relating changes in industry

Sportswear industry in China is competitive, consumers are increasingly concerned with their requirements for sportswear products in terms of brand reputation, fashionableness, technological functions and market segment advantages, posing more perplexing challenges to sportswear brands. Competitive differentiation will be the key for the Group to sustain growth in sportswear industry.

(iii) Risks relating to business operation

Management of internal and external business operation of the Group may be subject to a series of risks, such as increase in product cost and raw material cost, rise in labour cost, increase in sales channel, insufficiency of internal management procedure, non-compliance of key staff members and default by suppliers and distributors. In spite of measures formulated by the Group for managing such risks, the unforeseen circumstances may adversely affect the operating results of the Group.

(iv) Risks relating to investments

The Group's another principal business is investment activities which involve risks and gains. During the investment period, the Group may be subject to a number of risks, such as price fluctuation in stock markets, unfavourable changes in policies on investee industries or sectors, operational failure of investee projects, default by partners or exchange fluctuation. The Group will emphasis on risk aversion by strictly following established procedures and policies on investment decision and pro-investment management, however there is no assurance that the risks will not materialise.

Environmental policies and performance

As a well-known sportswear brand, the Group is acutely aware of the importance of the environmental, social and governance (ESG) matters for the future development of the Group. We recognize that sustainable development of our business requires our continued progress in terms of the economy, environment, and social responsibility.

For a long time, the Group is committed to becoming the champion multi-brand sportswear company in the PRC. While we develop our operation and business, management standard and work performance on environmental and social issues will be tirelessly raised so as to achieve sustainable development for the Group. For details of the Group's environmental policies and performance, please refer to the Environmental, Social and Governance report on pages 36 to 45 in this annual report.

Legal Compliance

Based on the best knowledge of Directors and management, we are not aware of any non-compliance of laws and regulations which will have a significant impact on the business of the Group.

Account of the Group's key relationships with its employees, customers and suppliers

(i) Employees

Human resources represent important strategic resources for modern enterprises that play a vital part in the improvement of management efficiency and the enhancement of productivity. As China Dongxiang Group drives forward in the fast lane of business development, great importance has been attached to the development of the human resource management system and the cultivation of high-calibre personnel.

(ii) Customers

The Group always attaches importance to product quality and strictly controls every part of the production and distribution process to ensure meeting consumers' purchase intention and their satisfaction. The Group will provide after-sale services to the distributors and the consumers in accordance with the "Law of the People's Republic of China on Product Quality", the "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" and relevant rules of the Group. The Group has attached importance to protection of personal information of consumers by implementing strict requirement for confidentiality concerning personal information of consumers obtained in sales and complaints.

(iii) Suppliers

The Group insists on building an accountable supply chain and is seriously concerned with the environmental protection and management standards of its suppliers. The Group implements a strict supplier recruitment and evaluation system. A supplier which meets the recruitment conditions must have experience in manufacturing first-tier branded products both domestically and abroad and be subject to the Group's site visits and comprehensive scoring system before it can be qualified being included in our supplier list. During the year under review, the Group considered the relations with its suppliers was well and close.

FINANCIAL REVIEW

The Group's financial year end date has changed from 31 December to 31 March, the Group would like to present its financial results for the fifteen months ended 31 March 2019 (the "Reporting Period"). The Group has also presented certain financial information (unaudited) for the fifteen months ended 31 March 2018 voluntarily for direct comparison to improve the comparability. The sales of the Group for the Reporting Period increased by 15.4% to RMB2,144 million from RMB1,858 million for the fifteen months ended 31 March 2018 (the "Previous Period"). Profit attributable to equity holders for the Reporting Period decreased by 27.2% to RMB866 million from RMB1,189 million for the Previous Period.

Sales Analysis (Revenue of the Group for the Reporting Period was recognised on a gross basis and the comparative figures for the Previous Period were adjusted for consistent presentation)

Sales analyzed by geographical segments, business segments and product categories

	For the fifteen months ended 31 March						
	2019			2018			
	RMB million	% of product/ brand mix	% of Group sales	RMB million	% of product/ brand mix	% of Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	1,194	78.2%	55.7%	973	74.6%	52.4%	22.7%
Footwear	306	20.0%	14.3%	305	23.4%	16.4%	0.3%
Accessories	27	1.8%	1.3%	26	2.0%	1.4%	3.8%
Kappa Brand total	1,527	100.0%	71.3%	1,304	100.0%	70.2%	17.1%
Kids' apparel business	151		7.0%	150		8.1%	0.7%
International business and others	73		3.4%	30		1.6%	143.3%
CHINA SEGMENT TOTAL	1,751		81.7%	1,484		79.9%	18.0%
JAPAN SEGMENT							
Phenix Brand	253	64.4%	11.8%	248	66.3%	13.3%	2.0%
Kappa Brand	140	35.6%	6.5%	126	33.7%	6.8%	11.1%
JAPAN SEGMENT TOTAL	393	100.0%	18.3%	374	100.0%	20.1%	5.1%
THE GROUP TOTAL	2,144		100.0%	1,858		100.0%	15.4%

China Segment

Total sales of the Kappa brand business, the core business of the Group, for the Reporting Period increased by RMB223 million to RMB1,527 million as compared to RMB1,304 million for the Previous Period. The sales of kids' apparel business unit for the Reporting Period was RMB151 million which was generally in line with that for the Previous Period.

In the Reporting Period, the Group continued to make dedicated efforts in consolidating the business models of "brand + product" and "brand + direct operation" in a bid to, on the one hand, further enhance our brand value and consolidate our brand influence by continuous refining of our products with a brand-oriented principle, and, on the other hand, continue to optimise and improve the new operation model in control and management, optimise direct operation networking, enhance store efficiency and expand the e-commerce operations so that demands from end customers are better accommodated and satisfied. In addition, the Group has continued to conduct adjustments and optimisation of its directly operated stores, resulting in 1,207 Kappa stores for men's and women's sportswear in total. Also, there were 295 Kappa Kid's stores in total in the Reporting Period.

Sales of Kappa brand products in China segment analyzed by sales channels

	For the fifteen months ended 31 March				
	2019		2018		
	Sales RMB million	**% of sales of Kappa brand**	Sales RMB million	% of sales of Kappa brand	**Change**
Non directly-operated	**590**	**38.6%**	531	40.7%	11.2%
Directly-operated	**937**	**61.4%**	773	59.3%	21.2%
Total of Kappa brand	**1,527**	**100.0%**	1,304	100.0%	17.1%

Note: Excluding Kappa Kids' apparel business.

Sales of Kappa brand products via non directly-operated channel in China segment increased by RMB59 million to RMB590 million for the Reporting Period from RMB531 million for the Previous Period, representing 38.6% of the total sales of Kappa brand in China segment for the Reporting Period as compared to 40.7% for the Previous Period.

As at 31 March 2019, the number of directly-operated retail and distribution stores under Kappa brand operated by our subsidiaries in China reached 551. Sales via directly-operated channel increased by RMB164 million to RMB937 million for the Reporting Period from RMB773 million for the Previous Period, representing 61.4% of the total sales of Kappa brand in China segment for the Reporting Period (the Previous Period: 59.3%).

Japan Segment

Sales from Japan Segment for the Reporting Period increased by RMB19 million to RMB393 million from RMB374 million for the Previous Period. The increase in sales of Japan segment was mainly due to product optimisation and decrease in returned products.

Cost of Goods Sold and Gross Profit

Cost of goods sold of the Group increased by RMB140 million to RMB882 million for the Reporting Period (the Previous Period: RMB742 million).

For the Reporting Period, our gross profit before reversal of/provision for impairment losses of inventories rose by RMB146 million to RMB1,262 million (the Previous Period: RMB1,116 million). Our overall gross profit margin before reversal of/ provision for impairment losses of inventories for the Reporting Period decreased by 1.2 percentage points to 58.9% from 60.1% for the Previous Period.

The gross profit margin analysed by geographical, business and product category are detailed as follows:

	For the fifteen months ended 31 March		
	2019 Gross profit margin	2018 Gross profit margin	**Change** % pts
China segment	**63.3%**	65.8%	−2.5
Kappa Brand:			
Apparel	**68.4%**	69.8%	−1.4
Footwear	**58.6%**	65.4%	−6.8
Accessories	**89.1%**	74.9%	14.2
Kappa Brand overall	**66.8%**	68.9%	−2.1
Kids' apparel business	**51.6%**	50.2%	1.4
Japan segment	**38.9%**	37.2%	1.7
Group overall	**58.9%**	60.1%	−1.2

* Before reversal of/provision for impairment loss of inventories

Gross profit margin of Kappa Brand in China segment for the Reporting Period decreased by 2.1 percentage points to 66.8% from 68.9% for the Previous Period, such decrease was principally due to an one-off clean-up of obsolete stock and a decrease in discount offered at retail terminal during the Reporting Period.

Gross profit margin of Japan segment increased by 1.7 percentage points to 38.9% for the Reporting Period from 37.2% for the Previous Period. Such rise was mainly due to products optimisation.

Net gain on financial assets and other investments

Net gain on financial assets and other investments for the Reporting Period was RMB1,109 million (Previous Period: RMB1,341 million), which includes investment income of RMB1,054 million contributed by the investment segment as well as financial subsidies and other gains of RMB55 million.

Investment segment

Gain from investment segment of the Group for the Reporting Period was RMB1,054 million (Previous Period: RMB1,295 million), of which gains from fair value change of financial assets amounting RMB696 million, income distribution of financial assets of RMB178 million and interest income from external borrowings of RMB159 million.

Since 1 January 2018, the Group has adopted IFRS 9: Financial Instruments to measure our financial assets. For further details, please refer to note 2.2 set out in "notes to the consolidated financial information".

Distribution Expenses and Administrative Expenses

Distribution expenses and administrative expenses mainly comprised employee salaries and benefit expenses, advertising and selling expenses, logistic fees and design and product development expenses. Total distribution expenses and administrative expenses for the Reporting Period was RMB1,337 million (Previous Period: RMB1,012 million), constituting 62.4% of the Group's total sales and an increase of 7.9 percentage points as compared with that for the Previous Period. The Group will further optimise resources allocation and improved cost structure, in a bid to enhance production efficiency subject to reasonable cost control.

As a result of recruitment of management talents in the second half of the Previous Period and followed by the optimisation and adjustment made in internal organizational structure in the Reporting Period, efficiency of all staff members has further increased. Our overall staff costs increased by RMB25 million to RMB222 million for the Reporting Period from RMB197 million for the Previous Period.

In the Reporting Period, advertising and selling expenses increased by RMB238 million to RMB776 million from RMB538 million in the Previous Period, principally due to expansion of sales channel for further efforts in promotion as well as increase in expenses for enhancing brand penetration.

In the Reporting Period, logistics and transportation fee increased by RMB4 million to RMB100 million as compared to RMB96 million in the Previous Period principally due to adjustments and additions of logistics and distribution centres during the Reporting Period.

In the Reporting Period, the Group continued to take a more cautious but effective approach in investment in product development, our design and product development expenses increased by RMB10 million to RMB55 million from RMB45 million in the Previous Period. Such increase was principally due to design, research and development of new product during the period.

Operating Profit

In the Reporting Period, operating profit of the Group was RMB1,040 million (Previous Period: RMB1,453 million). The operating profit margin was 48.5% in the Reporting Period (Previous Period: 78.2%).

Finance Income, Net

In the Reporting Period, net finance income of the Group amounted to RMB7 million (Previous Period: finance expenses of RMB85 million), which mainly consisted of interest income from bank deposit of RMB21 million (Previous Period: RMB25 million), interest expenses for loans of RMB27 million (Previous Period: RMB25 million) and net foreign exchange gains of RMB16 million (Previous Period: foreign exchange losses of RMB80 million) in the Reporting Period.

Taxation

In the Reporting Period, income tax expense of the Group amounted to RMB167 million (Previous Period: RMB168 million). The effective tax rate was 16.3% (Previous Period: 12.4%).

Profit Attributable to Equity Holders of the Company and Net Profit Margin

Profit attributable to equity holders of the Company in the Reporting Period was RMB866 million (Previous Period: RMB1,189 million), and net profit margin of the Group was 40.4% (Previous Period: 64.0%).

Earnings Per Share

The basic and diluted earnings per share were both RMB14.91 cents in the Reporting Period, decreased by 30.2% against the basic and diluted earnings per share of RMB21.36 cents in the Previous Period.

The basic earnings per share are calculated by dividing the profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for restricted share award scheme during the period. On 27 April 2018, the Company completed the issuance of new shares to seven connected management members and five other management members, involving a total of 211,310,000 new shares. Subsequent to the completion, the total number of shares of the Company increased to 5,886,121,025 shares.

Final Dividend and Final Special Dividend

The Company has paid an interim dividend and interim special dividend for the six months ended 30 June 2018 of RMB2.45 cent and RMB2.45 cent per ordinary share, respectively, with a total amount of RMB288 million.

The Board of the Company has recommended the distribution of a final dividend and a final special dividend of RMB1.96 cents and RMB0.49 cents per ordinary share, respectively (totalling RMB2.45 cent per ordinary share) for the fifteen months ended 31 March 2019.

The final dividend and final special dividend, subject to approval by the shareholders of the Company at the annual general meeting to be held on 8 August 2019, will be paid in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.87998 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 18 June 2019. The dividend will be paid on or about 23 August 2019 to shareholders whose names appear on the register of members of the Company on 16 August 2019.

Closure of Register of Members for the Entitlement of Final Dividend and Final Special Dividend

The Register of Members of the Company will be closed from 14 August 2019 to 16 August 2019 (both days inclusive), for the purpose of determining shareholders' entitlements to the 2018/19 final dividend and final special dividend. In order to qualify for the 2018/19 final dividend and final special dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 August 2019.

Annual General Meeting ("AGM")

The AGM of the Company will be held in Hong Kong on 8 August 2019. Notice of the AGM will be issued and disseminated to shareholders in due course.

To ascertain shareholders' eligibility to attend and vote at the annual general meeting, the register of members will be closed from 5 August 2019 to 8 August 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 2 August 2019.

Issue of New Shares to Management Personnel

To incentivize and ensure the long-term service of management personnel of the Company, the Company (i) entered into subscription agreements with 11 management personnel, namely Mr. Zhang Zhiyong, Ms. Chen Chen, Mr. Ren Yi, Mr. Yang Yang, Mr. Lyu Guanghong, Ms. Tang Lijun, Ms. Sun Wei, Mr. Chen Shaowen, Mr. Song Li, Mr. Nan Peng and Mr. Wang Yalei, on 19 January 2018 (the "January Subscription"); and (ii) entered into subscription agreement with another management personnel, namely Mr. Yang Gang, on 11 April 2018 (the "April Subscription").

Under the January Subscription, the Company issued 202,310,000 ordinary shares in total to the management personnel on 27 April 2018 under specific mandate at the subscription price of HK$1.35 per subscription share. The aggregate nominal value of the 202,310,000 ordinary shares issued was HK$2,023,100, and the net subscription price (after deduction of relevant expenses) was approximately HK$1.344 per subscription share. The subscription price of HK$1.35 per subscription share represented a discount of approximately 9.40% to the closing price of HK$1.49 per share as quoted on the Stock Exchange on the date of the subscription agreements. Apart from Ms. Chen Chen who settled the relevant subscription consideration using her own funds, the remaining 10 management personnel settled the relevant subscription consideration using the proceeds of five-year term loans provided by the Group. The net proceeds from Ms. Chen Chen as (after deducting all related expenses) received by the Company at completion was approximately HK$48 million, which for the fifteen months ended 31 March 2019 had been utilised as general working capital as follows: (i) approximately HK$9 million interest payments for bank loans; (ii) approximately HK$11 million for legal consultancy fee; (iii) approximately HK$2 million for Hong Kong office rental expenses; and (iv) approximately HK$18 million for other administrative expenses. For the fifteen months ended 31 March 2019, approximately HK$10 million has not been utilized. It is expected to be used to settle the interest payment for bank loans by approximately HK$6 million, legal consultancy fee by approximately HK$3.5 million and office rental by approximately HK$0.5 million on or before the financial year ended 31 March 2020.

Under the April Subscription, the Company issued 9,000,000 ordinary shares to Mr. Yang Gang on 27 April 2018 under general mandate at the subscription price of HK$1.29 per subscription share. The aggregate nominal value of the 9,000,000 ordinary shares issued was HK$90,000, and the net subscription price (after deduction of relevant expenses) was approximately HK$1.279 per subscription share. The subscription price of HK$1.29 per subscription share represented a discount of approximately 9.8% to the closing price of HK$1.43 per share as quoted on the Stock Exchange on the date of the subscription agreement. Mr. Yang Gang settled the subscription consideration using the proceeds of five-year term loan provided by the Group.

FINANCIAL POSITION

Working capital efficiency ratios

China Segment

Average trade receivable turnover days for the Reporting Period and the Previous Period were 35 days and 47 days. Decrease in number of average trade receivable turnover days was mainly due to a decrease in average balance of trade receivable.

Average trade payable turnover days in the Reporting Period and the Previous Period were 75 days and 82 days, respectively.

Average inventory turnover days in the Reporting Period and the Previous Period were 215 days and 181 days respectively, the increase in the average inventory turnover days was mainly due to an increase in average inventory balance.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 82 days and 84 days, respectively in the Reporting Period as compared to 101 days and 81 days, respectively in the Previous Period. Average inventory turnover days were 165 days in the Reporting Period as compared to 132 days in the Previous Period.

Liquidity and financial resources

As at 31 March 2019, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB1,157 million, a decrease of RMB387 million as compared to a balance of RMB1,544 million as at 31 December 2017. This decrease was mainly due to:

1) Payment of dividend for the Reporting Period of approximately RMB528 million;

2) Net cash outflows from operating activities of approximately RMB371 million;

3) Cash outflows from repayment of borrowings of an amount of RMB497 million and cash inflows from proceeds from bank borrowings secured of RMB507 million;

4) Investment in financial assets of approximately RMB3,306 million and cash inflow from partial disposal of financial assets of approximately RMB5,284 million, cash inflow from income distribution of financial assets acquired of RMB161 million, loan receivables outflow of RMB1,728 million and cash inflow from interest income of loan receivables of RMB120 million;

5) Others of an aggregate outflows amount of RMB29 million.

As at 31 March 2019, net assets attributable to our equity holders was RMB10,251 million (31 December 2017: RMB9,585 million). The Group's current assets exceeded current liabilities by RMB3,357 million (31 December 2017: RMB3,749 million). The Group also had a very strong liquidity position. The current ratio as of 31 March 2019 was 4.0 times (31 December 2017: 5.2 times).

Investments in financial assets

As at 31 March 2019, the Group's current and non-current financial assets at fair value through profit or loss amounted to RMB7,452 million in aggregate, the details of which are as follows:

Shares of listed companies:

Name	**Fair value as at 31 March 2019 RMB' million**	Fair value as at 31 December 2017 RMB' million
Alibaba	**1,721**	2,160
Other listed shares	**920**	336
Total	**2,641**	2,496

Funds of non-listed companies:

Investment projects	Fair value as at 31 March 2019 RMB' million	Fair value as at 31 December 2017 RMB' million
Shanghai Rongfu Investment (CITIC Asset Allocation Special Account)	**419**	406
Tibet Ruixintong — Zhongjiaxin REIT	**300**	300
Yuanxin Dongchao	**280**	273
Yunfeng Fund USD II	**304**	254
China Top Credit Microcredit	**96**	—
Jiashi Investment Preferred Cornerstone — JD Finance	**365**	198
Yunfeng Fund RMB II (Yunfeng Xinchuang)	**156**	163
CPE Overseas Special Account (CITIC Asset Allocation Special Account)	**207**	—
Yunfeng Fund RMB IV (Yunfeng Lintai)	**132**	—
CITIC Mezzanine Fund I	**96**	132
Yunfeng Fund RMB III (Yunfeng Xincheng)	**120**	100
Hongtai Growth Fund (Angel Plus)	**106**	63
Fuqing Linsheng III — Ant Financial	**102**	—
Jiashi Investment Preferred Fund II.3 — JD Finance	**178**	105
Jingyi Fund — Ant Financial	**90**	48
COCHELLA H. FUND, L.P. — Anneng Convertible Bond	**102**	—
Chishan Fund — WeBank	**143**	84
Hangzhou Hanyun Xinling (Ali new retail fund)	**139**	1
Qutoutiao USD Fund	**116**	—
Others	**1,023**	777
Total	**4,474**	2,904

Others:

Investment projects	Fair value as at 31 March 2019 RMB' million	Fair value as at 31 December 2017 RMB' million
Investment products and others issued by commercial banks	**337**	1,195

Since 1 January 2018, the Group has adopted IFRS 9: Financial Instruments to measure our financial assets. For further details, please refer to note 2.2 set out in "notes to the consolidated financial information".

Pledge of assets

As at 31 March 2019, the Group had approximately RMB286 million (31 December 2017: RMB391 million) cash in banks as guarantee deposit for the issue of letters of credit and loans.

Capital commitments and contingencies

In May 2015, the Group entered into a limited partnership agreement with China Momentum Fund, with a total capital commitment of USD10 million. As at 31 March 2019, the Group paid a capital contribution of USD9 million with remaining balance of USD1 million (equivalent to approximately RMB7 million) as capital commitments.

In August 2016, the Group entered into a limited partnership agreement with CDB Boyu II (Shanghai) Investment LLP. (國開博裕二期 (上海) 股權投資合夥企業 (有限合夥)), with a total capital commitment of RMB50 million. As at 31 March 2019, the Group paid a capital contribution of RMB49 million with remaining balance of RMB1 million as capital commitments.

In June 2017, the Group entered into a limited partnership agreement with Shanghai Xianghe Chongyuan Equity Investment Fund Partnership (Limited Partnership) (上海祥禾湧原股權投資合夥企業 (有限合夥)), with a total capital commitment of RMB20 million. As at 31 March 2019, the Group paid a capital contribution of RMB14 million with remaining balance of RMB6 million as capital commitments.

In August 2017, the Group entered into a limited partnership agreement with Hangzhou Hanyun Xinling Investment LLP. (杭州瀚雲新領股權投資基金合夥企業 (有限合夥)), with a total capital commitment of RMB300 million. As at 31 March 2019, the Group paid a capital contribution of RMB171 million with remaining balance of RMB129 million as capital commitments.

In August 2017, the Group entered into a limited partnership agreement with Hangzhou Yuzhong Venture Capital Investment Fund Partnership (Limited Partnership) (杭州宇仲創業投資合夥企業 (有限合夥)), with a total capital commitment of RMB60 million. As at 31 March 2019, the Group paid a capital contribution of RMB30 million with remaining balance of RMB30 million as capital commitments.

In November 2017, the Group entered into a limited partnership agreement with Sequoia Huisheng Equity Investment Fund Partnership (Limited Partnership) (紅杉慧盛股權投資合夥企業 (有限合夥)), with a total capital commitment of RMB50 million. As at 31 March 2019, the Group paid a capital contribution of RMB30 million with remaining balance of RMB20 million as capital commitments.

In February 2018, the Group entered into a limited partnership agreement with Yunfeng Fund III (雲鋒基金III), with a total capital commitment of US$20 million. As at 31 March 2019, the Group paid a capital contribution of US$12 million with remaining balance of US$8 million (equivalent to approximately RMB79 million) as capital commitments.

In June 2018, the Group entered into a limited partnership agreement with Shanghai Yunfeng Qitai Investment Centre LLP. (上海雲峰麒泰投資中心 (有限合夥)), with a total capital commitment of RMB200 million. As at 31 March 2019, the Group paid a capital contribution of RMB132 million with remaining balance of RMB68 million as capital commitments.

Foreign Exchange Risk

The functional currency of the Company is US Dollars owing to the fact that its business is transacted in US Dollars. During the Global Offering in October 2007, the Company received its proceeds in HK Dollars. The proceeds were either deposited in bank accounts denominated in HK Dollars or converted into US Dollars and deposited in bank accounts denominated in US Dollars. As a result, the exchange differences arising from appreciation or depreciation of the US Dollars against the Company's HK Dollars bank deposits, were recognised as exchange gains or losses in the Company's income statement. The exchange gains or losses were not significant because HK Dollars are pegged to US Dollars.

The financial statements expressed in US Dollars were translated into Renminbi for the Group's reporting and consolidation purposes. The foreign exchange differences from the translation of financial statements are not recognised in the income statement. Instead, it should be recognised as a separate component of equity of the Group. As the financial statements of the Group's Japan segment are measured in Japanese yen, and a larger proportion of the investment assets are measured in US Dollars or Hong Kong Dollars, fluctuations in the exchange rates of the US Dollar, Hong Kong Dollar and Japanese yen against Renminbi will make an impact to the Group's net assets, income and net profit. etc. The Group will closely monitor the trend of the relevant currency exchange rates and, if necessary, adopt reasonable measures to maintain exchange rate risk at an acceptable level.

Significant investments and acquisitions

The Group has made no significant investment or any material acquisition or disposal of subsidiaries for the fifteen months ended 31 March 2019.

Investor Relations Report

The Company has always believed that the maintenance of investor relations is a long-term systematic and important task for the Company. The Company's management and investor relations team have been committed to building strong bilateral communication channels with investors. On the one hand, we continue to help investors understand our business better, through transparent, accurate, fair and timely disclosure of our corporate financial performances and operations. On the other hand, we promote corporate integrity, self-discipline, and standardized operations, and continuously improve the Company's management and governance structure, in order to maximize corporate values and shareholders' interests.

The Company summarizes the investor relations achievements over the last 15 months as below:

1. Results Announcement and Investment Summits:

In addition to non-deal roadshows held in Hong Kong right after the announcements of the 2017 annual results and the 2018 interim results in March, August 2018 and February 2019 respectively, the management also held press interviews with Hong Kong mainstream financial media to announce the latest business performance, future development direction and strategies in a timely manner. Meanwhile, information in relation to our results was available on the Company's website on the same day, for investors' further inspection. Further, the Company's management and investor relations team took part in investment summits held by investment banks, aiming to enhance our interaction and communication with global investors.

2. Ongoing Daily Communication:

In daily operation, the Company conducts multi-channel and multi-level communication with investors and analysts, which include:

- Face-to-face Meetings and Telephone Conferences:

  During the Reporting Period, face-to-face meetings and telephone conferences were promptly conducted with investors and analysts for announcing operating performance of the Company in a timely manner.

- Investors Store Visits:

  During the Reporting Period, according to the needs of our investors and analysts, and for them to better understand our operation, they were invited for store visits in Beijing and Guangzhou, etc.

- Company Website:

  The Company continuously and timely update the Investor Relations Section on its corporate website (http://www.dxsport.com) to disseminate the Company's relevant information, so that investors can be updated on the development about the Company. Meanwhile, the Company has an investor relations e-mail box to receive inquiries and suggestions raised by investors, and responds to them promptly.

- Phone Inquiry Services for Investors and the Media:

  The Company provides phone inquiry services for investors and the media, which are handled and answered by the investor relations department. The Company ensures smooth lines within working hours, in order to provide timely answers to various issues and inquiries from shareholders, potential investors, analysts and the media.

3. AGM:

In accordance with the Listing Rules of the Hong Kong Stock Exchange, an annual general meeting is convened regularly to discuss the Company's business strategies and investment plans equitably and transparently, in order to maintain and respect the legitimate rights and interests of all shareholders, especially for small and medium ones.

4. Prospects:

Looking ahead, spearheaded by the Company's management, we will continue devoting efforts to build positive and proactive investor relations by communicating regularly with shareholders, analysts, potential investors and public groups. We will adhere to a transparent, accurate, fair and timely manner in disseminating our latest results, and further tap into the capital market, so as to construct a long-term, stable and reasonable shareholder structure.

Meanwhile, we encourage all shareholders, analysts, potential investors to share with us their views and valuable suggestions about the Group via various channels, including mail, e-mail and telephone, to allow us to constantly improve our corporate operation and administration.

Environmental, Social and Governance Report

ABOUT THIS REPORT

The purpose of this report is to disclose to stakeholders the Company's work on environmental, social and governance ("ESG") matters and its results. We have been raising the management standard and work performance on environmental and social issues so as to achieve sustainable development for the Group. This report is prepared in accordance with Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report should be read in conjunction with the "Corporate Governance Report" set out in our annual report as well as "Corporate Governance" and "Social Responsibility" on the official website of the Company.

Save as otherwise indicated, the disclosure of this report includes the Company and its subsidiaries in China. This report covers a period from 1 January 2018 to 31 March 2019.

IDEAL OF ESG

In the course of our business and development, we accord guiding importance of the ideal of ESG to the sustainable development of the Company, and fully realise the effective management of environmental and social risks is not only the sound foundation of our business operation, but also the dual-engine for driving both the Company and the society.

As a responsible corporate citizen, we place great emphasis on economic benefits of the Company and returns for our shareholders and investors which are the concrete foundation of the social benefits from the Company. Meanwhile, we encourage the development of our employees and the society by adopting different approaches. The policies of our ESG cover four major elements, namely quality products, win-win coordination, caring for our staff and environmental protection.

Quality Products

Our mission is to be the most pioneering and desired sport-life brand, focusing on product quality and consumer safety. As such, we give assurance to consumers with quality sport-life products by strictly controlling our product quality and procurement standards.

Caring for Our Staff

For talent development, we cherish, value and respect each of our staff. We, through an advanced management model, have established a solid comprehensive system for remuneration, benefits and training of our staff with an aim to encourage rapid development of our staff members and provide them a ladder for job promotion, so as to attract local and overseas talents in our industry and zealously nurture individuality and creativity of each of our staff members, forming, as a result, a diverse team with full of passion and vitality.

Win-win Coordination

We are committed to integrity, honesty and fairness. We attach importance to long-term win-win cooperation with our business partners. In respect of our suppliers, we have been committed to enhance product quality through combination of assessment and training, assisting our suppliers to manage and avoid environmental and social risks. For the communities we operate, we insist on contributing back to the communities by promoting vitality of youth via our products, supporting the development of sports culture and paying attention to labour demand in the society. As a result, win-win coordination has been achieved by long-term cooperation with business partners and social organisations.

Environmental Protection

We put focus on environmental protection and actively promote reduction in energy consumption and emission with an aim to reduce our operational consumption and minimise the impacts of our product on environment and natural resources. We have been improving our management measures and policies for environmental protection in accordance with relevant laws and regulations, and guiding our staff to accomplish our vision on environmental protection by advocacy and education.

MANAGEMENT STRUCTURE OF ESG

In order to well achieve the ideal of ESG, we have established a management structure of ESG. The Board is responsible for supervising and reviewing the policies and performance of the ESG of the Company. Respective functional departments at the headquarters are responsible for specific management of environmental, staff, operation and community issues, and an officer responsible for ESG issues is appointed at each of our branches.

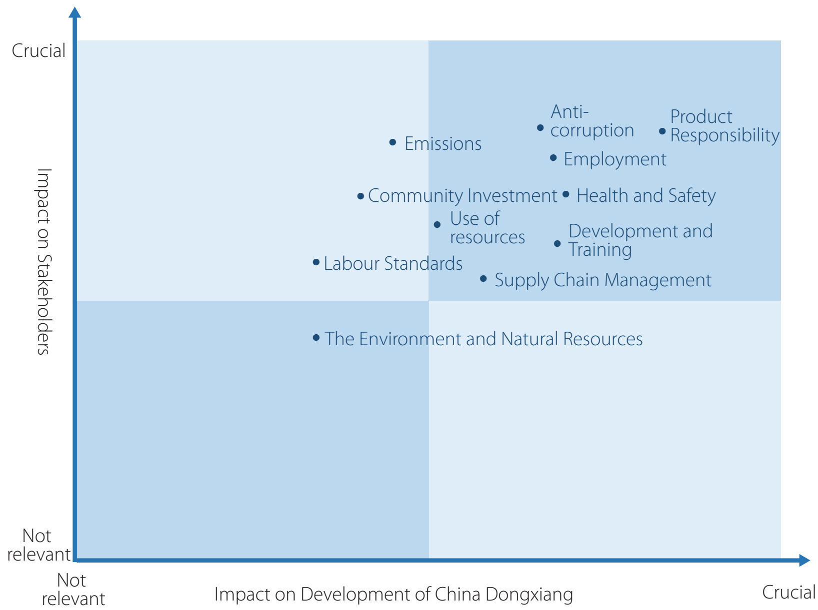
COMMUNICATION WITH STAKEHOLDERS

We attach importance to communication with stakeholders. The major stakeholders identified include government and regulatory authorities, shareholders and investors, staff members, suppliers and distributors, consumers, community and the public. The table below sets out the major means of communication of the Company with stakeholders and their expectations:

Major stakeholders	Major expectations	Major means of communication
Government and regulatory authorities	Operation in compliance with the laws	Implementing policies and regulations and disclosure of information
Shareholders and investors	Corporate governance and return on investment	General meetings, regular financial reporting and official website of the Company
Employees	Remuneration and benefits, career development, health and safety and work-life balance	Staff meetings and corporate events
Suppliers and distributors	Fair and impartial procurement as well as quality assurance	Meetings and interviews
Consumers	Quality products & services, confidentiality protection	Customer service hotlines, internet and interviews
Community and the public	Compliant operation, social charity and environmental protection	Press media and charity events

MATERIALITY ANALYSIS

In addition to the above major means of communication, we conducted an online survey with stakeholders in the financial year 2018. We conducted a materiality analysis on the 11 aspects covered by the "ESG Reporting Guide" of the Stock Exchange based on corporate characteristics, benchmarking research on domestic and overseas peers, recommendations of the management and opinions of experts, in order to ensure the expectations of stakeholders are reflected in our actions and reports. The findings are set out in the materiality matrix below.



ESG Materiality Matrix of China Dongxiang

QUALITY PRODUCTS

We are committed to provide sports and lifestyle products to younger generation of consumers who are keen on quality of life, eager to express themselves and have curiosity about novelty. We convey a message of healthy, energetic and sportive lifestyle to the society by offering consumers quality products, and protect the interests of the corporate and our customers through standardisation of advertising behaviour, protection of intellectual property and privacy of customers.

QUALITY ASSURANCE

Provision of quality products is always our commitment to consumers. We have strictly complied with relevant laws and regulations, such as Product Quality Law of the People's Republic of China and Law of the People's Republic of China on Protection of Consumer Rights and Interests. The entire production process, including development, production, inspection of our products, has stringently followed the existing national standards and enterprise standards, such as National General Safety Technical Code for Textile Products (GB 18401–2010) and Casual Wear (FZ/T 81007–2012) so as to ensure the satisfaction of relevant requirements of chemicals contained in products, building consumers' confidence in our products.

We have imposed strict control on product quality in the course of development and production. In the course of development, we have placed high importance on supervision of safety and green elements of the materials. We have conducted physical properties test and inspection on the materials used and evaluated the safety level of the products being developed in order to eliminate safety problems may arise when using the products. In the process of product random sampling, our development department, production department and sales department will jointly conduct product safety assessment, and internal staff members are invited for user testing to identify and solve problems, if any. In the course of production, pre-production samples are requested for the confirmation by the Company. Mass production shall not commence until the passing of performance test of the sample products. Upon the completion of production, the person in charge of development and production will inspect the goods on site and supervise the product quality. The goods orders will then be delivered to the logistics department of the Company for random inspection by warehouse quality checkers against the standards, with an aim to ensure that product quality is up to standard required and no defective products is put into circulation. For the return of defective products at retail level, the findings of quality analysis in written form will be sent to production factory for further improvement of product quality.

After-sales service hotlines are in place for handling complaints, receiving opinions and suggestions from consumers in relation to our shoe products, apparel products and equipment, as well as for solving after-sales issues raised by consumers. Any quality issues identified within the return period by distributors or consumers, the products with quality flaws may be returned with purchase receipts for new products.

ADVERTISING MANAGEMENT

Product image perceived by consumers is created by advertising. We strictly abide by the Advertising Law of the People's Republic of China and other relevant laws and regulations and closely monitor the advertising tasks of the Company.

We always adhere to the principles of truth-in-advertising and regulatory compliance by centralising direction and decentralising management. An accountability system has been adopted for advertising campaign, a person in charge is expressly appointed for managing advertising campaign. The person in charge shall be responsible for the truth and legality of advertising content in order to eliminate illegal and false advertising. Authorised materials may only be used in advertising, typefaces or photo materials are prohibited to use in advertising prior to copyright purchase.

TRADEMARK PROTECTION

The Company strictly follows among others, the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China and the Product Quality Law of the People's Republic of China for trademark management. To avoid trademark and patent infringement, trademarks from various departments shall be submitted to legal department for confirmation of compliance in terms of source of design and creativity.

To protect the trademarks of the Company, we have unceasingly conducted registration and renewal of our trademarks and patents. In the financial year 2018, we successfully completed 13 trademark registrations and 8 trademark renewals. We submitted 3 patent renewals and completed 226 trademark inspections.

We also endeavour to protect our trademark internationally for securing the interest of the Company. Any signs of false trademark found by our staff members or agents, they are encouraged to provide our legal department the relevant information, including but not limited to, address of the factory, shops (online and offline), warehouse as well as website address. The information will then be supplied to production department or sales department for verification and confirmation. In the event of unauthorised use of our trademark by the factory, shops (online and offline) and warehouse, the legal department will commission an agent to conduct an inspection and purchase products from the unauthorised users. Our production department will verify the authenticity of the products, for fake products, an agent will be engaged to file a complaint to relevant industrial and commercial authority with a certificate of authenticity issued by our legal department; for authentic products, they will be handled by our sales department on a case-by-case basis.

PROTECTION OF PRIVACY

With the increasing popularity of internet, online shopping becomes an ordinary spending pattern of consumers. Our daily operation and the provision of services to consumers strictly follow the Cyber Security Law of the People's Republic of China, the E-commerce Law of the People's Republic of China, the Law of the People's Republic of China on Protecting Consumers' Rights and Interests and other relevant laws and regulations.

To protect the security of consumers' information and data, we keep upgrading our management system for online shopping orders to encrypt and place access control on sensitive data of our members, such as telephone and mobile numbers as well as identity information, for the orders delivered by courier service providers, information on the recipient will not be shown on the electronic receipt for further reducing possibility of personal information leakage of consumers, protecting personal information and privacy of consumers.

CARING FOR OUR STAFF

We believe outstanding talents make an enterprise excellent. We respect legal interest of our employees, promote talent diversity and comprehensive recruitment and training system and care for our staff in order to increase sense of acknowledgement and belonging of our staff members.

EMPLOYMENT AND LABOUR STANDARDS

We strictly comply with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, the Law of the People's Republic of China on the Protection of Women's Rights and Interests, the Provisions on the Prohibition of Using Child Labour, the Regulation on Work-Related Injury Insurances, the Special Rules on the Labor Protection of Female Employees, the Provisions on Minimum Wages and other relevant laws and regulations to ensure the legal compliance of our employment. In the reporting period, there was no material breach of the laws and regulations applicable to employment by the Company.

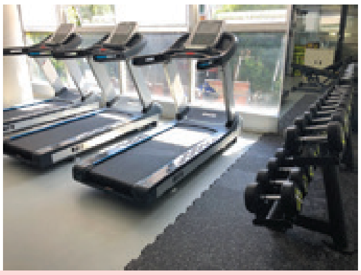
In addition, we have formulated and strictly implemented a human resources management system to strengthen management of human resources and practice standards, facilitating the management of human resources in a systematic way by adopting due standards and procedures in order to secure smooth progress has been made. The Company has actively established its "recruitment management scheme" and "employee turnover management scheme". Employment verification and background checks shall be properly conducted, procedures for employment and dismissal under the system shall also be followed in accordance with laws and regulations, and child labour and forced labour is prohibited. Furthermore, we have established internal rules, such as Benefit Management, Remuneration Management, Attendance Management and Promotion Management to specify the rules and regulations on, among others, staff benefit, remuneration, working hour and promotion. By upholding principles of mutual respect, fairness and impartiality, all staff members and job applicants will be offered equal opportunity in employment and promotion, no discrimination is allowed on the basis of gender, race, religion or others.

HEALTH AND SAFETY

Safeguarding occupational health and safety of employees is our fundamental responsibility. We strictly comply with the Labour Law of the People's Republic of China, the Regulation on Work-Related Injury Insurances, the Fire Control Law of the People's Republic of China and other laws and regulations, endeavouring to provide our employees a safe and healthy work environment and safeguarding their occupational health and safety. In the reporting period, there was no material breach of the laws and regulations applicable to occupational health and safety by the Company.

We safeguard occupational health and safety of our employees by implementing a series of measures. Annual health seminar with professionals is held to provide our employees the knowledge of general health and well-being, raising their awareness of health. To provide our employees safe and clean drinking water, all water dispensers are cleaned and sanitised on a regular basis and a "clean drinking water" sticker is affixed on each dispenser. Regarding the Taicang Factory of the Company, we equip our production staff in workshops with protective appliances. Moreover, we strictly adhere to fire safety and production safety measures and step up inspection and supervision with a view to minimising risks of production safety and fire safety.

To encourage our staff members doing more exercise, an exclusive fitness centre is set up at our headquarters for our employees. We engage professional aerobics instructor to organise aerobics course, offering our employees opportunities to relax, to do more exercise so as to have a better quality of life.

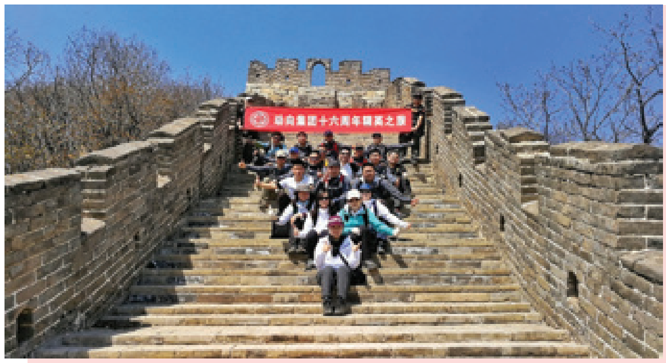

Fitness centre and aerobics course for our employees

DEVELOPMENT AND TRAINING

We are committed to developing our staff. We develop a series of training rules for our staff members, including Training Management Rules, Training Management Rules for New Employees and Management Rules on External Training, to improve their career development. A quality platform for career development has been set up for offering comprehensive training courses tailored to the requirements of various positions and different levels of staff, enhancing their capabilities. In the financial year 2018, induction training was provided to 225 new employees in total from the headquarters and its subsidiaries, and professional skills training was provided to 280 sales employees at stores in total.

DEVELOPMENT AND TRAINING OF SENIOR MANAGEMENT

On 8 April 2018, our senior management participated in an outdoor training for enhancing their leadership capability and leadership style. Members of senior management showed their resilience, physical and mental strength in the outdoor training, to set up a role model for the people of China Dongxiang.



Development of senior management

Training for newcomers

In financial year 2018, cross-department trainings in relation to occupational skills were offered to all newcomers from finance department, information technology department and human resources department. In addition, induction training will also be provided to newcomers at the time they join the Group, allowing them to adapt the working environment and get familiar with job responsibilities.

Training for newcomers

Training on Retail Market

To help our staff stay abreast of industry and market trends, our marketing department offers our staff a regular training on retail market, allowing them to gain the latest industry information as well as professional theoretical knowledge.

Training on retail management

Training on Professional Skills

To enhance sales skills and service standard of our employees at retail stores, they are provided a regular training on professional skills in order to increase professional level of our staff members at retail stores as well as sales performance.

Training on professional skills to our employees at a retail store

EMPLOYEE ENGAGEMENT ACTIVITIES

We are convinced that boosting employee happiness is essential for all-round development of our staff members. As relaxing and harmonious work atmosphere would enhance happiness index of our staff, we have organised a series of themed activities, such as the Company's 16th Anniversary Tea Party in 2018, staff members are invited to make party decorations and enjoy some teatime delicacies. On Christmas 2018, we made brilliant office Christmas decorations and prepared Christmas cards and small gifts to our staff members.

In addition, we have also provided our staff other benefits, such as purchase card to all female staff members on the International Women's Day, hearty gifts to children of all our staff members on Children's Day, birthday gifts, mooncake and cash gift for major festivals, such as the Labour Day, the National Day, the New Year and the Lunar New Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Dongxiang Family Open Day on 20 May

On 20 May 2018, we organised a family open day to welcome all staff and their children to join. The family open day filled with fun and laughter. By arranging such open day, we expressed our care and support to the families of our staff, and allowed our staff to build a strong family bond.

Family Open Day on 20 May

Annual Corporate Event in the Financial Year 2018

Annual corporate event is the greatest staff activity of each year, offering an opportunity to increase sense of acknowledgement and belonging of our staff members by sharing fun and happiness. In the annual corporate event 2018, a professional team of event planners was engaged to cooperate with our internal planner for preparing our people an audio-visual feast.

Annual corporate event in 2018

Tug-of-War and Outdoor Walking Activities

In the financial year 2018, Taicang Factory of the Company actively organised a number of outdoor activities. The tug of war boosted the passion and solidarity of our staff members for work. The two-day outdoor walking has offered all participants an opportunity to show their endurance in the face of difficulty and take their courage to tackle difficulties.

Tug-of-War and outdoor walking activities for staff members

WIN-WIN COORDINATION

We are committed to win-win cooperation with our cooperative partners, and paying back to the society having the corporate characteristics. Meanwhile, our cooperation is always based on the culture of integrity and honesty, creating a sound cooperation environment for the development of the Company.

MANAGEMENT OF SUPPLY CHAIN

As a leading retailer of international sportswear brands in China, we place great emphasis on management of suppliers to maintain consistent quality of products, unceasingly offering consumers quality products.

We pay much attention to control on environmental and social risks of suppliers. For management of environmental risks, we seriously consider and select the suppliers with higher standard of environmental protection. We pay attention to the environmental measures taken by the suppliers for the production processes at factory which may cause heavy pollution, such as printing, bleaching and dyeing as well as spraying, evaluating whether such production processes are in compliance with local hygiene standards and causing irreversible environmental harm. For management of social risks, we pay attention to capability management, labour compliance and safety management. We estimate production capability of suppliers by evaluating the number of existing workers, production lines and equipment of the suppliers. We are also aware of the legality of workers at factory and the skills and competences of production workers in manufacturing, labour standard, employees' benefits and other factors shall be taken into consideration when evaluating the suppliers. Meanwhile, we keep an eye on production safety and pay on-site visits to suppliers for determining their management capability and level for production safety.

The Group implements a strict supplier recruitment and evaluation system. A supplier which meets the recruitment conditions must have experience in manufacturing first-tier branded products both domestically and abroad and be subject to the Group's site visits and comprehensive scoring system before it can be qualified for inclusion in our supplier list.

During the course of cooperation with the suppliers, the Group will designate its own inspectors to station in the suppliers' factories for carrying out real-time monitoring on such areas as the performance of the suppliers' employees and production safety, and quarterly appraisals and reviews on the above-mentioned areas. Through this arrangement, we are able to require a supplier to make continuous improvement in these areas. The results of the quarterly supplier's social responsibility appraisal will be recorded in the comprehensive appraisal benchmark for such supplier, which will affect the results of its overall appraisal.

To enhance management capability and competence of the Company's management members of supply chain, standardise quality and quality management process as well as spread experience on product quality management, we organise regular on-site trainings and trainings for management members of supply chain every year. Our research and development staff members share product knowledge to production staff members and management team in trainings, and emphasise the important cautions in the course of production, in order to elevate the job skills of our production staff.

MANAGEMENT OF ANTI-CORRUPTION

We have strictly complied with relevant laws and regulations, such as the Company Law of the People's Republic of China and the Anti-Unfair Competition Law of the People's Republic of China to create a sound condition for the development of the Company and establish a business image of integrity and fairness. In the reporting period, no material breach of the laws and regulations in relation to corruption and fraud by the Company as well as no corruption and fraud case was identified.

To secure an orderly development of the business of the Group, uphold the principle of fair competition and integrity and eradicate unfair competition and commercial bribery, we have established Rules of Anti-Unfair Competition and Anti-Commercial Bribery. All of our employees are required to follow the principles of fairness and integrity at daily works, and act in line with the accepted business ethics. For business activities, all of our systems and departments are required to establish a set of open, fair and impartial standards and system, evaluation procedures and supervisory mechanism for suppliers' qualification. In the financial year 2018, we established a procedure for following up the award of tender by our internal audit staff members, with an aim to verify whether the quality of products provided by the suppliers is in line with the requirements specified in the tender, further eradicating procurement bribery and fraud and strengthening control over bribery and fraud risks. We have in place the "Cash Expenditure System" and the "Gift Management System" for gifts given to and entertainment arranged for its business partners, which sets out the standard and the approval process of giving gifts in detail. It is the requirement of the Group that its employees shall avoid any personal interests arising from business dealings with any business units. In the event that an employee has any family members or relatives working with such units, he/she should inform his/her immediate superior of such relation and avoid any direct or indirect involvement in any business activities with relevant units.

We encourage and support all employees to monitor the occurrence of any unfair competition or commercial bribery. The interest of any employee who voluntarily exposes or reports any unfair competition will be protected by the Group. An employee may choose to report such incident to his/her immediate superior in the reporting line of the unit he/she works with or directly report it to the Group's internal audit department which will then carry out rigorous screening of the reported incidents and will commence a special audit after obtaining an authorization from the executive committee. The executive committee may give advice on how to handle violations pursuant to the audit findings of the internal audit department. For the violations of national laws and regulations, the Company reserves the right to take civil action or criminal prosecution.

COMMUNITY BENEFITS

As a responsible corporate citizen, in addition to seeking business development, we always consider the social responsibility as our important commitment. We have actively participated into various public benefit activities over the past few years. In the financial year 2018, we contributed to the society through cooperation with educational institutions and environmental protection activities.

COOPERATION WITH EDUCATIONAL INSTITUTIONS

To respond to the call of "Deepening Integration of Industries into Education and Cooperating with Educational Institutions" by the Chinese government, we have consolidated the cooperation with educational institutions and the support of poor neighbourhoods by making use of our corporate advantages.

Taicang Factory of the Company has established a training base for deepening integration of industries into education jointly with Yuping Vocational Technical School (玉屏職業技術學校). We have provided the graduates of fashion design programme from the school an internship opportunities and platform, allowing them to acquire practical skills at Taicang Factory and laying a concrete foundation for their career development.

ENVIRONMENTAL PROTECTION CAMPAIGN

In August 2018, the subsidiary of China Dongxiang in Dalian organised an "environmental protection campaign at seashore" to protect ecosystem and marine life. All participating employees collected garbage in groups during the coastal cleanup, huge island of garbage was cleaned up in only 30 minutes. This campaign fostered solidarity of our employees as well as their environmental awareness.

Environmental protection campaign at seashore

ENVIRONMENTAL PROTECTION

Our business activities have no material impacts on environment and natural resources. We are committed to green office, and strictly follow the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations. We have adopted a number of measures for energy conservation and emission reduction so as to minimise the environmental impact of our business operation.

ELECTRICITY CONSERVATION

To strengthen electricity conservation, we encourage “the practice of turning off lights when not in use” and maximising natural daylight instead of interior lightings at our office. For air conditioning, the room temperature of our office should be set at no higher than 26℃ in winter and no lower than 20℃ in summer, air conditioner should be turned off 5 minutes before the end of office hours to save up electricity. For printers, all printers and other related equipment should be switched off when idle for a long time or after office hours. In the financial year 2018, total electricity consumption at headquarters decreased by 5,629.71kWh over the financial year 2017 or decreased by average 0.41kWh monthly per square metre such decrease was due to the replacement with LED energy saving bulbs.

WATER CONSERVATION

To conserve water resources, motion sensor faucets are widely used in common areas to control water consumption, wastewater reuse is also encouraged. For procurement of drinking water, we limit the number of bottled-water per order to avoid bottles past their expiry date.

PAPER CONSERVATION

We have initiated to procure recycled paper. FSC (Forest Stewardship Council)-certified papers are utilised for the printing of our annual and interim reports since the 2013 annual report. Printers are set defaults to double-sided, and one-sided printing is selected only in case of special circumstances. We encourage to reduce font size for printing to minimise the amount of paper required. We have designated a paper collection area at our office for collecting the recyclable paper available for staff members. We go paperless by using email or electronic documents to the greatest extend possible instead of paper-based ones.

WASTE REDUCTION

For waste reduction, we have rolled out centralised procurement of bottled drinking water to minimise the number of bottles wasted. Meanwhile, we encourage our staff to bring their own cup, and disposable paper cup is for visitors only to reduce the waste of paper cup. Reusable paper box will be used in priority by our logistics department for goods delivery to reduce waste. In addition, utilisation rate of raw materials is taken into consideration when designing our products with an aim to use raw materials efficiently in production process, resulting in reduction of production costs and fabric leftovers wasted.

TABLE OF ENVIRONMENTAL KEY PERFORMANCE INDICATORS

Scope of environmental statistics includes the data of the Company and its subsidiaries in the mainland of China (excluding the outlets) for the fifteen months from January 2018 to March 2019.

Emissions

Indicators	Performance
Total greenhouse gas emissions (scopes 1 and 2) (tonnes)	1,903.68
Direct emissions (scope 1) (tonnes)	47.58
Petrol (tonnes)	34.39
Diesel (tonnes)	13.19
Indirect emissions (scope 2) (tonnes)	1,856.10
Purchased electricity (tonnes)	1,856.10
Greenhouse gas emission intensity (tonnes/person)	1.95
Greenhouse gas emission intensity (tonnes/m^2)	0.04
Total hazardous wastes (tonnes)	0.25
Hazardous wastes per capita (tonnes/person)	0.0003
Total non-hazardous wastes (tonnes)	57.77
Non-hazardous wastes (tonnes/person)	0.06

Notes: 1 Due to its business nature, the significant air emissions of the Company are greenhouse gas emissions, arising mainly from the use of electricity and fuels generated from fossil fuels.

2 Greenhouse gas inventories encompass carbon dioxide, methane and nitrous oxide, mainly resulting from purchased electricity and fuels. Greenhouse gas accounting is presented in carbon dioxide equivalent in accordance with the 2015 China Regional Grid Baseline Emission Factor issued by China National Development and Reform Commission and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories issued by Intergovernmental Panel on Climate Change (IPCC).

3 Hazardous wastes involved in the operations of the Company primarily include waste toner cartridges and ink boxes. Hazardous wastes are recycled and disposed of by recyclers under recycle standard.

4 Non-hazardous wastes involved in the operations of the Company primarily include office waste, leftover materials and waste electronic equipment. Office waste is disposed of collectively by property management companies, while leftover materials and waste electronic equipment after approval are recycled and disposed of by recyclers.

Energy and resource consumption

Indicators	Performance
Total energy consumption (MWh)	2,762.15
Direct energy consumption (MWh)	190.64
Petrol (MWh)	140.48
Diesel (MWh)	50.16
Indirect energy consumption (MWh)	2,571.51
Purchased electricity (MWh)	2,571.51
Energy consumption per person in offices (MWh/person)	1.88
Energy consumption per unit of area in office buildings (MWh/m^2)	0.08
Energy consumption per unit of area in warehouses (MWh/m^2)	0.0059
Energy consumption per RMB 'million of revenue of Taicang factory (MWh/RMB 'million)	11.44
Water consumption (tonnes)	45,440.62
Water consumption per capita in offices (tonnes/person)	10.40
Water consumption per RMB'million of revenue of Taicang factory (tonnes/RMB 'million)	283.54
Total packaging materials for finished goods (tonnes)	664.34
Packaging materials used per RMB 'million of revenue (tonnes/RMB 'million)	0.31

Notes: 1 Energy consumption data is calculated based on the consumption of electricity and fuel as well as the conversion factors provided by the General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589–2008), the national standards of the People's Republic of China. The electricity purchased externally excludes the data of the offices set up in Tianjin and Harbin, electricity fees of the two offices are included in the property management fees such that the electricity consumption cannot be calculated separately.

2 Energy consumption per person in offices represents energy consumption per person in the offices of headquarters and subsidiaries.

3 Energy consumption per unit of area in office buildings represents electricity consumption per square metre in the office buildings of headquarters and subsidiaries.

4 Energy consumption per unit of area in warehouses represents electricity consumption per square metre in the warehouses of logistics department and subsidiaries

5 Water consumption includes tap water consumption of district offices in Beijing, Taicang, Nanjing, Dalian and Changsha. Water tariffs of other offices are included in property management fees such that the water consumption cannot be calculated separately.

6 Packaging materials for finished goods mainly refer to cartons and plastic bags purchased in the reporting period for shoe supply chain, apparel supply chain and equipment supply chain.

7 Packaging materials used per RMB million of revenue denote the amount of packaging materials used by the Company for finished goods in China when delivering one million RMB of revenue.

Directors and Senior Management

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of our Board:

Name	Age	Position
Mr. Chen Yihong (陳義紅)	61	Chairman and Executive Director
Mr. Zhang Zhiyong (張志勇)	50	Chief Executive Officer, president and Executive Director
Ms. Chen Chen (陳晨)	32	Co-president and Executive Director
Dr. Chen Guogang (陳國鋼)	59	Independent Non-Executive Director
Mr. Gao Yu (高煜)	45	Independent Non-Executive Director
Mr. Liu Xiaosong (劉曉松)	53	Independent Non-Executive Director

EXECUTIVE DIRECTORS

Mr. Chen Yihong (陳義紅), aged 61, is the founder, chairman and executive director of the Company. Mr. Chen is primarily responsible for the management of the board, company investment operations and corporate planning. Mr. Chen joined the Company in March 2007. Mr. Chen has extensive experience in the sporting goods industry in China. From 1991 to 2005, Mr. Chen was the vice-general manager, general manager and chief executive officer of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) and the executive director of Li Ning Company Limited, a company listed on Hong Kong Stock Exchange. Mr. Chen had completed an executive Master's in business administration degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2002. Mr. Chen had completed "China CEO Program" of Cheung Kong Graduate School of Business (長江商學院) in 2009.

Mr. Zhang Zhiyong (張志勇), aged 50, is the chief executive officer, president and the executive Director of the Company. Mr. Zhang joined the Company in October 2017. Mr. Zhang is responsible for company strategy and managing the overall operations (excluding the investment operations).

Mr. Zhang, joined Beijing Li Ning Footwear Co., Ltd. (北京李寧鞋業有限公司) in October 1992 and had been in charge of its financial system and nationwide retail business system, before becoming the general manager of the company in February 2001, a position he held until June 2004. From the listing on the Main Board of the Stock Exchange of Li Ning Company Limited (Stock Code: 2331) in June 2004 to 3 July 2012, Mr. Zhang was chief executive officer and executive director of Li Ning Company Limited in charge of the overall strategy and implementation of the company. Mr. Zhang stepped down as chief executive officer and executive director of Li Ning Company Limited in July 2012 and October 2014, respectively.

Mr. Zhang has been appointed as an independent non-executive director of C. banner International Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1028), since 15 October 2012.

Mr. Zhang has been engaged in the digitalisation of sports gear since October 2014. He has founded Beijing BMAI Sports Goods Co., Ltd. (北京必邁體育用品有限公司) with a proprietary brand name known as "BMAI" and has been the non-executive chairman of the company since then. He also holds the controlling interests in the company.

Mr. Zhang was president of LeSports from August 2016 to January 2017.

Mr. Zhang has been involved in China's sporting goods industry since 1992. With more than 20 years' marketing experience in the sector, he brings with him profound understanding of and practical experience in China's ever-changing consumer market, brand-building for sporting goods, digitalisation of the sporting industry, as well as the management of corporate reforms at Chinese companies.

Mr. Zhang holds a bachelor's degree from Beijing Institute of Economics (北京經濟學院) and an EMBA degree from Guanghua School of Management, Peking University.

Ms. Chen Chen (陳晨), aged 32, is the co-president and executive director of the Company. Ms. Chen joined the Company in 2012. Ms. Chen is primarily responsible for overseeing the marketing and design of Kappa products of the Company. Ms. Chen served as product planning representative in the apparel planning team of the Company from 2012 to 2013. Ms. Chen was promoted as the manager of the marketing department and apparel design department and the vice president of the brand department in 2013. Ms. Chen obtained her bachelor's degree in Fashion Design Technology — Surface Textiles from University of the Arts — London College of Fashion, London, United Kingdom in 2010.

Ms. Chen is the daughter of Mr. Chen Yihong, chairman of the Board and executive director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chen Guogang (陳國鋼), aged 59, is the independent non-executive director of the Company and joined the Company in June 2016. Dr. Chen is the independent non-executive director of Guotai Junan Securities Co. Ltd. (國泰君安證券股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 601211) and YTO Express Group Co., Ltd. (圓通速遞股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600233) respectively. Dr. Chen had been appointed as the president of Shenzhen Qianhai Financial Assets Exchange Ltd. (深圳前海金融交易所有限公司) with effect from September 2018. Dr. Chen had also been appointed as the independence director of Cofco Trust Co., Ltd. (中糧信託有限責任公司) with effect from March 2018. Dr. Chen resigned as chairman of the board of directors of CMI Capital Company Limited with effect from 23 June 2017. Dr. Chen, has resigned as an executive director and chairman of the board of China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) with effect from 17 August 2018. Besides, Dr. Chen has resigned as the vice president of China Minsheng Investment Corp., Ltd. (中國民生投資股份有限公司) since May 2018 and resigned as executive director of China Minsheng Asia Asset Management Co., Ltd. (中民投亞洲資產管理有限公司) since August 2018. Dr. Chen has also resigned as an non-executive director of Far East Horizon Limited (遠東宏信有限公司) since July 2018.

Dr. Chen obtained a doctorate degree in economics from Xiamen University (廈門大學) in 1988. He is a senior accountant granted by the Ministry of Foreign Trade and Economic Cooperation in the People's Republic of China and a certified public accountant granted by China Certified Public Accountant Association.

Dr. Chen joined New China Life Insurance Company Ltd. (新華人壽保險股份有限公司) (a company listed on the Stock Exchange, stock code: 1336) in April 2010 and served as the chief financial officer. He was subsequently appointed as the vice president and chief financial officer of New China Life Insurance Company Ltd. in July 2011. From 2005 to 2010, Dr. Chen served as a director of Sinofert Holdings Limited (中化化肥控股有限公司) (a company listed on the Stock Exchange, stock code: 297). He was a director of Sinochem International Corporation (中化國際 (控股) 股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600500) from 2000 to 2010. Dr. Chen also served as the chief financial officer of Sinochem Group (中國中化集團公司) from December 2000 to April 2010, general manager of the finance department of Sinochem Group from June 1999 to December 2000, deputy chief financial officer of Sinochem Group from February 1999 to June 1999, vice president of China International United Petroleum and Chemicals Co., Ltd. (中國國際石油化工聯合公司) from May 1997 to February 1999, vice director of the finance department of Sinochem Group from January 1995 to May 1997, general manager of the petroleum accounting department of Sinochem Group from March 1994 to January 1995, financial manager of its U.S. agrichemical subsidiary (中國中化集團公司美國農化公司) from July 1991 to March 1994. Prior to this, Dr. Chen served as deputy chief financial officer of Hino Company (香港鑫隆有限公司) in Hong Kong from July 1988 to July 1991 and was an assistant professor at Xiamen University from July 1984 to March 1985.

Mr. Gao Yu (高煜), aged 45, is the independent non-executive director of the Company and joined the Company in July 2007. He is currently the managing director of the Private Equity Division of Morgan Stanley Asia Limited, and he primarily focuses on private equity investment activities in China. He is a non-executive director of Sparkle Roll Group Ltd (耀萊集團有限公司) which is listed on the main board of Hong Kong Stock Exchange. He is also a director of Shandong Buchang Pharmaceuticals Co. Ltd (山東步長製藥股份有限公司) which is listed on Shanghai Stock Exchange. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about five years. Mr. Gao had also worked in Donaldson, Lufkin & Jenrette Inc's Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering economic systems and operations research as well as from Tsinghua University (清華大學) in Beijing with dual Bachelors' degrees in engineering and economics.

Mr. Liu Xiaoxong (劉曉松), aged 53, is the independent non-executive director of the Company and joined the Company in March 2019. Mr. Liu has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 00700.HK). In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the vice president of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the vice president of the Shenzhen Hi-tech Association. He is currently an executive director, the chairman and the chief executive officer of A8 New Media Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00800.HK). Mr. Liu graduated from Hunan University in the PRC in 1984 with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Chen Yihong, Mr. Zhang Zhiyong and Ms. Chen Chen. Please refer to the above section headed "Executive Directors" for their biographical details.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. The Company has complied with the code provisions set out in the CG Code as contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the fifteen months ended 31 March 2019 ("fifteen months Period"), except that:

Provision E.1.2 of the CG Code provides that the chairman of the board should attend the annual general meeting. Provision A.6.7 of the CG Code provides that independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Chen Yihong (chairman and executive director), Dr. Chen Guogang and Mr. Gao Yu (both independent non-executive directors) could not attend the annual general meeting of the Company ("AGM") held on 10 May 2018, extraordinary general meetings of the Company ("EGM") held on 26 March 2018 and 27 November 2018 respectively, due to important business appointments. However, the other executive director and the other independent non-executive director of the Company had attended the aforesaid AGM and EGM and had effective communication with the shareholders of the Company.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the fifteen months ended 31 March 2019.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the standard for securities transactions by directors. The Company has made enquiries of all the directors and all the directors confirmed that they have complied with the required standards for the fifteen months ended 31 March 2019.

COMPLIANCE WITH THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") REPORTING GUIDE

During the fifteen months Period, the Company has complied with the rule 13.91 of the Listing Rules and the "comply or explain" provisions set out in Appendix 27 of the Listing Rules as "Environmental, Social and Governance Reporting Guide", and made disclosures concerning relevant information on pages 36 to 51 in the"Environmental, Social and Governance Report".

THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Terms of Reference of the Executive Committee adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee (see details in page 61 below), and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders related matters. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, strategies for future growth, major financing arrangements, major investments and risk management strategies.

As at the date of this Report, the Board comprises six members, of whom three are executive Directors, and three are independent non-executive Directors.

Executive Directors:
Mr. Chen Yihong *(Chairman)*
Mr. Zhang Zhiyong *(Chief Executive Officer)*
Ms. Chen Chen

Independent Non-Executive Directors:
Dr. Chen Guogang
Mr. Gao Yu
Mr. Liu Xiaosong (appointed and effective from 27 March 2019)
Mr. Chen Johnny (resigned and effective from 27 March 2019)

Biographical details of the current Directors and the relationships between the Directors are set out in the section headed "Directors and Senior Management" of this annual report. Among the members of the Board, Ms. Chen Chen is the daughter of Mr. Chen Yihong, chairman of the Board and executive director of the Company.

The composition of the Board is well balanced with each director having sound knowledge, experience and/or expertise relevant to the business operations and the future development of the Group. All directors are aware of their collective and individual responsibilities to the shareholders and each ensures that he can give sufficient time and attention to the affairs of the Group. The Company has formal letter of appointment with each Directors setting out the key terms and conditions of his/her appointment. The independent non-executive Director is appointed for a specific term of 1 year. Such appointment shall automatically renew at the expiry and shall continue for further successive periods of one year, subject to a maximum of three years.

The Company has received confirmation from each independent non-executive Director about his independence under the Listing Rules, and continues to consider each of them to be independent.

In accordance with Article 87 of the Company's articles of association, Ms. Chen Chen and Dr. Chen Guogang shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forth coming Annual General Meeting ("AGM").

In accordance with Article 86(3) of the Company's articles of association, Mr. Liu Xiaosong, appointed as independent non-executive director on 27 March 2019 shall hold office until the forth coming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

Mr. Chen Yihong (re-elected as an executive Director on 10 May 2018), Mr. Zhang Zhiyong (re-elected as an executive Director on 10 May 2018) and Mr. Gao Yu (re-elected as an independent non-executive director on 10 May 2018), shall hold office until they are required to retired in accordance with the Company's articles of association.

At each AGM of the Company, at least one third of the directors (or, if the number of directors is not divisible by three, such number as is nearest to and less than one third) must retire as directors by rotation, provided that every director shall be subject to retirement at an AGM at least once every three years. A retiring director shall be eligible for re-election and shall continue to act as a director throughout the meeting at which he retires.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Pursuant to Provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

The Company has put in place an on-going training and professional development program for directors.

Each newly appointed director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Company also provides training to develop and refresh the directors' knowledge and skill.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has sent reading materials to directors on regulatory updates or information relevant to the Company or its business.

During the fifteen months Period, the Directors participated in the following training:

	Attending seminars/briefings relating to rules and regulations	**Reading newspapers, journals and updates relating to the economy and business management and duties of directors**
Executive Directors		
Chen Yihong	√	√
Zhang Zhiyong	√	√
Chen Chen	√	√
Independent Non-executive Directors		
Chen Guogang (Note 1)	√	√
Gao Yu	√	√
Liu Xiaosong (Note 2)	√	√
Chen Johnny (Note 3)	√	√

Note 1: redesignated as the chairman of Audit committee and a member of Remuneration committee of the Company with effect from 27 March 2019.

Note 2: appointed as independent non-executive director, chairman of the Remuneration committee, member of each of Audit Committee and Nomination committee of the Company with effect from 27 March 2019.

Note 3: resigned as an independent non-executive director, chairman of Audit committee and member of the Remuneration committee and Nomination committee of the Company with effect from 27 March 2019.

BOARD AND COMMITTEES MEETINGS

During the fifteen months Period, the Board held 9 meetings. The attendance of the directors at Board meetings, principal Board Committee meetings, Annual General Meeting ("AGM"), Extraordinary General Meeting ("EGM") on 26 March 2018 and EGM on 27 November 2018 held is set out in the table below.

	Attendance of						
	Board meetings	Audit committee meetings	Remuneration committee meeting	Nomination committee meeting	AGM*	EGM on 26 March 2018	EGM on 27 November 2018
Executive Directors							
Chen Yihong	9/9	N/A	2/2	2/2	0/1	0/1	0/1
Zhang Zhiyong	9/9	N/A	N/A	N/A	1/1	1/1	1/1
Chen Chen	9/9	N/A	N/A	N/A	0/1	0/1	0/1
Independent Non-Executive Directors							
Chen Guogang (Note 1)	9/9	4/4	2/2	N/A	0/1	0/1	0/1
Gao Yu	9/9	4/4	N/A	2/2	0/1	0/1	0/1
Liao Xiaosong (Note 2)	1/1	N/A	1/1	1/1	N/A	N/A	N/A
Chen Johnny (Note 3)	8/8	4/4	1/1	0/1	1/1	1/1	1/1

* The Company's external auditor had also attended the AGM.

Note 1: redesignated as the chairman of Audit committee and a member of Remuneration committee of the Company with effect from 27 March 2019.

Note 2: appointed as independent non-executive director, chairman of the Remuneration committee, member of each of Audit Committee and Nomination committee of the Company with effect from 27 March 2019.

Note 3: resigned as an independent non-executive director, chairman of Audit committee and member of the Remuneration committee and Nomination committee of the Company with effect from 27 March 2019.

BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of the Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee is governed by its respective Terms of Reference, which are available on the Company's website at www.dxsport.com. All committees are provided with sufficient resources to discharge their duties, and they are also authorised to obtain external legal or other independent professional advice if they consider it necessary to do so.

AUDIT COMMITTEE

Members: Dr. Chen Guogang (Chairman), Mr. Gao Yu and Mr. Liu Xiaosong. The Audit Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Audit Committee is required to oversee the relationship with the Company's external auditor, to review the financial information of the Company, and to review and monitor the Company's financial reporting system, risk management and internal control systems. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of such engagement. The Audit Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences, and is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. Apart from giving pre-approval of all audit services, the Audit Committee also develops and implement policy on the engagement of external auditor to supply non-audit services.

With respect to financial information of the Company, the Audit Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. Apart from considering issues arising from the audit, the Audit Committee discusses any matters that auditor may wish to raise either privately or together with executive Directors and any other persons. The Audit Committee is also required to review the effectiveness of the Company's financial controls, risk management and internal control systems. In addition, the Audit Committee has to ensure co-ordination between the internal and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

The Audit Committee met 4 times during the fifteen months Period. The major work performed by the Audit Committee included:

(i) Review and recommend the Board's approval of the external audit plan and internal audit plan for the fifteen months Period;

(ii) Review and recommend the Board's approval of the 2017 annual financial statements, 2018 interim financial statements for the six months ended 30 June 2018 and 2018 interim financial statements for the twelve months ended 31 December 2018;

(iii) Review of the external audit report and internal audit report during the fifteen months Period;

(iv) Approval of the remuneration and terms of engagement of PricewaterhouseCoopers for the audit during the fifteen months Period; and

(v) Review the risk management and internal control system for its effectiveness during the fifteen months Period.

REMUNERATION COMMITTEE

Members: Mr. Liu Xiaosong (chairman), Mr. Chen Yihong and Dr. Chen Guogang. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the remuneration packages of all executive Directors and making recommendations to the Board of the remuneration of non- executive Directors, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

The Remuneration Committee met 2 times for the fifteen months Period. The major work performed by Remuneration Committee during the fifteen months Period included reviewing and determining the Directors' remuneration for the year ending 31 March 2020.

NOMINATION COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Gao Yu and Mr. Liu Xiaosong. Among the three members, Mr. Chen Yihong is an executive Director and the remaining two members are independent non-executive Directors.

Under its Terms of Reference, the principal responsibilities of the Nomination Committee include:

(a) to review the structure, size and composition and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors of the Company and review the independent non-executive directors' annual confirmations on their independence and where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive;

(e) to seek independent professional advice to perform its responsibilities where necessary; and

(f) to report back to the Board on its decisions or recommendations (unless there are legal or regulatory restrictions on its ability to do so) and to prepare a summary of its work during the year for inclusion in the Company's corporate governance (including a report the policies, procedures, process and criteria it has adopted to select and recommend candidates for directorship during the year).

The Nomination Committee met 2 times during the fifteen months Period. The major work performed by Nomination Committee during the fifteen months Period included reviewing the structure, size, composition and diversity of the board, assess the independence of independent non-executive directors of the Company, nominating suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors at general meetings or appoint as directors to fill casual vacancies.

Nomination Policy

The Board has adopted the Nomination Policy implemented by the Company' Nomination Committee (the "NC"). The Nomination Policy is applicable for all Directors of the Company. The factors listed below would be used as reference by the NC in assessing the suitability of a proposed candidate.

- Reputation for integrity
- Accomplishment and experience
- Commitment in respect of available time
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

These factors are for reference only, and not meant to be exhaustive and decisive. The NC has the discretion to nominate any person, as it considers appropriate.

The nomination procedures for selecting suitable candidates by the NC are mainly set out as follows:

- the Secretary of the NC shall call a meeting of the NC, and invite nominations of candidates from Board members if any, for consideration by the NC prior to its meeting. The NC may also put forward candidates who are not nominated by Board members.
- For filling a casual vacancy, the NC shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the NC shall make nominations to the Board for its consideration and recommendation.
- The Company's website set out the procedures for shareholders to propose a person for election as a Director. For any person that is nominated by a Shareholder, the Nomination Committee shall evaluate such candidate based on the selection criteria set out in the Nomination Policy and make recommendation to the Board if appropriate. Recommendation shall then be made to Shareholders in a supplementary circular for the proposed election of such candidate at a general meeting.

Board Diversity Policy

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

EXECUTIVE COMMITTEE

Members: Mr. Chen Yihong (chairman), Mr. Zhang Zhiyong (chief executive officer) and Ms. Chen Chen.

The Board is responsible for the overall management and performance of the Group and the approval of the long-term objectives and commercial strategy. The Executive Committee reports to the Board and is accountable for the day-to-day management of the operations and the implementation of strategy. This Committee is responsible to the Board for driving high level performance of the growth, efficiency and capability programs as well as for resources allocation. Detailed functions of the Executive Committee as delegated by the Board mainly include:

(i) to prepare and approve the specific operation plan, financial forecast and budget of each subsidiary of the Company in accordance to those of the Company as approved by the Board;

(ii) to monitor and oversee the implementation of the budget as approved by the Board;

(iii) to monitor and oversee the financial and operational performance of the Company and its subsidiaries;

(iv) to ascertain the business plan and company strategies as approved by the Board and develop specific implementation plan; and

(v) to appoint or remove senior management of the Company or any of its subsidiaries other than chief executive officer, chief financial officer and internal audit manager of the Company, and to recommend the appointment of chief executive officer, chief financial officer and internal audit manager of the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the Code:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the fifteen months Period, the major work performed by the Board included reviewing and considering the policy and practices of corporate governance of the Company.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that these financial statements give a true and fair view of the financial position of the Company and its subsidiaries, the financial performance and cash flows for that period. The directors are also responsible for ensuring that proper accounting records of the Company and its subsidiaries are kept at all times.

RISK MANAGEMENT AND INTERNAL CONTROL

Aims and Objectives

The Board confirms that it assumes responsibility towards the risk management and internal control system and is responsible for reviewing its effectiveness on an ongoing basis. The risk management and internal control system aims to manage, rather than eliminate, the risks of failing to achieve business objectives, and make reasonable, but not absolute, guarantee for preventing material misstatements or losses. The Board has delegated its responsibility for risk management and internal control, together the relevant authorities, to the Audit Committee. The Audit Committee oversees the management in the design, implementation and oversight of the risk management and internal control system on behalf of the Board. The management had confirmed to the Audit Committee (and the Board) that the relevant system is effective for the fifteen months ended 31 March 2019.

Major features of the risk management and internal control system

The risk management structure of the Group and the major responsibilities of each level of the structure are described below:

The Board:
it has the ultimate responsibility and authority for internal control management, assuming the responsibility for corporate governance externally towards the Shareholders and possessing the highest power internally for initiating internal control management works. The Board has delegated its responsibility for risk management and internal control, together the relevant authorities, to the Audit Committee.

The Audit Committee:
it is responsible for overseeing and guiding the management in the establishment and operation of the internal control system, monitoring the risk management and internal control system of the Group, and advising the Board on its effectiveness. The risk management and internal control system is reviewed for its effectiveness at least once per year, and the relevant review covers all major aspects of control, including financial, operational and compliance control. During the review, sufficient resources, adequate qualifications and experience of the staff and employees' training sessions, and enough budget should be ensured for accounting, internal audit and financial reporting functions. Internal audit department conducts initial assessment on the effectiveness of the risk management and internal control system and report directly to the Audit Committee.

The management:
it reviews and maintains an appropriate and effective risk management and internal control system, monitors each section of daily operation to reduce operational risks, reviews investigation reports on risk management and internal control issues prepared by the internal audit and control department or external consultants and reports to the Audit Committee, and addresses the issues and provides feedbacks on a timely basis.

Internal audit and control department:
It is responsible for drafting and making amendments to the risk management and internal control system, and is in charge of determining and testing the risk criteria. The department inspects and addresses abnormal indicators for risk criteria and reports to the management or, in material cases, to the Audit Committee.

Programme for identification, assessment and management of material risks

The programme used by the Group for identification, assessment and management of material risks is conducted in accordance with the internal control framework formulated by The Committee of Sponsoring Organisations of the Treadway Commission ("COSO Commission"), summarised as follows:

(i) Control Environment

- Insistence of employees and the management on integrity and ethical values and competence for relevant works;
- The Board is independent from the management and oversees the formulation and effectiveness of the internal control system through the Audit Committee;
- The management establishes the organisational structure, reports on relationships and the appropriate rights and responsibility under the oversight of the Board to achieve the Group's goals;
- Commitment to attracting, developing and retaining talents in complement with the Group's goals;
- To implement a system of accountability for every employee in the responsibilities for internal control during the fulfilment of the Group's corporate goals;

(ii) Risk evaluation

- To ascertain clear objectives to identify and assess the risks in connection with the objectives;
- To identify and analyse from the perspective of the Group in general the risks to be assumed in order to achieve the objectives and determine the basis on which to manage such risks;
- To take into account the potential fraudulent acts in assessing the risks related to achieving goals;
- To identify and assess changes which may materially impact the internal control system;

(iii) Control activities

- To select and formulate control measures in order to reduce the risks in connection with achieving goals to an acceptable level;
- To select and formulate certain general control measures for information technology by using IT services in the pursuit for the Group's goals;
- To ascertain projected objectives with policies and ensure that the policies are implemented in practice with programmes in order to devise control measures;

(iv) Information and communications

- To gather and organise quality information relevant to the Group and the external environment in support for the internal control function;
- To communicate within the Group the information necessary to the operation of internal control, including the goals and responsibilities of internal control;
- To communicate with the external public with regards to the issues which impact the operation of internal control;

(v) Monitoring

- To select, formulate and implement continuous and/or independent assessment to ascertain the existence and normal functioning of each key element in internal control;
- To assess inadequacies in internal control when and as appropriate and notify the person-in-charge, including senior management personnel and the Audit Committee of the Board (if appropriate), about such inadequacies for adopting the remedial actions.

Internal Audit

The responsibilities of the Internal Audit and Control Department (the "IAC") include conducting internal control review based on the approved annual budget plan, and assess regularly the implementation of each financial and operational activity, programme and internal control of the Group. The IAC has unrestricted access to any information related to risk management, control and governance programme of the Group. Audit findings and the remedial plan are submitted by the IAC to the Audit Committee and the management, and internal communications are conducted regularly. The IAC will follow up regularly on all the audit findings to ensure remedies are put in place for every issue. For the fifteen months ended 31 March 2019, the IAC implemented and completed 9 internal audit projects and met with the management to report the relevant findings to Audit Committee.

Whistle-blowing

To prevent illicit acts as far as possible and ensure compliance and operation by the highest moral standards, the Group has designated specific whistle-blowing policies in place to allow employees, business partners and other related stakeholders to report illegal or non-compliant activities involving the Group to the IAC and the Audit Committee in confidentiality. The identity of the whistle-blower and the relevant records of the whistle-blowing are strictly confidential.

Insider information and information disclosure

The Group is aware of and abides by the requirements of insider information and disclosure of information as set out in such laws and regulations as the Listing Rules and the Securities and Futures Ordinance, pursuant to which an information disclosure system is in place. The Group collects and understands potential insider information in accordance with the information disclosure system, and conducts discussions with the management and external legal advisors to ensure that potential insider information is accessed and confidential until disclosure as reasonable and practicable. The system regulates the handling of, and the means to publicise insider information, including:

- Designating specific reporting channels to enable each internal business unit to report on potential insider information to the relevant departments;

- Designated personnel and departments will make decision on the further actions to be taken and the means of disclosure (if any), and report to the Audit Committee (the Board); and

- Appointing specific persons as the main spokesperson to respond to external inquiries.

For the fifteen months Period under review, the Board has conducted annual review of the effectiveness of the Group's risk management and internal control systems for the fifteen months ended 31 March 2019, covering the material financial, operational and compliance controls, and considered the Group's risk management and internal control systems effective and adequate. The Board confirmed that the Group has complied with the relevant code provisions in the CG Code on internal control. The Board has also confirmed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff members are competent to carry out their roles and responsibilities.

EXTERNAL AUDITOR

The Company has engaged PricewaterhouseCoopers ("PwC") as its external auditor. In order to maintain PwC's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all services to be provided by PwC and discusses with PwC the nature and scope of their audit and reporting obligations before the audit commences.

During the fifteen months Period, the remuneration paid or payable to the Group's independent auditor, PricewaterhouseCoopers, and its affiliated firms, for services rendered is broken down below:

	RMB'000
Statutory audit	**5,400**
Non-audit services	**430**
Total	**5,830**

The non-audit services mainly comprised tax compliance and certain agreed upon procedure work. The responsibilities of the independent auditor with respect to the consolidated financial statements for the fifteen months Period are set out in the section "Independent Auditor's Report" on pages 78 to 176.

COMPANY SECRETARY

Ms. Wai Pui Man, the Company Secretary of the Company, confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Articles of Association of the Company and all applicable laws and regulations and the factors set out below.

The Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

COMMUNICATION WITH SHAREHOLDERS

Our Shareholders are very important to us. It is our responsibility to ensure that all Shareholders receive clear, timely and effective information from us.

Our website, www.dxsport.com, is a primary source of information on the Company. The site includes an archive of our business development, financial reports, public announcements, and press releases, as well as detailed information on our corporate governance practices.

The Board views the AGM as one of the principal channels to communicate with the Shareholders of the Company and an opportunity for the Shareholders to raise questions to the Board. The chairman of the Board, chief executive officer, directors and some other senior managements of the Company will be present at the AGM to explain to the Shareholders the Company's business performance, financial situation and future strategies and answer questions from the Shareholders.

To further enhance our relationship with the Shareholders and investors and to ensure that our investors have a better understanding of the Company, we have established an Investor Relations ("IR") Department to handle regular contact with our investors. An Investor Relations Report is produced hereto on page 35 to provide a more comprehensive overview of the work performed by the IR Department during the fifteen months Period.

SHAREHOLDERS' RIGHT

Pursuant to Articles 57 of the Articles of Association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to the Company's articles of association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The contact details of the Board or the Company Secretary are as below:

The Company Secretary
China Dongxiang (Group) Co., Ltd.
Postal address: Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area, Beijing 100176, China
Telephone: (8610) 6783 6585
Facsimile: (8610) 6785 6606
Email: ir@dxsport.com.cn

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as above. Shareholders' questions about their shareholdings should be directed to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar, at Shops 1712–16, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

CONSTITUTIONAL DOCUMENTS

As at 31 March 2019, the Group confirmed that there was not any change on the Memorandum and Articles of Association of the Company.

REPORT OF THE DIRECTORS

The directors have the pleasure of presenting to the shareholders their report together with the audited consolidated financial statements for the fifteen months ended 31 March 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in Mainland of the People's Republic of China and abroad. The principal activities and other particulars of the subsidiaries are set out on pages 142 to 145 of the annual report.

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 16 to 34 of the annual report. That discussion forms part of this directors' report.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares were listed on the Main Board of the Hong Kong Stock Exchange on 10 October 2007.

GROUP PROFIT

The Group's profit for the fifteen months ended 31 March 2019 is set out in the consolidated statement of comprehensive income on page 84 to 85 of this annual report.

DIVIDENDS

An interim dividend of RMB2.45 cents, an interim special dividend of RMB2.45 cents pre ordinary share in respect of the six months ended 30 June 2018 were declared to Shareholders on 15 August 2018 and paid in September 2018.

The Board of the Company has recommended the distribution of a final dividend of RMB1.96 cents and final special dividend of RMB0.49 cents per ordinary share of the Company, amounting to approximately RMB115,368,000 and RMB28,842,000 respectively, subject to approval by the Shareholders of the Company at the AGM to be held on 8 August 2019 and are payable in Hong Kong Dollars based on the rate of HKD1.00 = RMB0.87998 being the official exchange rate of Hong Kong dollars against Renminbi as quoted by the People's Bank of China on 18 June 2019.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Movements in bank loans and other borrowings of the Company and the Group during the year are set out in Note 30 to the consolidated financial statements.

FIVE-YEAR SUMMARY

A summary of the results and assets and liabilities of the Company for the last five years is set out on pages 8 to 9 of this annual report.

SHARE CAPITAL

Movements in the share capital of the Company during the year are set out in Note 23 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2019 amounted to approximately RMB11,002,320,000, which is the total of the share premium account and reserves of the Company calculated in accordance with Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

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

MATERIAL CONTRACT

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling Shareholders.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Chen Yihong *(Chairman)*
Mr. Zhang Zhiyong *(Chief Executive Officer)*
Ms. Chen Chen

Independent Non-Executive Directors:

Dr. Chen Guogang
Mr. Gao Yu
Mr. Liu Xiaosong (appointed and effective from 27 March 2019)
Mr. Chen Johnny (resigned and effective from 27 March 2019)

In accordance with Article 87 of the Company's articles of association, Ms. Chen Chen and Dr. Chen Guogang shall retire from the office by rotation and, being eligible, shall offer themselves for re-election at the forth coming Annual General Meeting ("AGM").

In accordance with Article 86(3) of the Company's articles of association, Mr. Liu Xiaosong, appointed as independent non-executive director on 27 March 2019, shall hold office until the forth coming annual general meeting ("AGM") of the Company and shall then be eligible for re-election at the AGM.

Mr. Chen Yihong (re-elected as an executive Director on 10 May 2018), Mr. Zhang Zhiyong (re-elected as an executive Director on 10 May 2018) and Mr. Gao Yu (re-elected as an independent non-executive director on 10 May 2018), shall hold office until they are required to retired in accordance with the Company's articles of association.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent. Particulars of the directors' remuneration disclosed pursuant to Appendix 16 of the Listing Rules are set out in Note 38 to the consolidated financial statements. Directors' remuneration was determined by reference to his/her duties and responsibilities, experience, performance and market conditions.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section headed "Connected Transactions" below, no contracts of significance to which the Company, any of its subsidiaries, its holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the fifteen months ended 31 March 2019 and up to and including the date of this report.

PERMITTED INDEMNITY PROVISION

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the directors are set out on pages 52 to 54 of this annual report.

RESTRICTED SHARE AWARD SCHEME

On 10 December 2010 (the "Adoption Date"), the Board adopted the restricted share award scheme (the "Share Award Scheme") as an incentive to retain and encourage the participants for the continual operation and development of the Group.

Pursuant to the Share Award Scheme, up to 30,000,000 existing Shares ("Restricted Shares") may be purchased by BOCI-Prudential Trustee Limited ("Trustee") from the market out of cash contributed by the Group and be held in trust for the relevant selected participants until such Shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme (the "Scheme Rules").

An administration committee (comprising the remuneration committee and certain senior management of the Company which shall include the chief executive officer of the Board) (the "Administration Committee") may, subject always to the Scheme Rules, from time to time, determine the number of Restricted Shares to be granted and at its absolute discretion select any selected participant (excluding any excluded employee of the Group as provided under the Scheme Rules) to be a selected participant under the Share Award Scheme.

In addition, the maximum number of Restricted Shares which may be granted to a selected participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at 10 December 2010.

The Share Award Scheme is effective from the Adoption Date (i.e. 10 December 2010) and shall continue in full force and effect for a term of 10 years.

A selected participant will be qualified to receive the Restricted Shares which are referable to him after all the qualifying conditions having been fulfilled in accordance with the vesting schedule pursuant to the Scheme Rules. Pursuant to the Scheme Rules, Restricted Shares held by the Trustee which are referable to a selected participant shall not vest in the selected participant if the employment contract of the selected participant has been terminated by the Company or any of its subsidiary because of, amongst others, (i) dishonesty or serious misconduct; (ii) incompetence or negligence in the performance of his duties; (iii) becoming bankrupt; and (iv) being convicted for any criminal offence involving his integrity or honesty etc.

With a view to allow the Board to have more flexibility in the administration of the scheme, the Share Award Scheme has been amended on 6 July 2012 pursuant to which, the grant share under the Share Award Scheme are subject to the vesting schedule or any other date as determined by the Chairman of the Board and the Chief Executive Officer (or any person designated by them).

For the fifteen months ended 31 March 2019, none of the Restricted Shares were granted to any eligible participant pursuant to the Restricted Share Award Scheme. None of the Restricted Shares were vested during the period. As at 31 March 2019, the number of Restricted Shares granted under the scheme amounted to 7,081,000 shares, representing approximately 0.125% of the issued shares as at the Adoption Date. In 2016, 131,071 granted Restricted Shares was lapsed.

As at 1 January 2018, the number of restricted shares are 23,050,071 shares. As at 31 March 2019, the number of restricted shares are 23,050,071 shares.

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 8 to the consolidated financial statements.

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

For the fifteen months ended 31 March 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2019, the interests and short positions of the directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 & 8 Part XV of the SFO, including interests and short positions which the directors and chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Model Code contained in the Listing Rules are as follows:

Interests in Shares, underlying Shares and debentures of the Company:

Name of Directors	Nature of interest	Number and class of securities: Long position	Number and class of securities: Short position	Approximate percentage of total issued Shares
Mr. Chen Yihong	Interest of a controlled corporation[1]	2,260,862,000 shares	—	38.41%
	Interest of a controlled corporation[3]	323,090,025 shares	—	5.49%
Mr. Zhang Zhiyong	Beneficial owner[3]	166,120,025 shares	—	2.82%
Ms. Chen Chen	Interest of a controlled corporation[2]	125,944,100 shares	—	2.14%
	Beneficial owner	40,000,000 shares	—	0.68%

Notes:

(1) The entire issued share capital of Poseidon Sports Limited ("Poseidon") is held by Harvest Luck Development Limited ("Harvest Luck"), which is in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong and Harvest Luck are therefore deemed to be interested in the shares held by Poseidon.

(2) Bountiful Talent Ltd is wholly-owned and controlled by Ms. Chen Chen and Ms. Chen Chen is therefore deemed to be interested in the shares held by Bountiful Talent Ltd.

(3) 323,090,025 shares (out of which 166,090,025 shares are held by Mr. Zhang Zhiyong) have been charged to Bright Pacific Enterprises Limited ("Bright Pacific"). Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in the shares interested in by Bright Pacific by virtue of Bright Pacific being a wholly owned subsidiary of the Company and Poseidon being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.

Save as disclosed above, as at 31 March 2019, none of the directors and chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 2019, other than the interests and short positions as disclosed above, the following persons have interests or short positions in the Shares, underlying Shares and debentures of the Company which fall to be disclosed to the Company under Divisions 2 & 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Part XV (s.336) of the SFO, or otherwise known to the directors:

Name of Shareholders	Nature of interest	Number of Shares		Approximate percentage of shareholding
		Long position	Short position	
Poseidon Sports Limited	Corporate interest	2,260,862,000	—	38.41%
	Interest in a controlled corporation[2]	323,090,025	—	5.49%
Harvest Luck Development Limited[1]	Interest in a controlled corporation	2,260,862,000	—	38.41%
	Interest in a controlled corporation[2]	323,090,025	—	5.49%
UBS Group AG	Interest in a controlled corporations[3]	163,125,697	—	2.77%
	Person having a security interest in shares	157,390,294	—	2.67%

Notes:

(1) The entire issued share capital of Poseidon Sports Limited ("Poseidon") is held by Harvest Luck Development Limited ("Harvest Luck"), which is in turn wholly-owned and controlled by Mr. Chen Yihong. Mr. Chen Yihong and Harvest Luck are therefore deemed to be interested in the shares held by Poseidon.

(2) 323,090,025 shares (out of which 166,090,025 shares are held by Mr. Zhang Zhiyong) have been charged to Bright Pacific Enterprises Limited ("Bright Pacific"). Each of Mr. Chen Yihong, Harvest Luck, Poseidon and the Company is deemed to be interested in the shares interested in by Bright Pacific by virtue of Bright Pacific being a wholly owned subsidiary of the Company and Poseidon being entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of the Company.

(3) These shares are held by entities 100% controlled by UBS Group AG, including UBS AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd, UBS Asset Management Trust Company, UBS Asset Management (UK) Limited, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG.

Save as disclosed above, as at 31 March 2019, the directors are not aware of any other person or corporation having an interest or short position in Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

On 11 January 2018, Shanghai Gabbana Sporting Goods Co., Ltd. ("Shanghai Gabbana"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Tianjin Fushengbang Enterprise Management Consulting Co., Ltd. ("Tianjin Fushengbang"), an independent third party not connected with the Company or its connected persons.

Pursuant to the Sale and Purchase Agreement, Shanghai Gabbana agreed to purchase, and Tianjin Fushengbang agreed to sell, 47% equity interest in Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. (the "Tianjin Mai Sheng Yue He") for the consideration of RMB7,608,681.99 (the "Acquisition").

As at the date of the Sale and Purchase Agreement, Beijing Yi Tian Bo You Investment Co., Ltd. ("Chen Co") held 13% equity interest in and thus was a substantial shareholder of Tianjin Mai Sheng Yue He. Chen Co was owned as to 45%, 35% and 20%, respectively by Mr. Chen Yiliang, Mr. Chen Yiyong and Mr. Chen Yizong, each being a brother (and thus an associate) of Mr. Chen Yihong, an executive Director and the controlling shareholder of the Company and hence a controller pursuant to Rule 14A.28 of the Listing Rules. Therefore, the Acquisition constituted a connected transaction of the Company under Rule 14A.28 of the Listing Rules.

Please refer to the announcement of the Company dated 11 January 2018 for further details.

On 19 January 2018, the Company entered into a total of seven subscription agreements with Mr. Zhang Zhiyong (an executive Director), Ms. Chen Chen (an executive Director), Mr. Ren Yi (a director of the Company's subsidiary), Mr. Yang Yang (a director of the Company's subsidiary), Mr. Lyu Guanghong (a director of the Company's subsidiaries), Ms. Tang Lijun (a director of the Company's subsidiary) and Ms. Sun Wei (a supervisor of the Company's subsidiary) (the "Connected Subscribers"), respectively, pursuant to which the Company agreed to allot and issue an aggregate of 123,110,000 new Shares to the Connected Subscribers (the "Connected Subscriptions") at the subscription price of HK$1.35 per Share for the aggregate subscription consideration of approximately HK$166,198,500 in cash.

On 19 January 2018, Bright Pacific Enterprises Limited ("BPEL"), a wholly-owned subsidiary of the Company, entered into a total of six loan agreements with the Connected Subscribers other than Ms. Chen Chen (the "Connected Subscriber Borrowers"), pursuant to which BPEL agreed to extend 5-year secured term loans in the aggregate principal amount of HK$116,248,500 to the Connected Subscriber Borrowers (the "Connected Subscription Loans") for financing the respective Connected Subscriptions.

The Connected Subscribers were directors of the Company or the Company's subsidiaries (as the case maybe), and therefore were connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the Connected Subscriptions and the Connected Subscription Loans constituted connected transactions of the Company.

Please refer to the announcement of the Company dated 19 January 2018 for further details.

CONTINUING CONNECTED TRANSACTIONS

On 11 March 2016, Shanghai Kappa Sporting Goods Co., Ltd. ("Shanghai Kappa"), an indirect wholly-owned subsidiary of the Company, entered into a framework agreement (the "Framework Agreement") with Mai Sheng Yue He Sportswear Company Limited ("Mai Sheng Yue He"), which at the material time was an associate of Mr. Chen Yihong (an executive Director) and hence a connected person of the Company, for regulating the terms of the supply of goods from Shanghai Kappa to Mai Sheng Yue He. The Framework Agreement shall expire on 31 December 2018 and the amount paid/to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Framework Agreement for each of the financial years ended/ending 31 December 2016, 2017 and 2018 shall not exceed RMB251,316,000, RMB301,579,000 and RMB361,895,000 (each the "Annual Cap"), respectively. Please refer to the announcement of the Company dated 11 March 2016 and the circular of the Company dated 22 April 2016 for further details. For the financial year ended 31 December 2018, the transactions conducted pursuant to the arrangement under the Framework Agreement amounted to RMB128,577,000.

On 11 January 2018, Shanghai Kappa Sporting Goods Co., Ltd. ("Shanghai Kappa"), an indirect wholly-owned subsidiary of the Company, entered into a master supply agreement (the "Master Supply Agreement") with Tianjin Mai Sheng Yue He in relation to the supply and purchase of sport-related products from Shanghai Kappa to Tianjin Mai Sheng Yue He.

Upon completion of the Acquisition referred to above, Tianjin Mai Sheng Yue He would be owned by Shanghai Gabbana, Tianjin Fushengbang and Chen Co as to 77%, 10% and 13%, respectively, and would be accounted for as a subsidiary of the Company. Accordingly, the transactions contemplated under the Master Supply Agreement would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Master Supply Agreement shall expire on 31 December 2020 and the annual aggregate amount paid/to be paid by Tianjin Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Master Supply Agreement for each of the financial years ended/ending 31 December 2018, 2019 and 2020 shall not exceed RMB22,960,000, RMB25,260,000 and RMB27,780,000 (each the "Tianjin Mai Sheng Yue He Annual Cap"), respectively. Please refer to the announcement of the Company dated 11 January 2018 for further details. For the financial year ended 31 December 2018, the transactions conducted pursuant to the arrangement under the Master Supply Agreement amount to RMB3,797,000. For the three months ended 31 March 2019, the transactions conducted pursuant to the arrangement under the Master Supply Agreement amounted to RMB445,000.

On 9 October 2018, Shanghai Kappa entered into a framework agreement (the "Framework Agreement") with Mai Sheng Yue He Sportswear Company Limited ("Mai Sheng Yue He"), which at the material time was an associate of Mr. Chen Yihong (an executive Director) and hence a connected person of the Company, for regulating the terms of supply of goods from Shanghai Kappa to Mai Sheng Yue He. The Framework Agreement shall expire on 31 March 2021 and the aggregate amount paid/to be paid by Mai Sheng Yue He to Shanghai Kappa for the supply of goods under the Framework Agreement for the three months ended 31 March 2019, the twelve months ending 31 March 2020 and the twelve months ending 31 March 2021 shall not exceed RMB51,000,000, RMB228,000,000 and RMB285,000,000 (each the "Mai Sheng Yue He Annual Cap"), respectively. Please refer to the announcement of the Company dated 9 October 2018 and the circular of the Company dated 12 November 2018 for further details. For the three months ended 31 March 2019, the transactions conducted pursuant to the arrangement under the Framework Agreement amounted to RMB36,973,000.

The independent non-executive Directors have reviewed the above transactions and confirmed that the transactions have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms; and (3) in accordance with the Master Supply Agreement and the Framework Agreement (as the case may be) and on fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the above transactions and given written notice to the Board to confirm that the above transactions: (1) have been approved by the Board; (2) have been conducted in accordance with the Master Supply Agreement and the Framework Agreement (as the case may be); (3) were in accordance with the pricing policies of the Company; and (4) did not exceed the Tianjin Mai Sheng Yue He Annual Cap for the financial year ended 31 December 2018 and the Mai Sheng Yue He Annual Cap for the financial year ended 31 December 2018 and for the three months ended 31 March 2019.

The related party transactions are set out in Note 36 to the consolidated financial statements. Apart from the connected transactions and continuing connected transactions disclosed above, all other related party transactions did not fall under the scope of "Connected Transaction" and "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules.

MAJOR SUPPLIERS AND CUSTOMERS

During the fifteen months Period ended 31 March 2019, the purchases from the largest supplier and the aggregated purchases from the largest five suppliers amounted for 7% and 19% of the Group's total purchases, and the sales to the largest customer and the aggregated sales to the largest five customers amounted for 4% and 13% of the Group's total sales, respectively.

CORPORATE GOVERNANCE

Throughout the fifteen months ended 31 March 2019, the Company has complied with all the code provisions, except two deviations from code provisions E.1.2 and A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 55 to 68 of this report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company at the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company until the conclusion of the next AGM is to be proposed at the forthcoming AGM.

On behalf of the Board
Chen Yihong
Chairman

19 June 2019

Independent Auditor's Report

羅兵咸永道

Independent Auditor's Report
To the Shareholders of China Dongxiang (Group) Co., Ltd.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 176, which comprise:

- the consolidated balance sheet as at 31 March 2019;
- the consolidated statement of comprehensive income for the fifteen months period then ended;
- the consolidated statement of changes in equity for the fifteen months period then ended;
- the consolidated statement of cash flows for the fifteen months period then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the fifteen months period then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is the valuation of level 3 financial assets at fair value through profit or loss.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of level 3 Financial assets at fair value through profit or loss	
Refer to Notes 3.3 to the consolidated financial statements, which disclosed the Group's level 3 financial assets at fair value through profit or loss of RMB4,811 million. The Group has invested in certain financial assets at fair value through profit or loss with fair value of RMB7,452 million as at 31 March 2019 and among which, RMB4,811 million is the Group's investments in level 3 financial assets at fair value through profit or loss, representing 41.3% of the total assets value of the Group as at 31 March 2019. These level 3 financial assets at fair value through profit or loss were primarily investments in private equity funds with portfolios principally composed of equity investments in various unlisted companies or private equity funds and were valued with inputs that were not based on observable market data.	On sample basis, our major procedures on valuation of the level 3 financial assets at fair value through profit or loss were as follows: 1. We evaluated and validated the design and the operation of Management's internal controls of the fair value assessment of level 3 financial assets at fair value through profit or loss, such as management's approval of key assumptions and inputs. 2. We reviewed the investment agreements and communicated with Management, as well as the management of the private equity funds if necessary, to understand the investment structure and the underlying portfolios. We also reviewed the fair value assessment documents prepared by the Management, to assess the appropriateness of the valuation method adopted, and to test the numerical accuracy of the calculation. 3. We assessed the fair value assessment of investments which adopted the cost approach (specifically, net assets method), market approach and income approach (specifically discounted cash flow method), including but not limited to: a) understanding and assessing the fund managements' capability of valuation; b) obtaining and assessing the consistency of the fair value information contained in the respective fund reports prepared by fund managements, and/or audited financial statements of these funds, (if available) with the fair value of each investment contained in managements' fair value assessment documents; c) obtaining direct confirmations regarding investment related information from the fund managements; d) obtaining and evaluating the key assumptions used for the investments; e) assessing the reasonableness of the future amount of expected or contractual cash flows, as well as the discount rates applied for calculating the present amount of investments.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Depending on the types of unlisted equity investments, the following fair value assessment methods and related key assumptions and judgements are adopted by the Group's management ("Management"): 1. Cost approach (specifically, net assets method): NAV of the private equity funds, of which the underlining assets and liabilities are fair valued by utilizing the techniques, including the cost approach, the market approach and the income approach, either alone or in combination of these 3 approaches; 2. Market approach: Uses the prices and other relevant information generated by the market transactions, including the price of the recent transactions and changes subsequent to the relevant transaction date; 3. Income approach (specifically, discounted cash flow method): Uses valuation techniques to convert future amounts (for examples, cash flows or earnings) to a single present amount (discounted); The valuation of level 3 financial assets at fair value through profit or loss was a key area of audit focus due to their significance together with the significant and critical judgements used in selection of valuation methods and determination of inputs when performing the fair value assessment.	Based on the above procedures performed, we found the inputs and estimates used in the management's valuation of fair value of level 3 financial assets at fair value through profit or loss to be supported by available evidences and consistent with our understanding.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Ping Fai.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 June 2019

Consolidated Statement of Comprehensive Income

For the fifteen months ended 31 March 2019

	Note	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 (Restated) RMB'000
Revenue	5	**2,143,883**	1,455,331
Cost of sales	7	**(881,683)**	(592,929)
Reversal of/(provision for) impairment of inventories — net	7	**7,969**	(6,300)
Gross profit		**1,270,169**	856,102
Distribution expenses	7	**(1,112,639)**	(669,004)
Administrative expenses	7	**(224,551)**	(170,744)
(Provision for)/reversal of impairment of financial assets — net		**(2,091)**	50,632
Other gains — net	6	**1,109,255**	959,864
Operating profit		**1,040,143**	1,026,850
Finance income	9	**36,807**	21,003
Finance expenses	9	**(29,356)**	(100,476)
Finance income/(expenses) — net	9	**7,451**	(79,473)
Share of post-tax losses of joint ventures and associates accounted for using the equity method		**(21,968)**	(17,464)
Profit before income tax		**1,025,626**	929,913
Income tax expense	10	**(166,728)**	(128,984)
Profit for the period/year		**858,898**	800,929
Profit attributable to:			
— Owners of the Company		**865,852**	804,647
— Non-controlling interests		**(6,954)**	(3,718)
		858,898	800,929

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the fifteen months ended 31 March 2019

	Note	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 (Restated) RMB'000
Profit for the period/year		**858,898**	800,929
Other comprehensive income			
Items that may be reclassified to profit or loss			
— Change in the fair value of available-for-sale financial assets, net of tax		**—**	598,115
— Currency translation differences		**99,388**	(114,191)
Other comprehensive income for the period/year, net of tax		**99,388**	483,924
Total comprehensive income for the period/year		**958,286**	1,284,853
Total comprehensive income for the period/year attributable to:			
— Owners of the Company		**965,240**	1,288,571
— Non-controlling interests		**(6,954)**	(3,718)
		958,286	1,284,853
Earnings per share attributable to owners of the Company for the period/year			
(expressed in RMB cents per share)			
— Basic and diluted earnings per share	11	**14.91**	14.51

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 March 2019

	Note	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**111,068**	97,168
Lease prepayments	14	**10,509**	10,866
Intangible assets	15	**213,884**	222,063
Investments accounted for using the equity method	12(c)	**151,680**	120,703
Available-for-sale financial assets		**—**	4,850,968
Financial assets at fair value through profit or loss	20	**5,890,726**	119,167
Deferred income tax assets	16	**252,686**	138,198
Other financial assets at amortised cost	19	**499,226**	700,519
Other assets	22	**45,752**	28,048
Total non-current assets		**7,175,531**	6,287,700
Current assets			
Inventories	17	**455,364**	321,021
Trade receivables	18	**174,462**	234,194
Available-for-sale financial assets		**—**	212,412
Other current assets	22	**151,709**	100,758
Financial assets at fair value through profit or loss	20	**1,561,146**	322,846
Other financial assets at amortised cost	19	**974,874**	1,898,798
Restricted cash	21	**285,581**	390,859
Term deposits with initial term over three months and within one year	21	**104,904**	100,899
Cash and cash equivalents	21	**766,722**	1,051,865
Total current assets		**4,474,762**	4,633,652
Total assets		**11,650,293**	10,921,352
Equity			
Equity attributable to owners of the Company			
Share capital and share premium	23	**1,090,005**	861,165
Shares held for employee share scheme	24	**(196)**	(196)
Reserve	25	**9,161,152**	8,724,395
Capital and reserves attributable to owners of the Company		**10,250,961**	9,585,364
Non-controlling interests		**10,790**	13,295
Total equity		**10,261,751**	9,598,659

Consolidated Balance Sheet

As at 31 March 2019

	Note	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Liabilities			
Non-current liabilities			
Borrowings	30	—	274,497
Accruals and other payables	28	**5,739**	—
Deferred income tax liabilities	16	**265,151**	163,287
Total non-current liabilities		**270,890**	437,784
Current liabilities			
Derivatives	29	**41,591**	58,672
Contract liabilities	32	**29,595**	58,308
Borrowings	30	**527,636**	228,697
Trade payables	27	**149,406**	152,079
Accruals and other payables	28	**234,626**	264,661
Provisions	31	**6,221**	15,571
Current income tax liabilities		**128,577**	106,921
Total current liabilities		**1,117,652**	884,909
Total liabilities		**1,388,542**	1,322,693
Total equity and liabilities		**11,650,293**	10,921,352

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 84 to 90 were approved by the Board of Directors on 19 June 2019 and were signed on its behalf.

CHEN YIHONG	**ZHANG ZHIYONG**
Executive Director & Chairman	*Executive Director*

Consolidated Statement of Changes in Equity

For the fifteen months ended 31 March 2019

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium account RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		53,589	659,018	(196)	1,441,281	7,503,817	9,657,509	17,013	9,674,522
Comprehensive income									
Profit for the period (restated)		—	—	—	—	804,647	804,647	(3,718)	800,929
Other comprehensive income									
Disposals — fair value reclassified to statement of comprehensive income		—	—	—	(670,798)	—	(670,798)	—	(670,798)
Fair value change of available-for-sale financial assets after netting off the impact of deferred tax liabilities		—	—	—	1,268,913	—	1,268,913	—	1,268,913
Currency translation differences		—	—	—	(114,191)	—	(114,191)	—	(114,191)
Total other comprehensive income, net of tax		—	—	—	483,924	—	483,924	—	483,924
Total comprehensive income		—	—	—	483,924	804,647	1,288,571	(3,718)	1,284,853
Transaction with owners									
Issuance of new ordinary shares		1,179	147,379	—	—	—	148,558	—	148,558
Dividends relating to 2016 final and 2017 interim declared and paid in the current period	33	—	—	—	—	(1,509,274)	(1,509,274)	—	(1,509,274)
Total contribution by and distribution to owners, recognised directly in equity		1,179	147,379	—	—	(1,509,274)	(1,360,716)	—	(1,360,716)
Appropriation to statutory reserves	25	—	—	—	14,592	(14,592)	—	—	—
Disposal of a subsidiary		—	—	—	(630)	630	—	—	—
Total transactions with owners, recognised directly in equity		1,179	147,379	—	13,962	(1,523,236)	(1,360,716)	—	(1,360,716)
Balance at 31 December 2017		54,768	806,397	(196)	1,939,167	6,785,228	9,585,364	13,295	9,598,659

Consolidated Statement of Changes in Equity

For the fifteen months ended 31 March 2019

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium account RMB'000	Shares held for employee share scheme RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017 as originally presented		54,768	806,397	(196)	1,939,167	6,785,228	9,585,364	13,295	9,598,659
Change in accounting policies	2.2	—	—	—	(1,957,344)	1,957,344	—	—	—
Restated total equity at 1 January 2018		54,768	806,397	(196)	(18,177)	8,742,572	9,585,364	13,295	9,598,659
Comprehensive income									
Profit for the period		—	—	—	—	865,852	865,852	(6,954)	858,898
Other comprehensive income									
Currency translation differences		—	—	—	99,388	—	99,388	—	99,388
Total comprehensive income		—	—	—	99,388	865,852	965,240	(6,954)	958,286
Transaction with owners									
Issuance of new ordinary shares	23(a)	1,698	227,142	—	—	—	228,840	—	228,840
Dividends relating to 2017 final and 2018 interim declared and paid in the current period	33	—	—	—	—	(528,483)	(528,483)	—	(528,483)
Total contribution by and distribution to owners, recognised directly in equity		1,698	227,142	—	—	(528,483)	(299,643)	—	(299,643)
Appropriation to statutory reserves	25	—	—	—	4,705	(4,705)	—	—	—
Disposal of a subsidiary		—	—	—	(2,331)	2,331	—	—	—
Non-controlling interest on acquisition of a subsidiary		—	—	—	—	—	—	4,449	4,449
Total transactions with owners, recognised directly in equity		1,698	227,142	—	2,374	(530,857)	(299,643)	4,449	(295,194)
Balance at 31 March 2019		56,466	1,033,539	(196)	83,585	9,077,567	10,250,961	10,790	10,261,751

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the fifteen months ended 31 March 2019

	Note	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	34	**(234,242)**	120,309
Interest received		**20,815**	20,172
Income tax paid		**(157,696)**	(119,940)
Net cash (outflow)/inflow from operating activities		**(371,123)**	20,541
Cash flows from investing activities			
Purchase of property, plant and equipment		**(27,090)**	(41,079)
Purchase of intangible assets		**(4,442)**	(4,687)
(Increase)/decrease in term deposits with initial terms over three months	21	**(4,005)**	5,899
Proceeds from disposal of property, plant and equipment and intangible assets	34	**1,214**	29
Increase in investments in available-for-sale financial assets		**—**	(690,019)
Increase in financial assets at fair value through profit or loss		**(3,306,241)**	(1,973,936)
Proceeds from disposal of available-for-sale financial assets		**—**	1,471,789
Proceeds from disposal of other financial assets		**2,128,663**	1,325,684
Proceeds from disposal of financial assets at fair value through profit or loss		**3,155,040**	1,888,735
Proceeds from call options and put options — net		**2,838**	16,708
Increase in loans receivables		**(1,728,011)**	(1,022,284)
Dividend received from available-for-sale financial assets		**—**	36,963
Interest received from other financial assets at amortised cost		**119,853**	100,258
Dividend and investment income from financial assets at fair value through profit or loss		**160,863**	41,098
Payments for acquisition of a joint venture		**(40,000)**	—
Payments for acquisition of an associate		**(5,000)**	—
Payments for acquisition of a subsidiary, net of cash acquired		**(6,904)**	—
Net cash inflow from investing activities		**446,778**	1,155,158
Cash flows from financing activities			
Dividends paid		**(528,483)**	(1,509,274)
Proceeds from borrowings		**507,151**	228,697
Repayments of borrowings		**(496,981)**	(459,368)
Interest paid		**(26,985)**	(20,472)
Proceeds from issuance of ordinary shares		**40,145**	—
Decrease in restricted cash	21	**105,278**	6,633
Net cash outflow from financing activities		**(399,875)**	(1,753,784)
Net decrease in cash and cash equivalents		**(324,220)**	(578,085)
Cash and cash equivalents at the beginning of the period/year		**1,051,865**	1,713,464
Effects of exchange rate changes on cash and cash equivalents		**39,077**	(83,514)
Cash and cash equivalents at end of the period/year	21	**766,722**	1,051,865

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

China Dongxiang (Group) Co., Ltd. (the "Company") and its subsidiaries (together the "Group") are principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories and investment activities in Mainland of the People's Republic of China (the "PRC"), and abroad.

The Company was incorporated in the Cayman Islands on 23 March 2007 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") since 10 October 2007.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These financial statements have been approved for issue by the Board of Directors on 19 June 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the period/year presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

On 4 July 2018, the Company announced to change the financial year end date of the Company from 31 December to 31 March. Accordingly, the current financial year covers a fifteen months period from 1 January 2018 to 31 March 2019 with the comparative financial year covers a twelve months period from 1 January 2017 to 31 December 2017.

(i) Compliance with IFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iii) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers, and
- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2, and
- Annual Improvements to IFRS Standards 2014–2016 cycle, and
- Transfers to Investment Property — Amendments to IAS 40, and
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The impact of the adoption of IFRS 9 and IFRS 15 are disclosed in Note 2.2 below. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iv) New standards and interpretations not yet adopted (Continued)

IFRS 16 Leases (Continued)

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB164,965,000, see Note 35. Of these commitments, approximately RMB14,297,000 relate to short-term leases will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB134,299,000 and lease liabilities of RMB134,299,000 on 1 April 2019.

The Group expects that net profit after tax will have no significant impact for the financial year beginning on 1 April 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next financial year.

Date of adoption by the Group

The Group will apply the new standard from the financial year beginning on 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. As explained in Note 2.2(b) below, IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(a) Impact on the financial statements (Continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 Dec 2017 As originally presented RMB'000	IFRS 15 RMB'000	31 Dec 2017 Restated RMB'000	IFRS 9 RMB'000	1 January 2018 Restated RMB'000
Non-current assets					
Available-for-sale financial assets	4,850,968	—	4,850,968	(4,850,968)	—
Financial assets at fair value through profit or loss	119,167	—	119,167	4,850,968	4,970,135
Prepayments, deposits and other receivables	728,567	(728,567)	—	—	—
Other financial assets at amortised cost	—	700,519	700,519	—	700,519
Other assets	—	28,048	28,048	—	28,048
Current assets					
Prepayments, deposits and other receivables	1,977,022	(1,977,022)	—	—	—
Available-for-sale financial assets	212,412	—	212,412	(212,412)	—
Financial assets at fair value through profit or loss	322,846	—	322,846	1,302,273	1,625,119
Other financial assets at amortised cost	—	1,898,798	1,898,798	(1,089,861)	808,937
Other current assets	—	100,758	100,758	—	100,758
Total assets	**10,898,818**	**22,534**	**10,921,352**	**—**	**10,921,352**
Current liabilities					
Accruals and other payables	287,649	(22,988)	264,661	—	264,661
Provisions	28,357	(12,786)	15,571	—	15,571
Contract liabilities	—	58,308	58,308	—	58,308
Total liabilities	**1,300,159**	**22,534**	**1,322,693**	**—**	**1,322,693**
Net assets	**9,598,659**	**—**	**9,598,659**	**—**	**9,598,659**
Reserves	8,724,395	—	8,724,395	—	8,724,395
Total equity	**9,598,659**	**—**	**9,598,659**	**—**	**9,598,659**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(a) Impact on the financial statements (Continued)

Statement of comprehensive income (extract) — year ended 31 December 2017	**As originally presented**	**IFRS 9**	**IFRS 15**	**Restated**
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,352,643	—	102,688	1,455,331
Gross profit	753,414	—	102,688	856,102
Reversal of impairment of financial assets — net	—	50,632	—	50,632
Distribution expenses	(566,316)	—	(102,688)	(669,004)
Administrative expenses	(120,112)	(50,632)	—	(170,744)

(b) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Notes 2.12 and 2.14 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Note	**Retained earnings** RMB'000
Balance as at 31 December 2017 — IAS 39/IAS 18		6,785,228
Reclassify investments from available-for-sale to financial assets at fair value through profit or loss ("FVPL")	(i)	1,957,344
Balance as at 1 January 2018 — IFRS 9		8,742,572

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments (Continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets — 1 January 2018	Note	**FVPL** RMB'000	**FVOCI (Available-for-sale 2017)** RMB'000	**Amortised cost (other receivables 2017)** RMB'000
Balance as at 31 December 2017 — IAS 39		442,013	5,063,380	1,089,861
Reclassify investments from available-for-sale to FVPL	(a)	5,063,380	(5,063,380)	—
Reclassify wealth management products from other receivables to FVPL	(b)	1,089,861	—	(1,089,861)
Balance as at 1 January 2018 — IFRS 9		6,595,254	—	—

The impact of these changes on the Group's equity is as follows:

	Note	**Effect on other reserves** RMB'000	**Effect on retained earnings** RMB'000
Balance as at 31 December 2017 — IAS 39		1,939,167	6,785,228
Reclassify investments from available-for-sale to FVPL	(a)	(1,957,344)	1,957,344
Balance as at 1 January 2018 — IFRS 9		(18,177)	8,742,572

(a) Equity investments previously classified as available-for-sale

The Group elected to present in profit or loss changes in the fair value of all its equity investments previously classified as available-for-sale. As a result, assets with a fair value of RMB5,063,380,000 were reclassified from available-for-sale financial assets to FVPL and accumulated fair value gains previously recognised in other reserves of RMB1,957,344,000 were reclassified from other reserves to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(b) IFRS 9 Financial Instruments (Continued)

(i) Classification and measurement (Continued)

(b) Reclassification from other receivables to FVPL

Investments in wealth management products were reclassified from other receivables (after bifurcating the embedded derivatives) to financial assets at FVPL (RMB1,089,861,000 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables, and
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial and there was no adjustment in retained earnings as at 1 January 2018. Note 3.1 provides for details about the calculation of the allowance.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(c) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

		IAS 18 carrying amount 31 December 2017	Reclassi-fication	Remeasure-ments	IFRS 15 carrying amount 1 January 2018
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Prepayments, deposits and other receivables	(iii)	728,567	(728,567)	—	—
Other financial assets at amortised cost	(iii)	—	700,519	—	700,519
Other assets	(iii)	—	28,048	—	28,048
Current assets					
Prepayments, deposits and other receivables	(iii)	1,977,022	(1,977,022)	—	—
Other financial assets at amortised cost	(iii)	—	1,898,798	—	1,898,798
Other current assets	(i), (iii)	—	78,224	22,534	100,758
Current Liabilities					
Accruals and other payables	(i), (iii)	287,649	(58,308)	35,320	264,661
Provisions	(i), (iii)	28,357	—	(12,786)	15,571
Contract liabilities	(iii)	—	58,308	—	58,308

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(c) IFRS 15 Revenue from Contracts with Customers (Continued)

There was no impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017:

(i) Accounting for refunds

When the customer has a right to return the product within a given period, the Group is obliged to refund the purchase price. Under IAS 18, the expected value of the returns were recognised by the Group as a reduction of revenue and cost of sales were adjusted for the value of the corresponding goods expected to be returned. In respect to the presentation in balance sheet, the Group previously recognized a provision for returns which was measured on a net basis at the margin on the sale (RMB12,786,000 at 31 December 2017).

Under IFRS 15, a refund liability for the expected refunds to customers is recognised as adjustment to accruals and other payables (RMB35,320,000 at 1 January 2018). At the same time, the Group has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales (RMB22,534,000 at 1 January 2018). The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

To reflect this change in policy, the Group has reclassified RMB12,786,000 from provisions to accruals and other payables and additionally recognized accruals and other payables and other current assets of RMB22,534,000 on 31 December 2017.

(ii) Accounting for reclassification between revenue and distribution expenses

Under IFRS 15, the Group changes the presentation for revenue from a net basis to a gross basis for certain retail sales. As a consequence, revenue and distribution expenses for the year ended 31 December 2017 increased by RMB102,688,000. For the fifteen months ended 31 March 2019, revenue and distribution expenses increased by RMB142,126,000.

(iii) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to customer loyalty programme were previously included in accruals and other payables (RMB58,308,000 as at 1 January 2018).

- Accruals and other payables relating to refund liabilities were previously presented in current provisions (RMB12,786,000 as at 1 January 2018).

- Other current receivables and prepayments were previously presented together as prepayments, deposits and other receivables but are now presented as other financial assets at amortised cost (receivables) and other current assets (prepayments) in the balance sheet, to reflect their different nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group only has joint ventures.

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Principles of consolidation and equity accounting (Continued)

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Business combinations

The acquisition method of accounting is used to account for the all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company is United States Dollars ("USD") and the functional currency of most of its subsidiaries is Renminbi ("RMB") or Japanese Yen ("JPY"). The consolidated financial statements are presented in RMB, which is the presentation currency of the financial statements of the Company and the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the consolidated statement of comprehensive income, within finance income — net. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other gains — net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property, plant and equipment (Continued)

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

— Buildings	20–35 years
— Office furniture and equipment	2–15 years
— Vehicles	5 years
— Leasehold improvements	2–5 years or over lease term

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

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 (Note 2.11).

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

Construction-in-progress represents buildings, plant and/or machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2.9 Leasehold land use right

Leasehold land use rights are stated at cost less accumulated amortisation and impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods from 45 to 50 years. Amortisation of leasehold land use rights is calculated on a straight-line basis over the period of the leases.

2.10 Intangible assets

(i) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(ii) Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Intangible assets (Continued)

(iii) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

• Trademark	40 years
• IT development and software	2–5 years

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Investments and other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

- those to be measured at amortised cost

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) — net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses) — net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) — net and impairment expenses are presented as separate line item in the statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) — net in the period in which it arises.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains/(losses) — net when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) — net in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 18 for further details.

(v) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017 (Continued)

(a) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(b) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' — in profit or loss within other gains/(losses) — net
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3(a).

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017 (Continued)

(c) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the consolidated statement of comprehensive income.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — was removed from equity and recognised in the consolidated statement of comprehensive income.

Impairment losses on equity instruments that were recognised in the consolidated statement of comprehensive income not reversed through the consolidated statement of comprehensive income in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss was reversed through the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.14 Derivative financial instrument

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not designate any derivatives as hedging instruments.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity (Note 23).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

Shares held by BOCI-Prudential Trustee Limited ("Trustee") are disclosed as treasury shares and deducted from contributed equity.

2.19 Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Borrowings cost

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.23 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Past-service costs are recognised immediately in the consolidated statement of comprehensive income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.24. Share-based payments

The Group adopted the Dongxiang Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") (Note 26(a)) on 10 December 2010. The fair value of the services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted as at date of grant, including any market performance conditions, excluding the impacts of any service and non-market performance vesting conditions as well as including any non-vesting conditions, when applicable. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

For the Company's separate financial statements, fair value of restricted shares granted to its subsidiaries' employees is recognised as increase in investment in subsidiaries and equity.

At the end of each period, the Group revises its estimates of the number of restricted shares that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.27 Revenue recognition

(a) Sales of goods — wholesale

The Group manufactures and sells a range of sport-related apparels, footwears and accessories to its distributors in China and Japan. Sales of goods are recognised when control of the products has transferred, being when products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products of the Group are often sold with sales discounts. Revenue from these sales are recognised based on the price specified in the sales contracts, net of the estimated sales discounts at the time of sale. The sales discounts are estimated based on the terms of agreements. No element of financing is deemed present as the sales are made with a credit term of 60 days, which is consistent with the market practice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Revenue recognition (Continued)

(a) Sales of goods — wholesale (Continued)

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sales of goods — retail

The Group operates a chain of retail shops and outlets for selling sport apparels, footwears and accessories in China and Japan. Revenue from the sale of goods is recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit cards or through on-line payment platforms.

(c) Sales of goods — online sales

Revenue from the sale of goods on the internet is recognised when the control of the products has transferred, which is the point of acceptance by the customers. Transactions are settled by cash, credit card or through third party on-line payment platforms.

(d) Sales of goods — consignment sales

Consignment sales are the sales of goods of the Group under which the recipient undertakes to sell the goods on behalf of the Group. Revenue is recognised by the Group when the control of the goods is transferred to the customer.

(e) Sale of goods — refunds

Customers have a right to return products within certain days, the Group is obliged to refund the purchases price. Therefore, a refund liability (included in other payables and accruals) and a right to the returned goods (included in other assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(f) Sale of goods — customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discounts on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire at the end of the next year after the initial sale.

A contract liability is recognised until the points are redeemed or expired.

(g) Royalty income

Royalty income is recognised in the consolidated statement of comprehensive income on an accrual basis in accordance with the substance of the relevant agreements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.29 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) (2017 — from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other gains/(losses) — net the consolidated statement of comprehensive income when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 35). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

2.33 Interest income

Interest income from financial assets at FVPL is included in other gains/(losses) — net, see Note 6 below.

Interest income on financial assets at amortised cost (2017 — available-for-sale financial assets, loans and receivables) calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other gains/(losses) — net.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 9 below. Any other interest income is included in other gains/(losses) — net.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3. FINANCIAL RISK MANAGEMENT

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current period profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Recognised financial assets and liabilities denominated in foreign currency different from its functional currency	Cash flow forecasting Sensitivity analysis
Market risk — interest rate	Short-term borrowings at variable rates	Sensitivity analysis
Market risk — security prices	Investments in equity securities	Sensitivity analysis
Credit risk	Cash and cash equivalents, trade and loans receivables	Aging analysis credit Limits
Liquidity risk	Borrowings, derivatives and other liabilities	Rolling cash flow forecasts

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and Japan with most of the transactions denominated and settled in RMB and JPY, while limited purchases are from overseas (other than Japan) that are settled mainly in USD. Foreign exchange risk arises from recognised assets and liabilities and net investments in foreign operations. The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the fifteen months ended 31 March 2019.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	31 March 2019				31 December 2017			
	USD	**EUR**	**HKD**	**JPY**	USD	EUR	HKD	JPY
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Deposits	**22,346**	**243**	**114,350**	**—**	107,802	5,310	272,782	—
Trade Receivables	**16,532**	**—**	**—**	**—**	22,002	—	—	—
Bank loans	**—**	**—**	**(468,315)**	**—**	—	—	—	—
Trade Payables	**(43,659)**	**(53)**	**—**	**(5,414)**	(36,898)	—	—	—

Sensitivity

As shown in the table below, the Group is primarily exposed to changes in USD/RMB and HKD/RMB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from the deposits denominated in Hong Kong Dollars ("HKD") and USD in the PRC subsidiaries, the functional currency of which is RMB, and the deposits and bank loans denominated in HKD in the Company and overseas subsidiaries of which the functional currency is USD.

	Impact on post tax profit	
	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
USD/RMB exchange rate — increase 5%	**(179)**	3,484
USD/RMB exchange rate — decrease 5%	**179**	(3,484)
HKD/RMB exchange rate — increase 5%	**(13,274)**	10,229
HKD/RMB exchange rate — decrease 5%	**13,274**	(10,229)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Sensitivity (Continued)

Profit is less sensitive to movements in the USD/RMB exchange rates for the fifteen months ended 31 March 2019 than 2017 because of the decreased amount of USD denominated deposits.

Profit is more sensitive to movements in the HKD/RMB exchange rates for the fifteen months ended 31 March 2019 than 2017 because of the decreased amount of HKD denominated borrowings.

The Group's exposure to other foreign exchange movements is not material.

(ii) Cash flow interest rate risk

The Group's main interest rate risk arises from short-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. The Group currently does not hedge its exposure to interest rate risk. For the fifteen months ended 31 March 2019 and the year ended 31 December 2017, the Group's borrowings at variable rate were mainly denominated in USD.

The Group's borrowings are carried at amortised cost. The borrowings are quarterly contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

Profit or loss is sensitive to higher/lower interest expense from borrowings as a result of changes in interest rates.

	Impact on post tax profit	
	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Interest rates — increase by 50 basis points (50 bps)	**(5,001)**	(535)
Interest rates — decrease by 50 basis points (50 bps)	**5,001**	535

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

The Group's exposed to equity securities price risk because of certain listed equity investments held by the Group and classified on the consolidated balance sheet as at FVPL. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

As at 31 March 2019, if all the share prices of the Group's listed equity securities had risen/fallen by 10% consistently while all other variables had been held constant, the Group's post-tax profit for the fifteen months ended 31 March 2019 would have increased/decreased by approximately RMB217,319,000 (Year ended 31 December 2017, other comprehensive income and post-tax profit would have increased/decreased by approximately RMB215,955,000 and RMB12,470,000, respectively).

(b) Credit risk

Credit risk arises from cash and cash equivalents, financial assets at fair value through profit or loss (FVPL), and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(i) Risk management

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. The Group's credit sales are only made to customers with appropriate credit history.

The Group has no significant concentration of credit risk. The carrying amounts of cash and bank balances, financial assets at fair value through profit or loss, trade receivables and other financial assets at amortised cost represent the Group's maximum exposure to credit risk in relation to financial assets.

As at 31 March 2019, all the bank deposits are deposited in financial institutions of high credit quality without significant credit risk.

The credit risk of trade receivables arises from that customers fail to pay back money on time. The Group has established different credit limits for different customers and accrued enough bad debts according to aging analysis, hence the credit risk is low.

The credit risk of loans receivables arises from that borrowers fail to repay loans on time. All of the loans receivables are secured by mortgages, pledges or guarantees, including shares, real estate, artworks, etc. The Group has assessed the credit status of each borrower and the value of the collaterals has been taken into account when calculating the provision for impairment.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables, and
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 March 2019 was determined as follows for trade receivables:

31 March 2019	0–90 days	91–180 days	Over 180 days	Total
Provision on collective basis				
Lifetime expected credit loss rate	2%	13%	86%	
Gross carrying amount excluding certain debtor(s)	110,146	74,214	18,192	202,552
Loss allowance excluding certain debtor(s)	(2,659)	(9,783)	(15,648)	(28,090)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 180 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans receivables, loans to related parties and management personnel and other receivables. The Group has applied the expected credit risk model and there is no significant increase in the loss allowance in the fifteen months ended 31 March 2019.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Net impairment losses on financial assets recognised in profit or loss

During the period/year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Impairment losses		
Reversal of loss allowance for trade receivables (Note 18)	**(4,211)**	(43,150)
Provision for impairment losses on other financial assets at amortised cost	**11,420**	—
Reversal of impairment losses on other financial assets at amortised cost	**(5,118)**	(7,482)
Net impairment losses on financial assets	**2,091**	(50,632)

(iii) Financial assets at fair value through profit or loss

The entity is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group has significant cash and bank balances and investments in treasury products issued by banks with maturity within one year and liquidity risk is considered to be minimal. The Group controls its liquidity risks by maintaining sufficient cash and cash equivalents, which are generated mainly from the operating and investing cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Since the Group's financial liabilities are the contractual amounts to be exchanged in derivative financial instruments for which gross net cash flows are exchanged and gross loan commitments, the amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 March 2019				
Non-derivatives				
Borrowings including interest payable	**561,952**	**—**	**—**	**561,952**
Trade payables (Note 27)	**149,406**	**—**	**—**	**149,406**
Accruals and other payables	**189,655**	**5,069**	**670**	**195,394**
Total Non-derivatives	**901,013**	**5,069**	**670**	**906,752**
Derivatives	**—**	**—**	**—**	**—**
At 31 December 2017				
Non-derivatives				
Borrowings including interest payable	232,001	274,497	—	506,498
Trade payables (Note 27)	152,079	—	—	152,079
Accruals and other payables	142,291	—	—	142,291
Total Non-derivatives	**526,371**	**274,497**	**—**	**800,868**
Derivatives	**735,525**	**—**	**—**	**735,525**

As disclosed in Note 29, as at 31 March 2019, the Group had entered certain derivative agreements with investment banks, of which certain quantities of the underlying securities listed on the New York Stock Exchange ("NYSE") and HKSE are agreed to be settled at an agreed price when certain agreed events occurred. Such investments were designated as derivatives and stated at fair value as at 31 March 2019.

In accordance with the price of listed shares in contracts, the maximum possible amount to settle derivatives is Nil (2017: RMB735,525,000), though the final payout may not be to such extent.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. As at 31 March 2019 and 31 December 2017, the Group has no net debt.

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 31 March 2019	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss (FVPL)				
— Unlisted equity securities	—	—	4,474,003	4,474,003
— Listed equity securities	2,173,186	—	—	2,173,186
— Preference shares	66,746	—	—	66,746
— Perpetual bonds	401,146	—	—	401,146
— Wealth management product	—	—	336,791	336,791
Total financial assets	2,641,078	—	4,810,794	7,451,872
Financial liabilities				
Derivatives	—	—	(41,591)	(41,591)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

At 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss (FVPL)				
— Unlisted equity securities	—	—	100,000	100,000
— Listed equity securities	217,616	—	5,230	222,846
— Preference shares	66,869	—	—	66,869
— Perpetual bonds	52,298	—	—	52,298
Available-for-sale financial assets				
— Unlisted equity securities	—	—	2,903,830	2,903,830
— Listed equity securities	2,159,550	—	—	2,159,550
Total financial assets	2,496,333	—	3,009,060	5,505,393
Financial liabilities				
Derivatives	(42,908)	—	(15,764)	(58,672)

There were no transfers between levels 1 and 2 for recurring fair value measurements during the period. For transfers in and out of level 3 measurements see (iii) below.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 mainly include investments in common shares of a US listed company and HK listed companies, and preferred shares and perpetual bonds of a HK listed company.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis, price of recent investment method and NAV report method.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the fifteen months ended 31 March 2019 and the year ended 31 December 2017:

	Equity securities RMB'000	Financial assets designated at fair value through profit or loss RMB'000	Derivatives RMB'000	Others RMB'000	Total RMB'000
Opening balance 1 January 2017	2,735,831	150,000	(118,206)	—	2,767,625
Exchange differences	(27,438)	—	3,917	—	(23,521)
Acquisitions	690,019	—	—	—	690,019
Disposals	(497,652)	(50,000)	—	—	(547,652)
Losses recognised in other comprehensive income	(111,274)	—	—	—	(111,274)
Gains recognised in other income	119,574	—	98,525	—	218,099
Closing balance 31 December 2017 as originally presented	2,909,060	100,000	(15,764)	—	2,993,296
Change in accounting policies	**—**	**—**	**—**	**1,089,861**	**1,089,861**
Restated opening balance 1 January 2018	**2,909,060**	**100,000**	**(15,764)**	**1,089,861**	**4,083,157**
Exchange differences	**11,939**	**—**	**(856)**	**—**	**11,083**
Acquisitions	**1,424,852**	**—**	**—**	**1,251,000**	**2,675,852**
Reclassification to other financial assets at amortised cost	**—**	**(100,000)**	**—**	**—**	**(100,000)**
Disposals	**(502,827)**	**—**	**—**	**(2,021,786)**	**(2,524,613)**
Other gain — net*	**630,979**	**—**	**(24,971)**	**17,716**	**623,724**
Closing balance 31 March 2019	**4,474,003**	**—**	**(41,591)**	**336,791**	**4,769,203**

* includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period

Fifteen months ended 31 March 2019	**546,559**	**—**	**—**	**—**	**546,559**
Twelve months ended 31 December 2017	(10,544)	—	—	—	(10,544)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(iii) Fair value measurements using significant unobservable inputs (level 3) (Continued)

The fair value assessment methods and related key assumptions and judgements adopted by the Group's management ("Management") is as follow:

- Cost approach (specifically, net assets method): NAV of the private equity funds, of which the underlining assets and liabilities are fair valued by utilizing the techniques either alone or in combination of these 3 approaches;

- Market approach: Uses the prices and other relevant information generated by the market transactions, including the price of the recent transactions and changes subsequent to the relevant transaction date;

- Income approach (specifically, discounted cash flow method): Uses valuation techniques to convert future amounts (for examples, cash flows or earnings) to a single present amount (discounted).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experiences and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Fair value of financial assets and derivatives

The fair value of financial instruments and derivatives that are not traded in active markets is determined using valuation techniques. These techniques include the use of the net assets value provided by the respective private equity funds, price of recent investments, discounted cash flow model, etc. To the extent practical, models use observable data. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The estimated fair value of the Group's financial assets may not be equal to the related actual results. It may cause adjustments to the fair value of the Group's financial assets.

(b) Income taxes

The Group is mainly subject to income taxes in the PRC and Japan. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax assets and liabilities in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Sales returns and discounts provision

Depending on agreement between the Group's certain subsidiaries and their distributors, selected distributors are entitled to return goods or additional sales discounts. Management estimates the amounts of goods returns and additional sales discount based on historical experience and market condition and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts. Management will adjust the provision where actual sales returns or sales discounts are more or less than previously estimated.

(d) Inventory provision

Inventories are stated at the lower of cost and net realisable value. Management makes provision based on historical experience and on the estimation of future market condition and sales. Management will adjust the provision where actual net realisable value is higher or lower than previously estimated. This requires significant judgement. As at 31 March 2019, the Group made a provision for impairment loss of out-season inventories of RMB118,655,000 (2017: RMB124,636,000) (Note 17).

(e) Impairment of trade receivables and other financial assets at amortised cost

The Group's management determines the provision for impairment of trade receivables and other financial assets at amortised cost. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at each balance sheet date. Management reassesses the adequacy of impairment provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility that might bear a significant impact but might not be easily ascertained. As at 31 March 2019, the Group made a provision for impairment of trade receivables and other financial assets at amortised cost of RMB37,378,000 (2017: RMB70,344,000) (Note 18, 19).

(f) Useful life of trademark

The Group's management determined that the useful life of Kappa, Phenix and other trademarks is 40 years (Note 15). This estimate is based on the management's experiences in the sport apparel industry. The Group will increase or decrease the amortisation charge where useful life is shorter or longer than previously estimated. The estimate of useful life of the trademark and the amortisation charge could change significantly as a result of changes in the sport apparel market, market trend and competition. Management will increase the amortisation charge where useful life is less than the previously estimated, or the trademark asset will be written off or written down to the recoverable amount when there is an indication that the carrying amount is not recoverable.

5. SEGMENT INFORMATION

The Group is principally engaged in brand development, design and sales of sport-related apparel, footwear and accessories in Mainland of the PRC, Macau and Japan as well as investment activities in the PRC and abroad.

The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The chief operating decision maker considers and assesses the performance of the investment activities and sportswear business separately, and sportswear business were assessed from a geographic perspective, including China (Mainland of the PRC) and Japan segments as follows:

- China Apparel: includes distribution and retail of sport apparel under Kappa brand and other brands and international business which includes the provision of Kappa brand products in other countries.

- Japan Apparel: includes distribution and retail of sport apparel under Kappa, Phenix and other brands.

- Investment: includes investment in kinds of financial assets and treasury products issued by commercial banks.

Sales between segments are carried out on terms set out in agreements governing the transactions. The revenue from external customers, segment operating profit/(loss) and segment profit/(loss) reported to the chief operating decision maker are measured in a manner consistent with that presented in the consolidated statement of comprehensive income.

5. SEGMENT INFORMATION (CONTINUED)

The segment results and other items included in the consolidated statement of comprehensive income provided to the chief operating decision maker for the reportable segments for the fifteen months ended 31 March 2019 and the year ended 31 December 2017, respectively are as follows:

	China — Apparel RMB'000	Japan — Apparel RMB'000	Investment RMB'000	Total RMB'000
Fifteen months ended 31 March 2019				
Total revenue before inter-segment elimination	1,804,213	403,116	—	2,207,329
Inter-segment revenue	(53,012)	(10,434)	—	(63,446)
Revenue from external customers	1,751,201	392,682	—	2,143,883
Cost of goods sold	(642,054)	(239,629)	—	(881,683)
(Provision for)/reversal of impairment losses of inventories — net	(6,770)	14,739	—	7,969
Segment gross profit	1,102,377	167,792	—	1,270,169
Other gains, net	51,839	3,730	1,053,686	1,109,255
Segment operating profit/(loss)	62,091	(42,169)	1,020,221	1,040,143
Finance income	23,312	1,077	12,418	36,807
Finance expenses	(265)	(2,705)	(26,386)	(29,356)
Share of loss of investments accounted for using the equity method	(10,551)	(6,140)	(5,277)	(21,968)
Profit/(loss) before income tax	74,587	(49,937)	1,000,976	1,025,626
Income tax expense	(31,751)	(1,181)	(133,796)	(166,728)
Profit/(loss) for the period	42,836	(51,118)	867,180	858,898
Material items of income and expense				
Depreciation and amortisation	20,502	6,195	—	26,697
Provision for impairment losses on financial assets — net	3,405	(1,314)	—	2,091
Advertising and selling expenses	716,501	59,157	—	775,658

5. SEGMENT INFORMATION (CONTINUED)

	China — Apparel RMB'000	Japan — Apparel RMB'000	Investment RMB'000	Total RMB'000
Year ended 31 December 2017 (Restated)				
Total revenue before inter-segment elimination	1,157,456	322,960	—	1,480,416
Inter-segment revenue	(18,174)	(6,911)	—	(25,085)
Revenue from external customers	1,139,282	316,049	—	1,455,331
Cost of goods sold	(389,461)	(203,468)	—	(592,929)
Provision for impairment losses of Inventories — net	(573)	(5,727)	—	(6,300)
Segment gross profit	749,248	106,854	—	856,102
Other gains, net	13,763	3,968	942,133	959,864
Segment operating profit/(loss)	165,692	(53,184)	914,342	1,026,850
Finance income	20,996	7	—	21,003
Finance expenses	(98,421)	(2,055)	—	(100,476)
Share of loss of investments accounted for using the equity method	(9,682)	(1,193)	(6,589)	(17,464)
Profit/(loss) before income tax	78,585	(56,425)	907,753	929,913
Income tax expense	(96,620)	(890)	(31,474)	(128,984)
Profit/(loss) for the period	(18,035)	(57,315)	876,279	800,929
Material items of income and expense				
Depreciation and amortisation	19,271	3,806	—	23,077
Reversal of impairment of financial assets — net	(45,250)	(5,382)	—	(50,632)
Advertising and selling expenses	401,602	40,006	—	441,608

5. SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities and reconciliations to the Group's total assets and total liabilities are as follows:

	China— Apparel RMB'000	Japan— Apparel RMB'000	Investment RMB'000	Total RMB'000
As at 31 March 2019				
Interests in investments accounted for using the equity method	**81,280**	**9,185**	**61,215**	**151,680**
Financial assets at fair value through profit or loss	**—**	**—**	**7,451,872**	**7,451,872**
Deferred income tax assets	**251,936**	**—**	**750**	**252,686**
Other assets	**1,793,221**	**253,772**	**1,922,569**	**3,969,562**
Total assets before inter-segment elimination	**2,126,437**	**262,957**	**9,436,406**	**11,825,800**
Inter-segment elimination	**(164,818)**	**(10,689)**	**—**	**(175,507)**
Segment assets	**1,961,619**	**252,268**	**9,436,406**	**11,650,293**
Deferred income tax liabilities	**2,724**	**3,438**	**258,989**	**265,151**
Current income tax liabilities	**128,259**	**318**	**—**	**128,577**
Other liabilities	**407,245**	**196,632**	**509,906**	**1,113,783**
Total liabilities before inter-segment elimination	**538,228**	**200,388**	**768,895**	**1,507,511**
Inter-segment elimination	**(10,712)**	**(108,257)**	**—**	**(118,969)**
Segment liabilities	**527,516**	**92,131**	**768,895**	**1,388,542**
As at 31 December 2017 (Restated)				
Interests in investments accounted for using the equity method	47,214	14,457	59,032	120,703
Available-for-sale financial assets	—	—	5,063,380	5,063,380
Deferred income tax assets	138,198	—	—	138,198
Other assets	1,523,529	295,131	3,881,442	5,700,102
Total assets before inter-segment elimination	1,708,941	309,588	9,003,854	11,022,383
Inter-segment elimination	(97,540)	(3,491)	—	(101,031)
Segment assets	**1,611,401**	**306,097**	**9,003,854**	**10,921,352**
Deferred income tax liabilities	131,552	3,587	28,148	163,287
Current income tax liabilities	105,788	1,133	—	106,921
Other liabilities	668,806	151,542	333,168	1,153,516
Total liabilities before inter-segment elimination	906,146	156,262	361,316	1,423,724
Inter-segment elimination	(55,854)	(45,177)	—	(101,031)
Segment liabilities	**850,292**	**111,085**	**361,316**	**1,322,693**

As at 31 March 2019, the total non-current assets other than financial assets and deferred tax assets located in the PRC amounted to RMB489,247,000 (2017: RMB473,846,000) and those located in other countries and regions amounted to RMB54,455,000 (2017: RMB61,564,000).

6. OTHER GAINS — NET

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Gain on disposal of financial assets at fair value through profit or loss	**14,253**	18,157
Gain on disposal of available-for-sale financial assets	**—**	603,833
Investment income from financial assets at fair value through profit or loss	**178,101**	155,363
Investment income from loans receivables	**159,153**	108,649
Change in fair value of financial instruments at fair value through profit or loss	**696,436**	55,182
Government subsidy income	**47,789**	14,210
Royalty income	**4,644**	3,426
Others — net	**8,879**	1,044
	1,109,255	959,864

7. EXPENSES BY NATURE

The expenses included in cost of sales, (reversal of)/provision for impairment of inventories — net, distribution expenses and administrative expenses are analysed as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Cost of inventories recognised as cost of sales (Note 17)	**880,189**	592,929
Advertising and selling expenses	**775,658**	441,608
Employee salary and benefit expenses (Note 8)	**222,315**	157,325
Logistic fees	**99,857**	71,052
(Reversal of)/provision for impairment of inventories (Note 17)	**(7,969)**	6,300
Product design and development expenses	**55,043**	35,516
Operating lease in respect of buildings	**68,250**	39,068
Depreciation of property, plant and equipment (Note 13)	**13,007**	11,458
Amortisation of lease prepayments and intangible assets (Note 14, 15)	**13,690**	11,619
Legal and consulting expenses	**14,914**	13,974
Travelling expenses	**17,127**	18,750
Auditor's remuneration	**5,830**	4,470
— Audit services	**5,400**	4,000
— Non-audit services	**430**	470
Others	**52,993**	34,908
	2,210,904	1,438,977

8. EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Wages and salaries	**148,998**	98,846
Pension costs (Note (a))	**18,336**	20,924
Termination benefits	**5,113**	3,255
Other benefits	**49,868**	34,300
	222,315	157,325

Notes:

(a) Pensions — defined contribution plans

The employees of the Group in the PRC, (including Hong Kong) and Japan participate in defined contribution retirement benefit plans organised by the relevant local governments. The Group is required to make monthly defined contributions to these plans at rates ranging from 13% to 20% (Year ended 31 December 2017: 13% to 20%) in the PRC and 9.15% (Year ended 31 December 2017: 9.15%) in Japan of the employees' basic salaries for the year, depending upon the applicable local regulations.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the defined contribution payments as disclosed above.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the fifteen months ended 31 March 2019 include three (Year ended 31 December 2017: three) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments payable to the remaining two (Year ended 31 December 2017: two) individuals during the period/year are as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Salaries and others	**3,584**	1,718
Pension costs	**70**	85
	3,654	1,803

Notes to the Consolidated Financial Statements

For the fifteen months ended 31 March 2019

8. EMPLOYEE SALARY AND BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

Notes: (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Number of individuals	
	For the fifteen months ended 31 March 2019	For the year ended 31 December 2017
Emolument bands:		
HKD1,000,001 to HKD2,000,000	**1**	2
HKD2,000,001 to HKD3,000,000	**1**	—

9. FINANCE INCOME/(EXPENSES) — NET

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Finance income:		
— Foreign exchange gain	**15,992**	—
— Interest income	**20,815**	21,003
	36,807	21,003
Finance expenses:		
— Foreign exchange losses	**—**	(74,956)
— Interest expenses	**(26,985)**	(21,408)
— Others	**(2,371)**	(4,112)
	(29,356)	(100,476)
Finance income/(expenses) — net	**7,451**	(79,473)

10. INCOME TAX EXPENSE

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	**178,171**	147,719
— Taxation in Japan	**1,181**	1,092
Deferred income tax (Note 16)	**(12,624)**	(19,827)
	166,728	128,984

The Company was incorporated in the Cayman Islands. Under the laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company.

Hong Kong profits tax and Singapore profits tax have not been provided as there are no estimated assessable profits arising in or derived from Hong Kong and Singapore during the fifteen months ended 31 March 2019 (Year ended 31 December 2017: Nil).

Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (Year ended 31 December 2017: 25%) on the assessable income of the group companies, except for Group's subsidiaries incorporated in Tibet Autonomous Region which is subject to preferential tax rate of 15% (Year ended 31 December 2017: 9%).

According to the PRC New Corporate Income Tax Law ("New CIT Law"), distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. As at 31 March 2019, the Group had provided a deferred tax liability amounting to RMB148,378,000 (Year ended 31 December 2017: RMB121,929,000) in relation to the profit of the Group's PRC subsidiaries that will be distributed in the future (Note 16).

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the fifteen months ended at 31 March 2019 applicable to this subsidiary was 15% for the taxable income part less than JPY8,000,000 and 23.4% for the taxable income part over JPY8,000,000 (Year ended 31 December 2017: 15% or 23.4%) of the assessable profit. The inhabitant tax is determined based on the taxpayer's share capital, operating locations and number of employees and rates on the taxpayer's income tax payable, subject to a certain minimum payment. As there was no assessable profit derived during the fifteen months ended at 31 March 2019 (Year ended 31 December 2017: Nil), the subsidiary was subject to the minimum inhabitant tax payments.

10. INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the consolidated companies as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Profit before income tax	**1,025,626**	929,913
Tax calculated at tax rates applicable to profits in the respective countries	**138,307**	83,219
Tax effects of:		
— Tax losses and temporary differences for which no deferred income tax asset was recognised	**14,208**	1,546
— Provision for withholding income tax on profits of PRC subsidiaries to be distributed to foreign investors (Note 16)	**26,449**	39,902
— Expenses or losses not deductible for tax purpose	**471**	8,554
— Impact on share of results of joint ventures	**2,740**	2,421
— Utilised previously unrecognized tax losses	**(21,183)**	(6,658)
— Change in tax rates of subsidiaries	**5,736**	—
Income tax expense	**166,728**	128,984

11. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the period/year.

	For the fifteen months ended 31 March 2019	For the year ended 31 December 2017
Profit attributable to owners of the Company (RMB'000)	**865,852**	804,647
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,808,853**	5,545,204
Basic earnings per share (RMB cents per share)	**14.91**	14.51

(b) Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. During the fifteen months ended 31 March 2019, no diluted earnings per share have been presented since there was no potential dilutive ordinary share (Year ended 31 December 2017: Nil).

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(a) Subsidiaries

The following is a list of the principal subsidiaries at 31 March 2019:

Name of entity	Place of incorporation and kind of legal entity	Particulars of issued/ registered capital	Principal activities and place of operation	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				As at 31 March 2019 %	As at 31 December 2017 %	**As at 31 March 2019 %**	As at 31 December 2017 %
Hong Kong Dongxiang Sports Development Holdings Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	Investment holding, Hong Kong	**100%**	100%	**—**	—
Dongxiang (Netherlands) Cooperative U.A.	Netherlands, limited liability company	EUR755,738	Investment holding, Netherlands	**100%**	100%	**—**	—
光景集團有限公司 Brilliant King Group Ltd	British Virgin Island, limited liability company	US$1	Investment holding, British Virgin Island	**100%**	100%	**—**	—
明泰企業有限公司 Bright Pacific Enterprises Limited	British Virgin Island, limited liability company	US$100	Investment holding, British Virgin Island	**100%**	100%	**—**	—
Phenix Ski Europe S.A	Swit, limited liability company	CHF 105,000	Retail company for Phenix	**100%**	100%	**—**	—
Achilles Sports Pte. Ltd.	Singapore, limited liability company	100,000 ordinary shares of US$1 each	Owns trademark, Singapore	**100%**	100%	**—**	—
Gaea Sports Limited	Hong Kong, limited liability company	1 ordinary share of HK$1	Investment holding, Hong Kong	**100%**	100%	**—**	—
北京動向體育發展有限公司 Beijing Dongxiang Sports Development Co., Ltd.	The PRC, limited liability company	RMB10,000,000	Design and sales of sport-related footwear, apparel and accessories, PRC	**100%**	100%	**—**	—
上海卡帕體育用品有限公司 Shanghai Kappa Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB100,000,000	Design and sales of sport-related footwear, apparel and accessories, PRC	**100%**	100%	**—**	—
上海泰坦體育用品有限公司 Shanghai Taitan Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB1,500,000	Design, production and sales of sport-related footwear, apparel and accessories, PRC	**100%**	100%	**—**	—
上海雷德體育用品有限公司 Shanghai Taitan Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB158,000,000	Design and consulting services, PRC	**100%**	100%	**—**	—
西亞體育用品商貿(蘇州)有限公司 Thea Sporting Goods Trading (Suzhou) Co., Ltd.	The PRC, limited liability company	US$80,000,000	Design and sales of sport-related footwear, apparel and accessories, and consulting services, PRC	**100%**	100%	**—**	—
考伊斯體育用品商貿(上海)有限公司 Coeus Sporting Goods Trading (Shanghai) Co., Ltd.	The PRC, limited liability company	USD50,000,000	Sales of sport-related footwear, apparel and accessories, PRC	**100%**	100%	**—**	—
上海嘉班納體育用品有限公司 Shanghai Gabbana Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB120,000,000	Design and consulting services, PRC	**100%**	100%	**—**	—

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Name of entity	Place of incorporation and kind of legal entity	Particulars of issued/ registered capital	Principal activities and place of operation	Ownership interest held by the Group As at 31 March 2019 %	Ownership interest held by the Group As at 31 December 2017 %	Ownership interest held by non-controlling interests As at 31 March 2019 %	Ownership interest held by non-controlling interests As at 31 December 2017 %
上海克瑞斯體育用品有限公司 Shanghai Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB4,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
哈爾濱克瑞斯體育用品有限公司 Haerbin Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
Hebe Fashions Pte., Ltd.	Singapore, limited liability company	Singapore Dollar 1	Investment holding, Singapore	**100%**	100%	**—**	—
Cronus Sports Pte., Ltd.	Singapore, limited liability company	Singapore Dollar 1	Investment holding, Singapore	**100%**	100%	**—**	—
Phenix Co., Ltd.	Japan, limited liability company	JPY99,000,000	Brand development, design and sales of sport-related apparel, Japan	**91%**	91%	**9%**	9%
北京快樂運動體育用品有限公司 Beijing Happy Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
大連克瑞斯體育用品有限公司 Dalian Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
深圳克瑞斯特體育用品有限公司 Shenzhen Criust Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
鄭州克瑞斯體育用品有限公司 Zhengzhou Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
武漢克瑞斯體育用品有限公司 Wuhan Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2019

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Name of entity	Place of incorporation and kind of legal entity	Particulars of issued/ registered capital	Principal activities and place of operation	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				As at 31 March 2019 %	As at 31 December 2017 %	As at 31 March 2019 %	As at 31 December 2017 %
湖南克瑞斯體育用品有限公司 Hunan Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
上海動向體育用品有限公司 Shanghai Dongxiang Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB20,000,000	Design, sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
杭州克雷斯體育用品有限公司 Hangzhou Crius Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
天津克瑞斯體育用品有限公司 Tianjin Crius Sporting Goods Co., Ltd.(i)	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	—	**—**	—
南京克瑞特斯體育用品有限公司 Nanjing Curetes Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	100%	**—**	—
北京克瑞特斯體育用品有限公司 Beijing Curetes Sporting Goods Co., Ltd. (i)	The PRC, limited liability company	RMB3,000,000	Retail sales of sports-related products, apparel and accessories, imports and exports, PRC	**100%**	—	**—**	—
太倉泰坦體育用品有限公司 Taicang Taitan Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB1,500,000	Design, production and sales of sports-related footwear, apparel and accessories, PRC	**100%**	100%	**—**	—
上海卡帕動力兒童體育用品有限公司 Shanghai Kappa Kinetic Kids Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB1,000,000	Design, sales of children's clothing	**100%**	100%	**—**	—
西藏普魯都斯投資管理有限公司 Tibet Plutus Investment Management Co., Ltd.	The PRC, limited liability company	RMB10,000,000	Investment	**100%**	100%	**—**	—
西藏佑德投資管理有限公司 Tibet Youde Investment Management Co., Ltd.	The PRC, limited liability company	RMB2,000,000	Investment	**100%**	100%	**—**	—

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) Subsidiaries (Continued)

Name of entity	Place of incorporation and kind of legal entity	Particulars of issued/ registered capital	Principal activities and place of operation	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				As at 31 March 2019 %	As at 31 December 2017 %	As at 31 March 2019 %	As at 31 December 2017 %
西藏雷澤資本投資有限公司 Tibet Leize Capital Investment Co., Ltd.	The PRC, limited liability company	RMB10,000,000	Investment	**100%**	100%	**—**	—
西藏瑞亞體育用品有限公司 Tibet Rhea Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB5,000,000	Purchase for children's garments	**100%**	100%	**—**	—
西藏赫拉體育用品有限公司 Tibet Hera Sporting Goods Co., Ltd. (i)	The PRC, limited liability company	RMB2,000,000	Purchasing company	**100%**	—	**—**	—
上海特提斯體育用品有限公司 Shanghai Tethys Sporting Goods Co., Ltd.	The PRC, limited liability company	RMB20,000,000	Sales company	**100%**	100%	**—**	—
天津邁盛悅合體育用品有限公司 Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. (ii)	The PRC, limited liability company	RMB5,000,000	Retail sales of sports-related products, apparel and accessories, PRC	**77%**	30%	**23%**	—

Notes:

(i) These group entities are newly established during the fifteen months ended 31 March 2019.

(ii) In January 2018, Shanghai Gabbana Sporting Goods Co., Ltd. acquired 47% equity interests in Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. from other shareholders with a cash consideration of RMB7,609,000 and thereby the Group's equity interests in Tianjin Mai Sheng Yue He Sporting Goods Co., Ltd. increased from 30% to 77%, which became a subsidiary of Shanghai Gabbana Sporting Goods Co., Ltd. since then.

(b) Non-controlling interests

The total non-controlling interests as at 31 March 2019 amounted to RMB10,790,000 (2017: RMB13,295,000). No subsidiary has non-controlling interests that are material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2019

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Investments accounted for using the equity method

(i) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 31 March 2019 which, in the opinion of the directors, are immaterial to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		As at 31 March 2019 %	As at 31 December 2017 %			As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Shanghai Phenix Apparel Co., Ltd.	PRC	**38%**	38%	Joint Venture	Equity method	**9,185**	14,457
Mai Sheng Yue He Sporting Goods Co., Ltd Group ("MSYH")	PRC	**30%**	30%	Joint Venture	Equity method	**41,280**	44,734
Tianjin Mai Sheng Yue He Sporting Goods Co.,Ltd.	PRC	**—**	30%	Joint Venture	Equity method	**—**	2,480
Shanghai Shengyong Enterprise Management Partnership (Limited Partnership) (i)	PRC	**49%**	—	Joint Venture(1)	Equity method	**40,000**	—
Boundary Bay Investment LLC	US	**35%**	35%	Associate	Equity method	**56,391**	58,647
Yueshang (Tianjin) Apparel Co., Ltd.	PRC	**25%**	—	Associate(2)	Equity method	**4,816**	—
Chengdu RenYi Yue Li Tech Co, Ltd.	PRC	**20%**	20%	Associate	Equity method	**8**	385
Total equity accounted investments						**151,680**	120,703

Notes:

(1) In January 2019, the Group entered into a limited partnership agreement (the "LPA") in respect of the establishment of Shanghai Shengyong Enterprise Management Partnership (Limited Partnership) ("Shanghai Shengyong", a limited partnership established in the PRC of which the principal activity is investment holding). Pursuant to the LPA, the total capital commitments of Shanghai Shengyong is RMB81,000,000. The Group, as a limited partner, has a total capital commitment to Shanghai Shengyong of RMB40,000,000, all of which were fully paid in January 2019.

(2) In March 2018, the Group entered into an investment agreement with a third party in respect of the establishment of Yueshang (Tianjin) Apparel Co., Ltd. ("Yueshang", a limited liability company established in the PRC and principally engaged in the design, production and sales of apparel in the PRC). The total registered capital of Yueshang is RMB20,000,000, including RMB5,000,000 contributed by the Group, representing 25% of the registered capital.

12. SUBSIDIARIES AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Investments accounted for using the equity method (Continued)

(i) Interests in associates and joint ventures (Continued)

The Group uses the equity method to account for these investments. The table below provides the aggregate carrying amount information.

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
At beginning of the period/year	**120,703**	137,299
Addition	**45,000**	—
Share of loss for the period/year	**(21,968)**	(17,464)
Share of other comprehensive income	**731**	942
Elimination of unrealised profit	**7,932**	3,672
Acquired as a subsidiary (Note 12(a)(ii))	**(2,480)**	—
Exchange difference	**1,762**	(3,746)
At ending of the period/year	**151,680**	120,703

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Office furniture and equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000	Construction in-progress RMB'000	Total RMB'000
At 1 January 2017							
Cost	7,410	73,217	70,381	4,864	12,484	1	168,357
Accumulated depreciation	—	(32,976)	(55,399)	(4,241)	(7,075)	—	(99,691)
Net book amount	7,410	40,241	14,982	623	5,409	1	68,666
Year ended 31 December 2017							
Opening net book amount	7,410	40,241	14,982	623	5,409	1	68,666
Additions	19,149	1,933	4,605	397	1,433	13,562	41,079
Disposals	—	—	(193)	(155)	(10)	—	(358)
Depreciation (Note 7)	—	(3,511)	(5,994)	(146)	(1,807)	—	(11,458)
Exchange difference	(244)	(204)	(158)	—	(155)	—	(761)
Closing net book amount	26,315	38,459	13,242	719	4,870	13,563	97,168
At 31 December 2017							
Cost	26,315	74,934	70,804	2,172	11,823	13,563	199,611
Accumulated depreciation	—	(36,475)	(57,562)	(1,453)	(6,953)	—	(102,443)
Net book amount	26,315	38,459	13,242	719	4,870	13,563	97,168
For the fifteen months ended 31 March 2019							
Opening net book amount	**26,315**	**38,459**	**13,242**	**719**	**4,870**	**13,563**	**97,168**
Additions	**—**	**99**	**7,337**	**5**	**9,406**	**10,304**	**27,151**
Disposals	**—**	**—**	**(1,979)**	**(36)**	**(112)**	**—**	**(2,127)**
Depreciation (Note 7)	**—**	**(4,463)**	**(5,689)**	**(216)**	**(2,639)**	**—**	**(13,007)**
Exchange difference	**808**	**205**	**423**	**—**	**248**	**199**	**1,883**
Closing net book amount	**27,123**	**34,300**	**13,334**	**472**	**11,773**	**24,066**	**111,068**
At 31 March 2019							
Cost	**27,123**	**75,367**	**69,328**	**1,692**	**20,317**	**24,066**	**217,893**
Accumulated depreciation	**—**	**(41,067)**	**(55,994)**	**(1,220)**	**(8,544)**	**—**	**(106,825)**
Net book amount	**27,123**	**34,300**	**13,334**	**472**	**11,773**	**24,066**	**111,068**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Administrative expenses	**6,074**	5,440
Manufacturing overheads included in cost of goods sold	**1,548**	2,216
Distribution expenses	**5,385**	3,802
	13,007	11,458

There is no pledge of property, plant and equipment of the Group as at 31 March 2019 and at 31 December 2017.

The Group owns freehold land and buildings located in Japan and the US.

The Group also owns buildings on land with land use right term within 50 years located in Beijing and Jiangsu province, the PRC.

14. LEASE PREPAYMENTS

	Lease prepayments for land use rights RMB'000
At 1 January 2017	
Cost	14,262
Accumulated amortisation	(3,111)
Net book amount	11,151
For the year ended 31 December 2017	
Opening net book amount	11,151
Amortisation charge (Note 7)	(285)
Closing net book amount	10,866
At 31 December 2017	
Cost	14,262
Accumulated amortisation	(3,396)
Net book amount	10,866
For the fifteen months ended 31 March 2019	
Opening net book amount	**10,866**
Amortisation charge (Note 7)	**(357)**
Closing net book amount	**10,509**
At 31 March 2019	
Cost	**14,262**
Accumulated amortisation	**(3,753)**
Net book amount	**10,509**

Lease prepayments for land use rights represent the Group's interests in land in the PRC and held on leases within 50 years. As at 31 March 2019, the remaining lease periods of the land use right are from 37 to 38 years.

Amortisation expenses of the Group's lease prepayments for land use rights and for stores have been charged to administrative expenses and distribution expenses in the consolidated statement of comprehensive income, respectively.

15. INTANGIBLE ASSETS

	KAPPA trademarks RMB'000	Phenix trademark and others RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2017				
Cost	384,325	8,605	68,402	461,332
Accumulated amortization	(166,268)	(1,433)	(64,496)	(232,197)
Net book amount	218,057	7,172	3,906	229,135
For the year ended 31 December 2017				
Opening net book amount	218,057	7,172	3,906	229,135
Additions	—	—	4,687	4,687
Amortisation charge (Note 7)	(7,504)	(215)	(3,615)	(11,334)
Exchange difference	(411)	—	(14)	(425)
Closing net book amount	210,142	6,957	4,964	222,063
At 31 December 2017				
Cost	381,362	8,605	71,546	461,513
Accumulated amortisation	(171,220)	(1,648)	(66,582)	(239,450)
Net book amount	210,142	6,957	4,964	222,063
For the fifteen months ended 31 March 2019				
Opening net book amount	**210,142**	**6,957**	**4,964**	**222,063**
Additions	**—**	**—**	**4,442**	**4,442**
Amortisation charge (Note 7)	**(9,410)**	**(269)**	**(3,654)**	**(13,333)**
Exchange difference	**693**	**—**	**19**	**712**
Closing net book amount	**201,425**	**6,688**	**5,771**	**213,884**
At 31 March 2019				
Cost	**386,537**	**8,605**	**76,430**	**471,572**
Accumulated amortisation	**(185,112)**	**(1,917)**	**(70,659)**	**(257,688)**
Net book amount	**201,425**	**6,688**	**5,771**	**213,884**

15. INTANGIBLE ASSETS (CONTINUED)

The KAPPA trademarks represent the perpetual rights of the use of KAPPA trademarks in the PRC, Macau and Japan. The KAPPA trademarks for the PRC and Macau were purchased by the Group from a third party in 2006 at a consideration of USD35,000,000 (equivalent to approximately RMB280,994,000). The KAPPA trademarks for Japan were obtained in the acquisition of Phenix Co., Ltd. ("Phenix") in April 2008. The KAPPA and Phenix trademarks are subject to amortisation on a straight-line basis over an estimated useful life of 40 years.

Amortisation expenses in relation to trademarks have been charged to distribution expenses and those in relation to computer software have been charged to administrative expenses in the consolidated statement of comprehensive income.

16. DEFERRED INCOME TAX

(i) Deferred tax assets

The balance comprises temporary differences attributable to:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Provision for impairment of trade receivables and other financial assets at amortised cost	**13,138**	24,435
Provision for impairment of inventories	**21,412**	19,720
Fair value changes of investments in financial assets	**—**	373
Provision for sales returns/rebates	**7,980**	11,481
Tax losses	**114,354**	—
Elimination for inventory	**84,961**	57,398
Other accrued expenses	**10,841**	24,791
	252,686	138,198

Movements	Provision for sales returns/ rebates RMB'000	Provision for impairment of inventories RMB'000	Provision for impairment of trade receivables and other financial assets at amortised cost RMB'000	Fair value changes of investments in financial assets RMB'000	Elimination for inventory RMB'000	Other accrued expenses RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2017	5,899	19,576	35,794	—	—	8,068	—	69,337
Credited/(charged) to profit or loss (Note 10)	5,582	144	(11,359)	—	57,398	16,723	—	68,488
Credited to the other comprehensive income	—	—	—	373	—	—	—	373
At 31 December 2017	11,481	19,720	24,435	373	57,398	24,791	—	138,198
(Charged)/credited to profit or loss (Note 10)	(3,501)	1,692	(11,297)	(373)	27,563	(13,950)	114,354	114,488
At 31 March 2019	**7,980**	**21,412**	**13,138**	**—**	**84,961**	**10,841**	**114,354**	**252,686**

16. DEFERRED INCOME TAX (CONTINUED)

(ii) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Withholding income tax on profit distribution of PRC subsidiaries	**148,378**	121,929
Fair value changes of investments in financial assets	**110,612**	28,869
Others	**6,161**	12,489
	265,151	163,287

Movements	Withholding income tax on profit distribution of PRC subsidiaries RMB'000	Fair value changes of investments in financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	82,027	33,012	3,730	118,769
Charged to profit or loss (Note 10)	39,902	—	8,759	48,661
Credited to other comprehensive income	—	(4,143)	—	(4,143)
At 31 December 2017	121,929	28,869	12,489	163,287
Charged/(credited) to profit or loss (Note 10)	26,449	81,743	(6,328)	101,864
At 31 March 2019	**148,378**	**110,612**	**6,161**	**265,151**

As at 31 March 2019, deferred income tax assets of RMB13,755,000 (31 December 2017: RMB1,243,000) have not been recognised in respect of the tax losses amounting to RMB262,154,000 (31 December 2017: RMB319,390,000) which can be carried forward against future taxable income. The tax losses mainly resulted from accumulated operating losses of the subsidiaries of the Group.

According to the New CIT Law, distribution of profits earned by PRC companies since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies. During the fifteens months ended 31 March 2019, the Group anticipated to distribute the profit of 2018 of the PRC subsidiaries in the future to foreign investors. Therefore, deferred tax liabilities in respect of those profits of RMB26,449,000 (Year ended 31 December 2017: RMB39,902,000) were recognised.

17. INVENTORIES

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Finished goods	**557,161**	427,996
Raw materials	**3,894**	2,863
Work in progress	**12,964**	14,798
Less: provision for inventories	**(118,655)**	(124,636)
	455,364	321,021

The cost of inventories recognised as cost of sales amounted to approximately RMB880,189,000 (Year ended 31 December 2017: RMB592,929,000)(Note 7) for the fifteen months ended 31 March 2019.

For the fifteen months ended 31 March 2019, the Group made a reversal of impairment losses of out-season inventories of RMB7,969,000 (Year ended 31 December 2017: provision of impairment losses of out-season inventories of RMB6,300,000).

18. TRADE RECEIVABLES

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Trade receivables		
— Third parties	**170,702**	258,456
— Related parties (Note 36(b))	**31,850**	40,934
	202,552	299,390
Less: provision for impairment	**(28,090)**	(65,196)
Trade receivables, net	**174,462**	234,194

18. TRADE RECEIVABLES (CONTINUED)

The Group's sales are mainly made on credit limits and the Group would deny credit sales to customers if the trade receivables of these customers exceeded their credit limits. Customers are normally granted credit terms within 90 days. The aging analysis of trade receivables as at 31 March 2019 and 31 December 2017 was as follows:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Within 30 days	**110,146**	102,874
31 to 180 days	**74,214**	139,834
Over 180 days	**18,192**	56,682
	202,552	299,390

The trade receivables were mainly denominated in RMB and JPY. Due to the short-term nature of the current receivables, their carrying amounts approximated their fair values as at the balance sheet dates.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

Movements on the Group's provision for impairment of trade receivables are as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
As beginning of the period/year	**65,196**	108,402
Reversal of impairment losses of receivables	**(4,211)**	(43,150)
Written off impairment losses of receivables	**(32,895)**	(56)
As ending of the period/year	**28,090**	65,196

19. OTHER FINANCIAL ASSETS AT AMORTISED COST

	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Current portion:		
Loans receivable (a)	**897,284**	738,078
Wealth management products	**—**	1,089,861
Loans to related parties (Note 36(b))	**20,325**	19,818
Others	**66,553**	51,071
Less: provision for impairment	**(9,288)**	(30)
	974,874	1,898,798
Non-current portion:		
Loans receivable (a)	**173,057**	568,999
Loans to related parties (Note 36(b))	**—**	5,118
Loans to management personnel and employees (b)	**326,169**	131,520
Less: provision for impairment	**—**	(5,118)
	499,226	700,519

See Note 2.2 for the impact of the change in accounting policy following the adoption of IFRS 9 on the classification of financial assets and Note 2.12 for the remaining relevant accounting policies.

Notes:

(a) As at 31 March 2019, loans receivables due from third parties summed up to RMB1,070,341,000 with the interest rate in the range of 6.5% to 15% per annum. The amount of each loan receivables varies from RMB39,749,000 to RMB204,172,000.

The maturity period of each loan receivables varies with the range from 4 to 36 months. Majority of these loans receivables were secured by the respective pledge.

(b) The balance represented loans to certain management personnel and employees, which bear interest at one month HIBOR+1% per annum and have a maturity of 5 years. All the shares subscribed by the borrowers were pledged as the collateral of these loans (Note 23).

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortised cost or FVOCI
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Non-current portion (a)		
— Unlisted equity securities	**3,701,854**	—
— Listed equity securities	**1,720,980**	—
— Preference shares	**66,746**	66,869
— Perpetual bonds	**401,146**	52,298
	5,890,726	119,167
Current portion (b)		
— Unlisted equity securities	**772,149**	100,000
— Listed equity securities	**452,206**	222,846
— Wealth management products	**336,791**	—
	1,561,146	322,846

See Note 2.2 for explanations regarding the change in accounting policy and the reclassification of certain investments from available-for-sale to financial assets at FVPL following the adoption of IFRS 9, and Note 2.12 for the remaining relevant accounting policies.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(ii) Amounts recognised in profit or loss

During the period/year, the following gains were recognised in profit or loss:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Fair value gains on equity investments at FVPL recognised in other gains — net	**881,496**	195,372
Fair value gains on debt instruments at FVPL recognised in other gains — net	**7,294**	33,330

(iii) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in Note 3.1. For information about the methods and assumptions used in determining fair value, please refer to Note 3.3.

(iv) Previous accounting policy: Classification of financial assets at fair value through profit or loss

In 2017, the Group classified financial assets at fair value through profit or loss if they were acquired principally for the purpose of selling in the short term, i.e. are held for trading. They were presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise, they were presented as non-current assets. See Note 2.12 for the Group's other accounting policies for financial assets.

21. CASH AND BANK BALANCES

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Restricted cash — restricted bank deposits (a)	**285,581**	390,859
Term deposits with initial term over three months and within one year (b)	**104,904**	100,899
Cash and cash equivalents (c)	**766,722**	1,051,865
	1,157,207	1,543,623

Notes:

(a) The restricted bank deposits as at 31 March 2019 mainly comprised deposits held in bank accounts for issuing letters of credit for a subsidiary of the Group and deposits held in bank accounts as pledge for the Company's bank loan. For the fifteen months ended 31 March 2019, the average interest rate on the restricted bank deposits was 4.01% (Year ended 31 December 2017: 1.53%) per annum.

(b) The interest rates on term deposits with initial term over three months and within one year as at 31 March 2019 range from 2.30% to 2.32% (Year ended 31 December 2017: from 0.95% to 1.39%) per annum. The deposits earn interests at fixed rates based on prevailing market rates.

(c) Cash and cash equivalents include current deposits and term deposits with initial term within three months.

(d) As at 31 March 2019 and 31 December 2017, the cash and bank balances were denominated in the following currencies:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
RMB	**821,023**	632,475
USD	**200,221**	565,535
HKD	**114,350**	272,782
JPY	**17,104**	46,606
Others	**4,509**	26,225
	1,157,207	1,543,623

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currency and remittance of RMB out of the PRC are subject to the rules and regulations of exchange controls promulgated by the PRC authorities.

Notes to the Consolidated Financial Statements

For the fifteen months ended 31 March 2019

22. OTHER ASSETS

	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Current portion:		
Prepayments	**34,063**	20,067
Value added tax recoverable	**86,388**	39,972
Right to returned goods	**5,891**	22,534
Others	**25,367**	18,185
	151,709	100,758
Non-current portion:		
Prepayments	**22,509**	18,262
Others	**23,243**	9,786
	45,752	28,048

23. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Number of issued ordinary shares at per value HKD0.01	Nominal value of issued ordinary shares HKD'000	Equivalent nominal value of issued ordinary shares RMB'000	Share premium account RMB'000	Total RMB'000
As at 1 January 2017	5,536,401,000	55,365	53,589	659,018	712,607
Issuance of ordinary shares	138,410,025	1,384	1,179	147,379	148,558
As at 31 December 2017	5,674,811,025	56,749	54,768	806,397	861,165
As at 1 January 2018	**5,674,811,025**	**56,749**	**54,768**	**806,397**	**861,165**
Issuance of ordinary shares (Note a)	**211,310,000**	**2,113**	**1,698**	**227,142**	**228,840**
As at 31 March 2019	**5,886,121,025**	**58,862**	**56,466**	**1,033,539**	**1,090,005**

23. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (CONTINUED)

(a) Pursuant to the subscription agreement on 19 January 2018 and 11 April 2018, the Company allotted and issued 211,310,000 new ordinary shares with nominal value of HKD0.01 each at a price of HKD1.35 per share (for 202,310,000 shares) and HKD1.29 per share (for the remaining 9,000,000 shares) to directors and management personnel of the Company, on 27 April 2018.

The total gross proceeds from the issue were approximately HKD284,729,000 (equivalent to approximately RMB228,840,000), of which HKD2,113,000 (equivalent to approximately RMB1,698,000) was credited to share capital, HKD282,615,000 (equivalent to approximately RMB227,142,000) was credited to share premium.

Ms. Chen Chen has paid all of her consideration and other subscribers's consideration was settled through a loan from Bright Pacific, a wholly-owned subsidiary of the Company, to the subscribers with the interest rate of one month HIBOR plus 1% per annum. All the shares subscribed and acquired was pledged as the collateral of these loans (Note 19). They need to comply with the lock-up request of the subscription agreement.

The directors of the Company are of the view that no share based payment expense should be recognised in the consolidated statement of comprehensive income as the consideration for the shares issued were higher than fair value.

Certain of the above subscribers are related parties of the Group, therefore the share issuance and the loans provided to them are related party transactions.

24 SHARES HELD FOR EMPLOYEE SHARE SCHEME

	As at 31 March 2019 Number of shares	At as 31 December 2017 Number of shares	**As at 31 March 2019 RMB'000**	At as 31 December 2017 RMB'000
Shares held for employee share scheme	**23,050,071**	23,050,071	**196**	196

These shares are held by the Group's Trust for the purpose of issuing shares under the Group's employee share scheme (see Note 26 for further information). Shares issued to employees are recognised on a first-in-first-out basis.

Details	**Number of shares**	**RMB'000**
Opening balance 1 January 2017	23,050,071	196
Employee share scheme issue	—	—
Balance 31 March 2019 and 31 December 2017	**23,050,071**	**196**

25. RESERVES

The following table shows a breakdown of the balance sheet line item 'reserves' and the movements in these reserves during the period/year. A description of the nature and purpose of each reserve is provided below the table.

	Capital reserve (note a) RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	283,522	9,021	45,681	(189,417)	1,359,229	(66,755)	7,503,817	8,945,098
Profit for the year	—	—	—	—	—	—	804,647	804,647
Disposals-fair value reclassified to statement of comprehensive income	—	—	—	—	(670,798)	—	—	(670,798)
Fair value changes of available-for-sale financial assets after netting off the impact of deferred tax liabilities	—	—	—	—	1,268,913	—	—	1,268,913
Foreign currency translation reserve (Note (b))	—	—	—	(114,191)	—	—	—	(114,191)
Dividends (Note 33)	—	—	—	—	—	—	(1,509,274)	(1,509,274)
Appropriation to statutory reserves (Note (c))	—	—	14,592	—	—	—	(14,592)	—
Disposal of a subsidiary	—	—	(630)	—	—	—	630	—
At 31 December 2017	283,522	9,021	59,643	(303,608)	1,957,344	(66,755)	6,785,228	8,724,395
Reclassification on adoption of IFRS 9	—	—	—	—	(1,957,344)	—	1,957,344	—
At 1 January 2018	283,522	9,021	59,643	(303,608)	—	(66,755)	8,742,572	8,724,395

	Capital reserve (note a) RMB'000	**Share-based compensation reserve RMB'000**	**Statutory reserve RMB'000**	**Exchange reserve RMB'000**	**Fair value reserve RMB'000**	**Shares held for Restricted Share Award Scheme RMB'000**	**Retained earnings RMB'000**	**Total RMB'000**
At 1 January 2018	**283,522**	**9,021**	**59,643**	**(303,608)**	**—**	**(66,755)**	**8,742,572**	**8,724,395**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**865,852**	**865,852**
Foreign currency translation reserve (Note (b))	**—**	**—**	**—**	**99,388**	**—**	**—**	**—**	**99,388**
Dividends (Note 33)	**—**	**—**	**—**	**—**	**—**	**—**	**(528,483)**	**(528,483)**
Appropriation to statutory reserves (Note (c))	**—**	**—**	**4,705**	**—**	**—**	**—**	**(4,705)**	**—**
Disposal of a subsidiary	**—**	**—**	**(2,331)**	**—**	**—**	**—**	**2,331**	**—**
At 31 March 2019	**283,522**	**9,021**	**62,017**	**(204,220)**	**—**	**(66,755)**	**9,077,567**	**9,161,152**

Notes:

(a) The capital reserve represents mainly the difference between the fair value of shares of the Company issued and the carrying amount of the net assets of the subsidiaries acquired under common control combination upon group reorganisations in the year 2007.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(c) The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

26. SHARE BASED COMPENSATION SCHEMES

(a) Restricted Share Award Scheme

The Company adopted the Restricted Share Award Scheme (Note 2.18) on 10 December 2010. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants including directors and employees of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals. Under the scheme, the China Dongxiang (Group) Co., Ltd. Restricted Share Award Scheme Trust (the "Trust") was established in Hong Kong and purchased 30,000,000 shares of the Company from the open market in December 2010. No further purchase of shares of the Company has been made since December 2010. The total amount of RMB87,138,000 paid to acquire the shares was financed by the Company by way of contributions made to the Trust. As the financial and operational policies of the Trust are governed by the Group and the Group benefits from the Trust's activities, the Trust is consolidated in the Group's financial statements as a special purpose entity.

When restricted shares are granted to selected participants, the fair value of the restricted shares awarded based on the market value of the Company's shares on the date of grant is charged as employee expenses in the consolidated statement of comprehensive income of the Group.

During the fifteen months ended 31 March 2019, no shares out of the 30,000,000 shares purchased from the open market in 2010 as described above, were granted to senior management under the Restricted Share Award Scheme (2017: Nil).

(b) Shares issued to directors and management personnel of the Company

As mentioned in Note 23, on 27 April 2018, the Company allotted and issued 211,310,000 new ordinary shares to directors and management personnel of the Company, no share based payment expense was recognised in the consolidated statement of the comprehensive income during the current period.

27. TRADE PAYABLES

The ageing analysis of trade payables based on goods receipt date as at 31 March 2019 and 31 December 2017 was as follows:

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Within 30 days	**85,844**	87,687
31 to 180 days	**38,229**	52,912
Over 180 days	**25,333**	11,480
	149,406	152,079

The trade payables are mainly denominated in RMB and JPY. The carrying amounts of trade payables approximated their fair values as at the balance sheet dates.

28. ACCRUALS AND OTHER PAYABLES

	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Current portion:		
Salary and welfare payable	**16,159**	22,537
Other taxes and levies payable	**14,213**	64,513
Refund liabilities	**14,599**	35,320
Suppliers' deposits	**67,472**	43,257
Due to related parties (Note 36(b))	**27,164**	3,755
Payables for marketing expenses	**29,525**	34,563
Payables for logistics fees	**15,051**	7,234
Payables for professional and legal fees	**8,472**	1,248
Others	**41,971**	52,234
	234,626	264,661
Non-current portion:		
Other payables	**5,739**	—

The carrying amounts of accruals and other payables approximated their fair values as at the balance sheet dates.

29. DERIVATIVES

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Derivatives	**41,591**	58,672

During the fifteen months ended 31 March 2019, the Group entered certain derivative agreements with investment banks, of which certain quantities of the underlying securities listed on the NYSE and HKSE are agreed to be settled at an agreed price when certain agreed events occurred. Such investments were designated as derivatives and stated at fair value as at 31 March 2019.

30. BORROWINGS

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Bank Loans		
— Pledged (a)	**480,439**	228,697
Loans from a company		
— Unsecured and interest free (b)	**47,197**	274,497
	527,636	503,194

Notes:

(a) In May 2018, the Group borrowed an amount of HKD230,000,000 (equivalent to RMB197,305,000) from Industrial Bank Co., Ltd Hong Kong Branch at an interest rate of 3 month Hibor+1.95% per annum with maturity of 12 months. The borrowing was secured by the Group's bank deposits of RMB220,000,000 in Industrial Bank Co., Ltd Beijing Branch.

As at 31 March 2019, the outstanding loans due to Morgan Stanley Asia International Limited at the prevailing interest rate was HKD315,919,000 (equivalent to approximately RMB271,010,000).

As at 31 March 2019, the outstanding loans due to HSBC Japan Branch at an interest rate of 3-month Libor+2.00% per annum was JPY199,181,000 (equivalent to approximately RMB12,124,000). The borrowing was secured by standby letter of credit issued by HSBC HK for USD5,005,000.

(b) The balance represented the loans due to a third party, Forchn International Co., Ltd., which is unsecured, interest free and repayable in August 2019.

As at 31 March 2019, the Group's borrowings were repayable as follows:

	Bank loans		Other loans	
	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Within 1 year	**480,439**	228,697	**47,197**	—
Between 1 and 2 years	**—**	—	**—**	274,497
	480,439	228,697	**47,197**	274,497

Bank borrowings mature until 2019 and bear average coupons of 3 month Hibor plus 1.95% annually (2017: 1 month Libor plus 2.2% annually).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2019

31. PROVISIONS

The provision represents amount provided for sales returns and sales discount in Japan segment and accrued liabilities due to pending litigation.

The movements in provisions are as follows:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 (Restated) RMB'000
Carrying amount at beginning of period/year	**15,571**	7,714
Utilisation	**(9,571)**	(22,097)
Provision	**221**	29,954
Carrying amount at ending of period/year	**6,221**	15,571

32. CONTRACT LIABILITIES

	As at 31 March 2019 RMB'000	As at 31 December 2017 (Restated) RMB'000
Advance from customers	**29,595**	58,308

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period/year	**50,773**	43,233

The Group changed the presentation of contract liabilities in relation to contracts which were previously included in accruals and other payables to reflect the terminology of IFRS 15.

See Note 2.2 for details about changes in accounting policies.

33. DIVIDENDS

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Interim dividend paid of RMB2.45 cent (2017: 2.90 cent) per share	**144,210**	160,556
Interim special dividend paid of RMB2.45 cent (2017: 2.90 cent) per share	**144,210**	160,556
Special dividend paid of nil (2017: 17.32 cent) per share	**—**	958,904
Proposed final dividend of RMB1.96 (2017: 1.42 cent) per share	**115,368**	80,838
Proposed final special dividend of RMB0.49 (2017: 2.84 cent) per share	**28,842**	161,303
	432,630	1,522,157

The total dividends paid for the fifteen months ended 31 March 2019 amounted to RMB530,561,000 or RMB9.16 cents per share (Year ended 31 December 2017: RMB1,515,414,000 or RMB27.38 cents per share) comprising 2017 final and final special dividends of RMB242,141,000 and 2018 interim and interim special dividends of RMB288,420,000, of which RMB2,078,000 (Year ended 31 December 2017: RMB6,140,000) were paid to the shares held for Restricted Share Award Scheme.

Pursuant to a resolution passed on 19 June 2019, the board of directors of the Company proposed a final dividend and final special dividend of RMB1.96 cents and RMB0.49 cents per ordinary share of the Company, amounting to RMB115,368,000 and RMB28,842,000 for the fifteen months ended 31 March 2019 from the Company's retained earnings account, respectively. The final dividend and final special dividend are to be proposed for approval by the shareholders of the Company at the annual general meeting to be held on 8 August 2019.

The aggregate amounts of the dividends paid for the fifteen months ended 31 March 2019 and year ended 31 December 2017 have been disclosed in the consolidated statement of changes in equity in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

34. CASH (USED IN)/GENERATED FROM OPERATIONS

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Profit before income tax for the period/year	**1,025,626**	929,913
Adjustments for:		
— Depreciation of property, plant and equipment (Note 13)	**13,007**	11,458
— Loss on disposal of property, plant and equipment	**913**	329
— Amortisation of lease prepayments (Note 14)	**357**	285
— Amortisation of intangible assets (Note 15)	**13,333**	11,334
— (Reversal of)/provision for impairment losses of inventories (Note 7)	**(7,969)**	6,300
— Provision for/(reversal of) impairment of financial assets — net	**2,091**	(50,632)
— Share of loss of joint ventures and associates (Note 12)	**21,968**	17,464
— Elimination of unrealised profit of joint ventures	**(7,932)**	(3,672)
— Interest income from bank deposits	**(20,815)**	(21,003)
— Interest expenses on borrowings	**26,985**	21,408
— Investment income from financial assets	**(178,101)**	(155,363)
— Interest from other financial assets at amortised cost	**(159,153)**	(108,649)
— Foreign exchange (gains)/losses, net (Note 9)	**(15,992)**	74,956
— Gain on disposal of investment in available-for-sale financial assets	**—**	(603,833)
— Gain on disposal of financial assets at fair value through profit or loss	**(14,253)**	(18,157)
— Change in fair value of financial instruments at fair value through profit or loss	**(696,436)**	(55,182)
	3,629	56,956
Changes in working capital:		
— Increase in inventories	**(102,057)**	(72,221)
— (Increase)/decrease in trade receivables, other financial assets at amortised cost and other assets	**(19,383)**	10,114
— (Decrease)/increase in trade payables, provisions, contract liabilities and accruals and other payables	**(116,431)**	125,460
Cash (used in)/generated from operations	**(234,242)**	120,309

34. CASH (USED IN)/GENERATED FROM OPERATIONS (CONTINUED)

In the consolidated cash flow statement, the proceeds from sales of property, plant and equipment comprise:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Net book amount (Note 13)	**2,127**	358
Loss on disposal of property, plant and equipment	**(913)**	(329)
Proceeds from disposal of property, plant and equipment	**1,214**	29

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**For the fifteen months ended 31 March 2019 RMB'000**	For the year ended 31 December 2017 RMB'000
Cash and cash equivalents (Note 21)	**766,722**	1,051,865
Liquid investments (i)	**2,173,186**	217,616
Borrowings — repayable within one year (Note 30)	**(527,636)**	(228,697)
Borrowings — repayable after one year (Note 30)	**—**	(274,497)
Net debt	**2,412,272**	766,287
Cash and liquid investments	**2,939,908**	1,269,481
Gross debt — fixed interest rates	**(47,197)**	(274,497)
Gross debt — variable interest rates	**(480,439)**	(228,697)
Net debt	**2,412,272**	766,287

34. CASH (USED IN)/GENERATED FROM OPERATIONS (CONTINUED)

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	Liquid investments (i)	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2017	1,713,464	255,027	(750,786)	—	1,217,705
Cash flows	(578,085)	(31,297)	230,671	—	(378,711)
Foreign exchange adjustments	(83,514)	(7,194)	—	16,921	(73,787)
Other non-cash movements	—	1,080	291,418	(291,418)	1,080
Net debt as at 31 December 2017	1,051,865	217,616	(228,697)	(274,497)	766,287
Cash flows	**(324,220)**	**(454,413)**	**(245,842)**	**235,672**	**(788,803)**
Foreign exchange adjustments	**39,077**	**83,870**	**(5,900)**	**(8,372)**	**108,675**
Other non-cash movements	**—**	**2,326,113**	**(47,197)**	**47,197**	**2,326,113**
Net debt as at 31 March 2019	**766,722**	**2,173,186**	**(527,636)**	**—**	**2,412,272**

(i) Liquid investments comprise current investments that are traded in an active market, being the Group's level 1 financial assets held at fair value through profit or loss.

35. COMMITMENTS

The Group had the following commitments as at 31 March 2019:

Operating lease commitments — Group as lessee

The Group leases certain properties for retail stores, office premises, and equipment under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 March 2019	As at 31 December 2017
	RMB'000	RMB'000
No later than 1 year	**74,714**	28,414
Later than 1 year and no later than 5 years	**90,251**	20,723
Over 5 years	**—**	1,548
	164,965	50,685

36. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control or jointly control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The ultimate controlling party of the Group is Mr. Chen Yihong, the Chairman and Executive director of the Company. Therefore, close family members of Mr. Chen Yihong and parties that are controlled, jointly controlled or significantly influenced by Mr. Chen Yihong or his close family members are considered to be related parties of the Company as well.

(a) Transactions with related parties

During the fifteen months ended and as at 31 March 2019 and the year ended and as at 31 December 2017, in addition to those disclosed elsewhere in the financial statements, the Group had the following transactions and balances with related parties:

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Sales of goods to:		
— Joint ventures of the Group	**219,234**	162,188
Purchase of goods from:		
— Joint ventures of the Group	**—**	142
Interest income		
— Joint ventures of the Group	**1,688**	1,355
— Management personnel	**8,524**	482
	10,212	1,837
Guarantee provided		
— A joint venture of the Group	**250,000**	—

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
Trade receivables (Note 18):		
— Joint ventures of the Group	**31,850**	40,934
Other financial assets at amortised cost (Note 19):		
Current portion		
— Joint ventures of the Group	**20,325**	19,818
— Provision	**(4,167)**	—
Non-current portion		
— Joint ventures of the Group	**—**	5,118
— Management personnel	**326,169**	131,520
— Provision	**—**	(5,118)
	342,327	151,338
Accruals and other payables (Note 28)		
— Joint ventures of the Group	**27,164**	3,755

Notes:

(i) The transactions with related companies are conducted based on mutual agreements.

(ii) The above balances with related parties except loans to management personnel as mentioned in Note 19(b) were unsecured, non-interest bearing and collectable per demand.

(c) Key management compensation

	For the fifteen months ended 31 March 2019 RMB'000	For the year ended 31 December 2017 RMB'000
Salaries, bonus and other welfares	**12,502**	6,657
Pension — defined contribution plans	**176**	191
	12,678	6,848

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	As at 31 March 2019 RMB'000	As at 31 December 2017 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	**10,240,192**	10,240,192
Financial assets at fair value through profit or loss	**161,351**	159,785
Amounts due from subsidiaries — non-current portion	**1,096,341**	1,261,706
	11,497,884	11,661,683
Current assets		
Trade receivables	**32,127**	31,193
Other financial assets at amortised cost	**42,428**	32,060
Amounts due from subsidiaries	**135**	132
Cash and bank balances	**32,040**	219,121
	106,730	282,506
Total assets	**11,604,614**	11,944,189
EQUITY		
Equity attributable to owners of the Company		
Share capital (Note 23)	**1,090,005**	861,165
Reserves (Note (a))	**9,968,781**	9,994,061
Total equity	**11,058,786**	10,855,226
LIABILITIES		
Current liabilities		
Borrowings	**197,305**	228,697
Amounts due to subsidiaries	**346,406**	840,809
Accruals and other payables	**2,117**	19,457
Total liabilities	**545,828**	1,088,963
Total equity and liabilities	**11,604,614**	11,944,189

The balance sheet of the Company was approved by the Board of Directors on 19 June 2019 and was signed on its behalf:

CHEN YI HONG	**ZHANG ZHIYONG**
Executive Director & Chairman	*Executive Director*

Notes to the Consolidated Financial Statements

For the fifteen months ended 31 March 2019

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

Note (a) Reserve movement of the Company

	Capital reserves RMB'000	Share- based compensation reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	10,061,543	1,342	(510,110)	1,053,390	10,606,165
Profit for the year	—	—	—	960,079	960,079
Foreign currency translation reserve	—	—	(51,967)	—	(51,967)
Dividends	—	—	—	(1,515,414)	(1,515,414)
Fair value change on available-for-sale financial assets	(4,802)	—	—	—	(4,802)
At 31 December 2017	10,056,741	1,342	(562,077)	498,055	9,994,061
At 1 January 2018	**10,056,741**	**1,342**	**(562,077)**	**498,055**	**9,994,061**
Profit for the period	**—**	**—**	**—**	**483,510**	**483,510**
Foreign currency translation reserve	**—**	**—**	**21,771**	**—**	**21,771**
Dividends	**—**	**—**	**—**	**(530,561)**	**(530,561)**
At 31 March 2019	**10,056,741**	**1,342**	**(540,306)**	**451,004**	**9,968,781**

38. BENEFIT AND INTERESTS OF DIRECTORS

a. Directors' emoluments

The remuneration of each director of the Company is set out below:

For the fifteen months ended 31 March 2019:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking.

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Fifteen months ended 31 March 2019						
Mr. Chen Yihong	**205**	**2,228**	**252**	**22**	**18**	**2,725**
Ms. Chen Chen	**205**	**1,839**	**143**	**88**	**70**	**2,345**
Mr. Zhang Zhiyong	**205**	**3,575**	**157**	**—**	**19**	**3,956**
Mr. Chen Zhihong (i)	**225**	**—**	**—**	**—**	**—**	**225**
Mr. Chen Guogang	**233**	**—**	**—**	**—**	**—**	**233**
Mr. Gao Yu	**233**	**—**	**—**	**—**	**—**	**233**
Mr. Liu Xiaosong (ii)	**8**	**—**	**—**	**—**	**—**	**8**
	1,314	**7,642**	**552**	**110**	**107**	**9,725**

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Estimated money value of other benefits RMB'000	Employer's contributions to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2017						
Mr. Chen Yihong	168	1,796	236	64	51	2,315
Ms. Chen Chen	168	1,491	196	64	51	1,970
Mr. Zhang Zhiyong (iii)	38	689	29	—	4	760
Mr. Chen Guogang	190	—	—	—	—	190
Mr. Chen Zhihong	93	—	—	—	—	93
Mr. Gao Yu	190	—	—	—	—	190
Mr. Xiang Bing (iv)	98	—	—	—	—	98
	945	3,976	461	128	106	5,616

38. BENEFIT AND INTERESTS OF DIRECTORS (CONTINUED)

a. Directors' emoluments (Continued)

Notes:

(i) Mr. Chen Zhihong has tendered his resignation as an independent non-executive director with effect from 27 March 2019.

(ii) Mr. Liu Xiaosong was appointed as an independent non-executive director with effect from 27 March 2019.

(iii) Mr. Zhang Zhiyong was appointed as an executive Director and the chief executive officer of the Company for a term of three years with effect from 10 October 2017.

(iv) Mr. Xiang Bing has tendered his resignation as an independent non-executive director with effect from 5 July 2017.

(v) No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as director.

b. Directors' retirement benefits

No retirement benefits were paid in the fifteen months ended 31 March 2019 to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (Year ended 31 December 2017: Nil).

c. Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the fifteen months ended 31 March 2019 (Year ended 31 December 2017: Nil).

d. Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company during the fifteen months ended 31 March 2019 (Year ended 31 December 2017: Nil).

e. There is a loan in favour of Mr. Zhang Zhiyong, the CEO, during the fifteen months ended 31 March 2019 and the year ended 31 December 2017, respectively.

f. Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the fifteen months ended 31 March 2019 (Year ended 31 December 2017: Nil).

China Dongxiang (Group) Co., Ltd. 中國動向（集團）有限公司

www.dxsport.com