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

SECOND INTERIM REPORT 2018

Contents

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. Chen Johnny Mr. Gao Yu
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 China CITIC Bank
Website	www.dxsport.com


Kappa
Authentic Sportswear Brand
Since 1967

Information for Investors

OTHER IMPORTANT INFORMATION

1. Share information

Listing: Main Board of the Hong Kong Stock Exchange, 10 October 2007

Stock code: 03818

Number of ordinary shares issued as at 31 December 2018: 5,886,121,025 shares

2. Important dates

Interim results announcement for the twelve months ended 31 December 2018: 27 February 2019

3. Interim dividend

The Board resolved not to declare any interim dividend for the twelve months ended 31 December 2018.

4. Investor Relations Department

Building 21, No. 2 Jingyuanbei Street,
Beijing Economic-Technology Development Area,
Beijing 100176, People's Republic of China
Telephone: (8610) 6783 6585
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5. Website

www.dxsport.com

RESULTS HIGHLIGHTS

REVENUE OF THE GROUP GREW BY 17.3% YEAR-ON-YEAR

China segment:
introduction of new customers and launch of new model

Japan segment:
progressive improvement in financial performance and exploration of new sources for customers

Investment segment:
high responsiveness and sensitivity to market change with progress made in a cautious way

RESULTS HIGHLIGHTS

For the twelve months ended 31 December

	2018 *(RMB million)*	2017 *(RMB million)*	Change
Revenue	**1,706**	1,455	+17.3%
Gross profit (before reversal of/provision for impairment losses of inventories)	**955**	862	+10.8%
Gross profit margin (before reversal of/provision for impairment losses of inventories)	**56.0%**	59.2%	-3.2 ppts
Operating profit	**418**	1,027	-59.3%
Operating profit excluding investment income	**91**	113	-19.5%
Net profit attributable to equity holders of the Company	**315**	805	-60.9%
	(RMB cents)	*(RMB cents)*	
Basic earnings per share	**5.44**	14.51	-62.5%

The Board resolved not to declare any interim dividend for the twelve months ended 31 December 2018.

Chairman's Statement

Dear Shareholders,

I am pleased to present on behalf of the Board our interim results for the twelve months ended 31 December 2018 (the "Reporting Period"):

In 2018, the global economy showed signs of improvement at the beginning of the year, but as global trade tensions have been heightening, apart from the relatively rapid expansion of the U.S. economy, the growth of the global economy generally faltered. China's economy, in general, maintained steady growth with positive progress, the long term development of deepening reforms and strong domestic demand have continued to recalibrate China's economy towards high quality growth, though uncertainties on the domestic and international economic outlook provide greater downward pressure to China's economy.

In the past few years, an unceasing implementation of policies by the PRC government favourable to the development of sports industry has increased China's participation rate in sports having a tendency towards more professional. Meanwhile, sportswear players in China have turned their long-term vision on international brands into action by initiating more and more multi-national acquisitions. During the new development stage of the sports gear industry, it is essential for the Group to identify and realise market opportunities at home and abroad as well as to penetrate sub-segment markets.

The Group's revenue for the Reporting Period increased by 17.3%, year-on-year, to RMB1,706 million, while profit attributable to equity holders of the Group decreased by 60.9% to RMB315 million. Basic earnings per share conceded by 62.5%, year-on-year, to RMB5.44 cents. Our profit fell mainly due to negative factors including the trade war. In the second half of 2018, major global stock market indexes has recorded continued drop. The price of the shares that the Group held, including Alibaba, has fallen accordingly. As at the date of this results announcement, the loss from the drop in price of stock has however been fully recovered as a result of the improved performance of stock markets. The Board resolved not to declare any interim dividend for the twelve months ended 31 December 2018.

China Dongxiang has gone through a significant reform in 2018 and made some progress with initial achievements in line with expectation, even though the domestic and international economic environment was complicated and complex with tougher competition in the industry.

CHINA SEGMENT: INTRODUCTION OF NEW CUSTOMERS AND LAUNCH OF NEW MODEL

In connection with our "Brand + Product" initiative, based on the outcome of further clarification of Kappa's brand DNA and the brand assets in 2018, the Company has established a more effective connection with target consumers in a more focused approach. In 2018, the Group made prominent efforts to rediscover its brand DNA and launch cross-sector cooperation with well-known designers, such as Kazuki Kuraishi, and key opinion leaders (KOLs) focusing on BANDA element, creating a brand new fashion trend. The Fall/Winter women's series of BF and WMNS coincidentally launched both functional and fashionable sportswear products, further consolidating the brand position in women's sportswear industry. In addition, we continued to adopt 360-degree brand marketing through a combination of online and offline activities by closely cooperating with new media and top stars in China and actively participating into international fashion events, leading to a worldwide recognition of Kappa's brand image of being "rebellious, passionate and outgoing".

For the "Brand + Retail" business, the Group made diligent efforts to optimise its existing store mix and actively establish top stores, shopping-mall stores and outlets while renovating and closing underperforming stores in an ongoing move to consolidate reforms at deeper levels. The percentage share of shopping-mall stores increased by 9 percentage points. Meanwhile, the number of Kappa stores commenced to restore positive growth. As at the end of December 2018, the Group had a total of 1,496 Kappa stores (including Kappa Kid's stores), representing a net increase of 9 as compared to that as at the end of December 2017. Benefiting from a highly effective reform on sales channels, the same store sales (the "SSS") and retail performance of the Group maintained stable growth. In the first half of 2018, new customers were developed in, among others, Hebei, Jiangsu, Shandong, Hunan and Guizhou, providing great support for the Group's opening of more new stores in the second half of the year. Moreover, the Group continued to develop a new para-direct operation model for further securing sufficient supply of products, laying a concrete foundation for enhancement of the Group's operational performance.

E-commerce has always been an integral part of the business of the Group, and its performance for the period was in line with our expectation. In 2018, the Group continued to penetrate the famed e-commerce platforms, such as Tmall, JD.com and VIP.com, by actively participating into their large-scale promotion activities, developing more diversified production lines for these e-commerce platforms as well as enhancing promotion of new products on online platforms, with an aim to attract more customers to our offline stores through the online promotional effectiveness.

In 2018, our kid's wear business continued to make progress in a stable manner. As the popularity of the "Chinese Football Boy" (中國足球小將) campaign sponsored by "Kappa Kids" has been on the rise, the Chinese Football Boys have been arranged to participate in friendly matches with the top international youth football teams in addition to the nationwide games in full swing, resulting in a further enhancement of the brand awareness and the influential power in kidswear industry. The revenue of our kid's wear business for the Reporting Period reached RMB130 million, accounting for 9.5% of the revenue from our China segment.

JAPAN SEGMENT: PROGRESSIVE IMPROVEMENT IN FINANCIAL PERFORMANCE AND EXPLORATION OF NEW SOURCES FOR CUSTOMERS

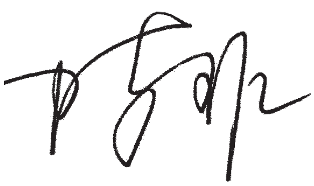
Our Japan business continued to undergo reforms in 2018. During the Reporting Period, revenue from Japan segment grew significantly and financial loss shrank substantially with an improved financial condition as compared with the same period last year. As overseas tourists to Japan have become our new potential source for customers, the Group has made greater efforts in products promotion at the renowned sightseeing spots for autumn and winter in Japan so as to develop a new business engine for growth. Additionally, the Group continued to relish a huge opportunity in winter sports by vigorously developing and expanding PHENIX brand in China and Europe. In 2018, the World Winter Sports (Beijing) Expo 2018 and the countdown to Beijing 2022 Winter Olympics gathered a record-breaking attractions in winter sports in China. China Dongxiang has been enjoying the first-mover advantage as PHENIX China has positioned itself well in advance for the coming of Beijing 2022 Winter Olympics since 2018 by focusing on omni-channel expansion, club member services and brand marketing, achieving progressive increase in brand awareness.

INVESTMENT SEGMENT: HIGH RESPONSIVENESS AND SENSITIVITY TO MARKET CHANGE WITH PROGRESS MADE IN A CAUTIOUS WAY

Investment business has been one of the key growth drivers of the Group and provided a protection to the Group's effective operation of the "dual-engine" business model. During the Reporting Period, based on the Group's investment strategies of "being profit-oriented, working with high-calibre partners and being focused on competitive projects", we maintained close cooperations with our existing quality partners, and also carefully selected new partners of investment funds and good quality projects for investment as well as closely monitored the market situations, with an aim to maximise the efficiency and effectiveness of our investments.

In 2018, part of the Group's investment projects was affected by the general fluctuation of the global capital market, but the size and risks of the Group's investments were cautiously monitored with the priority of capital safety and reasonable return by pooling the Group's considerable experience in investment and risk management. As at 31 December 2018, the Group reported net asset value of its investments of RMB9,231 million, an increase of 6.8% as compared with that as at 31 December 2017, and a 49.2% surplus over the market capitalisation of the Group for the corresponding period. During the Reporting Period, the Group had investment net gains of RMB424 million. 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 secondary market held by the Group, such as Alibaba, dropped to a certain extent due to the market fluctuation, but the current price has generally rebounded to the level as at the beginning of the year. To respond to the current complex market situation with a number of uncertainties, our investment team will extra caution in selecting cooperation partners and investment projects to adapt to the market environment and release the value of the projects in a timely manner, so as to secure stable 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 longstanding support of the Group. In future, we will move forward and achieve new milestones in full confidence.



Chen Yihong
Chairman

27 February 2019

Management Discussion and Analysis

MACRO-ECONOMIC REVIEW

In 2018, the global economy was fueled by the revival of manufacturing and trading sectors, showing signs of growth and improvement at the beginning of the year. However, as global trade tensions have been heightening, apart from the rapid expansion of the U.S. economy, the growth of the global economy generally faltered. According to the forecast of the International Monetary Fund, the growth in the global economy in 2018 is projected to be 3.7%, but the expansion will become noticeably less balanced with mixed performance in terms of countries and regions. The emerging and developing economies in Asia remained to serve as the engine of global growth, and Japan's economy continued to be on track for a recovery amid threats of external risks. With the rise of economic protectionism in certain developed countries, the confidence in the global economic upswing is fading with growing uncertainty and risks, considerable challenges are expected in the global economic development.

China's economy, in general, maintained steady growth with positive progress, and domestic consumption remained one of the key drivers of economic growth with a year-on-year growth in gross domestic product of 6.7% in 2018. Since the domestic and international economic environment was complicated and complex, the steady development of the domestic economy has evolved and slowed down under greater downward pressure against the backdrop of, among others, heightened China-US trade tensions, depreciation of Renminbi and wobble capital markets. Nevertheless, China's economy was able to maintain solid growth and sustain its structural adjustment, transformation and upgrade as benefiting from long-term development of deepening reforms as well as transition to high quality growth from rapid growth by implementing various measures for economic development, laying a concrete foundation for healthy and steady development of China's economy.

INDUSTRY REVIEW

According to the National Bureau of Statistics, China's total retail sales of consumer goods for 2018 amounted to RMB38 trillion, a year-on-year growth of 9.0%. Domestic consumer market has progressively expanded and reached a new stage of development with characteristics of diversified demand and structural upgrading. In particular, sport industry has grown in an expedited fashion, satisfying the mass demand for diversification and personalisation.

In addition to the "Guiding Opinions on Accelerating the Development of the Sports Competition and Performance Industry" issued by the General Office of the State Council in 2018, the General Administration of Sport of China has worked out sport industry plans with relevant departments for, among others, winter sports, water sports, air sports, hiking, autosports, marathon, bicycle and fencing, such policies have reflected the unwavering support of the PRC government for inspiring a general commitment to fitness and wellness. The World Winter Sports (Beijing) Expo 2018 and the countdown to Beijing 2022 Winter Olympics gather new growth momentum in winter sports. As predicted by experts, the market size of the winter sports gear and equipment in China will expand to RMB150 billion in 2022 from RMB30 billion in 2018.

By virtue of the favourable policies implemented and increase in sports consumption in China, the market of sports gear and equipment has entered into a new era of development with growing demand in sub-segment markets. By meeting specific consumer needs, sports brands have been expanding their business by targeting specific types of sports, for instance, yoga and bicycle as well as sports products for women. Meanwhile, sportswear players in China has turned their long-term vision on international brands into action by initiating multi-national acquisitions under the direction of internationalization and multi-brand strategy in 2018, envisioning more "going global" acquisitions or brand crossovers are coming up. The convergence of sports gear and technology has encouraged the emergence of smart sports gear and equipment, leading to explosive growth in, among others, smart wearable devices, smart football, smart footwear, smart treadmill and smart fitness equipment, providing upgraded sports experience to consumers. As the sport industry in China remains at the early stage of development, the PRC government will focus on the development of different types of sports under the direction of the sport industry plans with an aim to expand and optimize the size and quality of the sport industry.

BUSINESS REVIEW

For the second half of 2018, the Group managed to achieve retail sales growth for the Kappa brand off-line platform and fulfill the management's expectation despite the wobble foundations of macroeconomics, thanks to efforts in new customer development, introduction of para-direct operation model and security of sufficient supply of products. 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 focused on the BANDA element 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

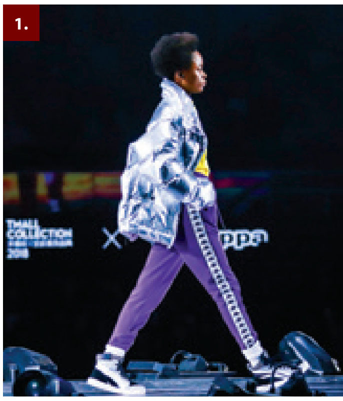
PRC — Kappa brand

In 2018, Kappa pursued its all-out online and offline marketing efforts via the digital new media by reinforcing cross-sector collaboration with key opinion leaders (KOL) in the entertainment, music and art communities, achieving remarkable outcome in product marketing, brand promotion and brand building, increasing the brand substance and boosting product penetration in fashion market.

In July 2018, BANDA series launched its new promotion and marketing campaign of "Natural Born Superstar", further emphasizing the core concept of the brand, i.e. being "rebellious, passionate and outgoing". In addition to media preview events attended by celebrity held at physical stores, pre-order for new products was available on WeChat mini programs platform. In August 2018, a product launch event for BANDA series was successfully held at GR8, a streetwear store in Tokyo, Japan, with celebrity appearances, such as Mr. Zhang Han from the Mainland China. In November 2018, as Kappa opened a new store in Sanlitun, a pop-up store was set up for a period of 5 days to exhibit the birth of the classic BANDA logo tape series to fashionistas.

Additionally, the brand has participated into various international fashion events to increase brand exposure and strengthen its ability to be a pop culture leader. On Tmall collection fashion show 2018, Kappa demonstrated by the winner of a modelling competition took glitz to a whole new level along the couture runway. At the "INNERSECT — WHERE CULTURE HAPPENS" exhibition held in Shanghai in December 2018, the brand new series of Kappa and Kazuki Kuraishi's A. Four labs collaboration received strong response, making another splash in such international fashion event.

In 2018, Kappa continued to closely cooperate with new media, such as street photography platforms, for entertainment marketing and sport games sponsorship so as to increase exposure of its brand and products, getting ahead of the fashion trend. Product placements in "Dragon style" street dance competition has successfully elevated the brand awareness of Kappa among the street dancers. Furthermore, Kappa has sponsored the sport games and events organized by Chinese Fencing Association as well as the "Sino-Norwegian Roller Skating Activity", collecting higher media exposure on all fronts. In addition, Bambi Zhu and Wayne Liu, Kappa's brand spokespersons, were invited to its retail stores for holding interactions with consumers, straightaway becoming the talk of the town.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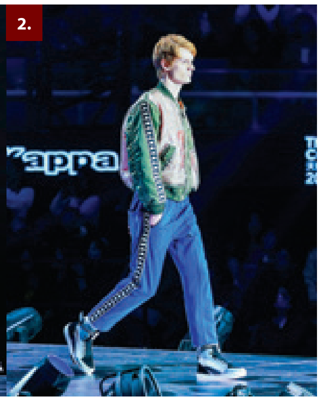
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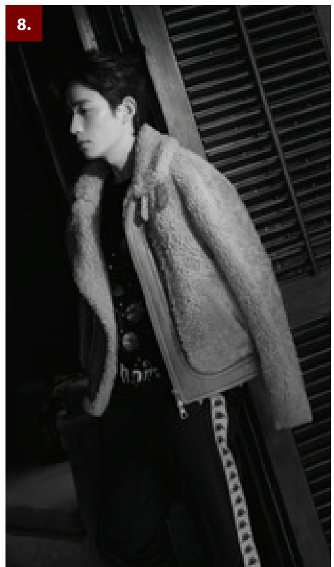
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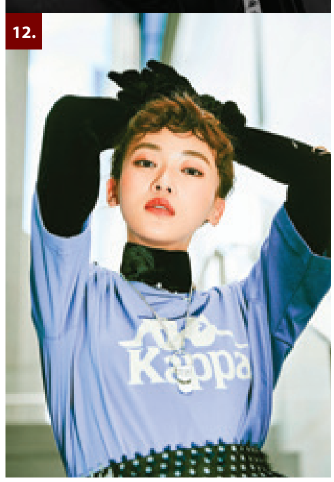
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1, 2. Kappa brand participates into Tmall collection fashion show

3, 4. New product launch event for BANDA series held at GR8 store in Tokyo

5, 6, 7. Celebrities participate into Kappa stores events

8, 12. Kappa brand apparel demonstrated by Zhu Yi Long and Wu Jinyan, well-known artists

9. VAVA, a famous artist, participates into a Kappa brand event at Sanlitun store

10, 11. Kappa brand participates into the "INNERSECT — WHERE CULTURE HAPPENS" exhibition

13. Kappa pop-up store at Sanlitun

In 2018, our kid's wear business further reinforced its competitiveness in kid's wear market through mutual complementarity and mutual cooperation between brand-building activities and promotion at retail stores. As the popularity of the "Chinese Football Boy" (中國足球小將) campaign has been still on the rise, the "First Chinese Football Boy Champion Cup" sponsored by "Kappa Kids" kicked off in Shanghai in August 2018, the final game at high standard has attracted widespread media and public attention. With full support of our brand, the Chinese Football Boys have been arranged to participate in friendly matches with the top international youth football teams. Furthermore, the Chinese Football Boys were invited to in-store events to interact with their football fans, receiving overwhelming response. The Weibo hashtag of #Chinese Football Boy# secured more than 3 billion click views, boosting the influence of the brand in the kid's wear market.

KAPPA KIDS SPONSORS THE "CHINESE FOOTBALL BOY" (中國足球小將) TOURNAMENT

Japan — Kappa brand

In 2018, the sports gear and equipment market in Japan demonstrated certain new characteristics. Kappa has flexibly adjusted its marketing strategies tailored to the characteristics of local consumer spending with its acute marketing sense, further raising the brand awareness of Kappa and achieving stronger recognition of the brand on the part of consumers.

Kappa football outfit series remains the principal product of the brand in Japan. As Japan made it the World Cup Finals in Russia, the country has been burnt with zeal for football. With leisure football outfit becoming more popular as daily outfit, the number of shoppers flocked to our stores has significantly increased. Kappa has taken advantage of the opportunities brought about by the zeal for football, it made all-out online and offline marketing efforts via multi-channels, such as magazines, TV programmes and internet, to maximize the exposure of the new series of "Kappa FOOTBALL 18FW". Meanwhile, being a sponsor for international renowned football teams, such as SSC Napoli from Italy and Real Betis Balompié from Spain, their excellent performance in football games has further consolidated our brand's international image, boosting the sales of the same series of apparel in Japan.

In 2018, the marketing strategy for Kappa Golf was remarkably effective. In view of the growing number of women golfers aged between 20 and 40 as well as young golfers, the Group has emphasized intimate engagement with consumers via social media, on top of maintaining brand exposure by sponsoring renowned female golfers. With rising health concerns across all age groups, Kappa revived its Training Wear in the second half of 2018. As the series has balanced function and fashion, it becomes the choice for top athletics in Japan for playing competitions, attracting attention and passion.

Japan — PHENIX brand

PHENIX SKI has maintained its leading position in skiing market in Japan and won the commendation of professional athletes for its "high quality and functional excellence". The Group has implemented various promotion initiatives principally targeting those ski lovers aged 25 to 45, with an aim to expand the brand's influence in ski industry and win over more brand lovers. In the recent years, overseas tourists to Japan have become a new engine for growth, though the number of local skiers in Japan is shrinking. As such, PHENIX SKI has expanded its promotion efforts by advertising in tourist brochure and free magazine distributed in Shiga Highlands, a renowned sightseeing spot for autumn and winter in Japan, to grow its customer base. Concurrently, the brand never stops investing in innovation, and the launch of PHENIX X HEAD crossover series products reflects a ski gear with fashion design, the state-of-the-art design and the premium quality have received positive market response.

In 2018, PHENIX OUTDOOR series kept abreast of new developments and issued a feature article about the autumn/winter collection and its functionalities with celebrity endorsement interviews conducted in the second half of 2018 in order to arouse consumer interest towards the series. On the trade fair for spring and summer 2019 held in Shinjuku in July 2018, PHENIX OUTDOOR series products with its state-of-the-art design and high quality received enthusiastic response. 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.


VIVANT JOIE
phenix
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SPM

Product Design and Research and Development

Apparel Series

In 2018, Kappa as a trendsetter will step up with bold innovative attempts to inject vitality of fashion on top of the classic logo tape design without sacrificing the brand kernel. Kappa teamed up with famed designer Kazuki Kurashi afresh for fashion crossover, grabbing strong attention and interest of fashionistas. In addition, each item of the series has unique features, interpreting the brand spirit with different colours.

BANDA Series

In July 2018, Kappa launched the brand new autumn/winter series of BANDA with designs uniting retro aesthetics of sports and couture, further consolidating the brand DNA. OMINI LOGO in the series has been further upgraded, the design was inspired by the classic logo tape with elements of pop culture, having a dramatic LOGO printed on. Additionally, ribbon logo tape was added to highlight the design delicacy. This season, BANDA series introduced designs and colours particularly for capturing women's hearts. In addition to the classic 222BANDA series, there were KAPPA x CHARM'S series from Korea as well as the brand new KAPPA x A.FOUR LABS x P.A.M. series in collaboration with Kazuki Kurashi, a Japanese designer. The brand has also created a new BANDA 10 series, displaying Kappa's cutting-edge fashion sense.

AA365 Series

Kappa launched a new AA365 autumn series 2018 with a design wittily combining army style and streetwears, demonstrating military masculinity with a sense of neatness, naturalness, confidence and depth. By employing light and thin fabric with exceptionally personalized cutting, AA365 series emphasizes a cool attitude of courage and confidence. The classic military camouflage enriched by navy and wine made the design burst with vitality, injecting a new power into fashion.

BF Series

Kappa BF series has made a rebellious fashion statement of "Femleisure" to the fullest extent in vintage-modern design, à la mode sweater with wide-legged tracksuit bottom showed the style of unisex beauty, avant-garde and independence. Minimal design balancing warm and cool colours created unique visual experience and an impression of genuineness. In addition to enhanced comfort of the fabric used, BF series was infused with popular element of dramatic LOGO. With large alphabet letters horizontally printed on, knitwears of the series did a magic with a design harmonizing minimalism and avant-garde works, re-interpreting the charm of "modern cool girl image" having both assertiveness and soft-heartedness. This year, the popular earth tone has been employed with the athletic silhouette design and 3D cutting for re-defining street style.

WMNS Women's Series

Velvet fabric is always associated with sexiness and modernity, it has been gallantly used in the Kappa WMNS autumn series 2018 to highlight a sense of trendiness with design details. Mockneck design easily turns girls into a classy and lively "princess of elegance". Pale-colours are the preference of teenage girls, the sweater in pale colour echoing the white patterns on sleeves and LOGO on the front effortlessly presents the image of "sportive and energetic teenager girl". This winter, WMNS series launched down puffer coats in pale colours with a design of gentle and comfort in cherry blossom pattern, soft and breathable fabric provides extra warmth without losing its style, becoming a hot item of female consumers.

Management Discussion and Analysis

Retro-Cosy Series

In 2018 winter, Kappa launched Retro-Cosy series, a down jacket line for women. "Space silver", the current most popular colour, is the basic tone of the series, the use of metallic shiny fabric has made it as the fashion hot piece of the season. Unlike the ordinary down jacket, the unique big-collar design of the Retro-Cosy series creates 3D effect, and the oversize form demonstrates a sense of modishness, neatness and vigor. Top of the shawl hood is printed with the Kappa classic LA84 tape, adding delicate details to the jacket. In addition, ultra-high insulation with drawstring collar and drawstring cuffs put an indulgently warm barrier from the wind and the cold. The all-match oversize silhouette design in high visibility silver has made the down jacket of Retro-Cosy series becoming a hot fashion item in winter.

Shoes Series

In 2018, more resources was put on research and development of new shoe design targeting young consumers. On the one hand, Kappa made greater efforts on design, research and development of vulcanized shoes, emphasizing the uniqueness of the brand characters and product differentiation; on the other hand, the shoes design with BANDA logo tape printed on echoed the Italian BANDA outfit series, keeping in step with the international fashion trend in terms of footwear design. With the rapid process of design and development, Kappa has caught up with the trend in the season and launched a number of brand new retro-inspired running shoes, the most popular one for the season. Above all, Kappa has devoted to provide consumers a new generation of shoes series with unique characteristics on the foundation of its classic products and the rediscovery of its historic resources. Moreover, the in-store display of shoes and the online promotion campaigns have enhanced the marketing effectiveness, allowing Kappa to experience an upsurge in popularity among youngsters.

Accessories Series

In 2018, Kappa newly developed a number of accessories items sharing the brand DNA for young style hunters. The sales performance of those products with brand logo tape printed on was particularly impressive in the autumn and winter of 2018 due to quick stock replenishment through the rolling order method. The popular items of fashion, such as bucket hat and single trap backpack, have been eagerly sought after by the style hunters, and became our new business momentum for growth. The accessories items sharing the brand DNA have been brought into greater visual accord with our apparel and footwear series to brighten up in-store display and provide consumers with more matching options in overall styling.

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 December 2018, the Group had a total of 1,496 Kappa stores (including 316 Kappa Kid's stores), representing a net increase of 9 stores as compared to the end of last year (a net increase of 43 Kappa stores and a net decrease of 34 Kappa Kid's stores). A total of 538 Kappa adults and 52 Kappa Kids retail stores were directly or indirectly operated by our subsidiaries. For the second half of 2018, 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 2018, our e-commerce operations steadily developed in a changing market. With the implementation of multi-platform strategy, our sales performance through Tmall and JD.com continued to grow. To attract new customers, we have developed new product lines and diversified the types of e-commerce products, in addition to active participation of major holiday marketing campaigns organised by well-known e-commerce platforms, while increasing our efforts in online promotion of new products with an aim to facilitate the integration between our online and offline business operations.

INCREASING THE CONTRIBUTIONS OF GROUP INVESTMENT PROJECTS

In the second half of 2018, 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 secondary market held by the Group, such as Alibaba, dropped to a certain extent due to the general market fluctuation, but the current price has generally rebounded to the level as at the beginning of the year. In the second half of 2018, 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

For the second half of 2018, the sport industry remained subject to risks and uncertainties owing to mounting tension of international trade and the onset of the global economic slowdown. However, the size of domestic consumer market in China has steadily expanded, and it has entered into a new phase with diversification of demand and structural upgrade. The sport industry generally trended well on the back of favourable factors such as policy support and higher demand for spending on sports.

FINANCIAL REVIEW

The sales of the Group in 2018 was RMB1,706 million, increased by 17.3% as compared to RMB1,455 million in 2017. Profit attributable to equity holders in 2018 was RMB315 million, decreased by 60.9% as compared to RMB805 million in 2017.

Sales Analysis (Revenue of the Group has been recognised on a gross basis since 2018 and the comparative figures for the same period last year have been adjusted for consistent presentation)

Sales analyzed by geographical segments, business segments and product categories

	For the twelve months ended 31 December						
	2018			2017			
	RMB million	% of product/ brand mix	% of Group sales	RMB million	% of product/ brand mix	% of Group sales	Change
CHINA SEGMENT							
Kappa Brand							
Apparel	**915**	**77.9%**	**53.6%**	734	74.0%	50.4%	24.7%
Footwear	**239**	**20.3%**	**14.0%**	238	24.0%	16.4%	0.4%
Accessories	**21**	**1.8%**	**1.2%**	20	2.0%	1.4%	5.0%
Kappa Brand total	**1,175**	**100.0%**	**68.8%**	992	100.0%	68.2%	18.4%
Kids business	**130**		**7.6%**	117		8.0%	11.1%
International business and others	**65**		**3.8%**	30		2.1%	116.7%
CHINA SEGMENT TOTAL	**1,370**		**80.2%**	1,139		78.3%	20.3%
JAPAN SEGMENT							
Phenix Brand	**230**	**68.5%**	**13.6%**	221	69.9%	15.2%	4.1%
Kappa Brand	**106**	**31.5%**	**6.2%**	95	30.1%	6.5%	11.6%
JAPAN SEGMENT TOTAL	**336**	**100.0%**	**19.8%**	316	100.0%	21.7%	6.3%
THE GROUP TOTAL	**1,706**		**100.0%**	1,455		100.0%	17.3%

China Segment

Total sales of the Kappa brand business, the core business of the Group, in 2018 increased by RMB183 million to RMB1,175 million as compared to RMB992 million in 2017. The sales of kids business unit in 2018 increased by RMB13 million to RMB130 million as compared to that in 2017.

In the reporting period, the Group continued to make dedicated efforts in consolidating the business models of "brand + product" and "brand + retail" 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 retail 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 retail stores, resulting in 1,180 Kappa stores in total. Also, there were 316 Kappa Kid's stores in total in 2018.

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

	For the twelve months ended 31 December				
	2018		2017		
	Sales RMB million	% of sales of Kappa brand	Sales RMB million	% of sales of Kappa brand	Change
Non self-operated	**428**	**36.4%**	383	38.6%	11.7%
Self-operated	**747**	**63.6%**	609	61.4%	22.7%
Total of Kappa brand	**1,175**	**100.0%**	992	100.0%	18.4%

Note: Excluding Kappa Kids business.

Sales of Kappa brand products via non self-operated channel in China segment increased by RMB45 million to RMB428 million in 2018 from RMB383 million in 2017, representing 36.4% of the total sales of Kappa brand in China segment in 2018 as compared to 38.6% in 2017.

As at 31 December 2018, the number of self-operated retail stores under Kappa brand operated by our subsidiaries in China reached 538. Sales via self-operated channel increased by RMB138 million to RMB747 million in 2018 from RMB609 million in 2017, representing 63.6% of the total sales of Kappa brand in China segment in 2018 (2017: 61.4%).

Japan Segment

Sales from Japan Segment in 2018 increased by RMB20 million to RMB336 million from RMB316 million in 2017. 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 RMB158 million to RMB751 million in 2018 (2017: RMB593 million).

In 2018, our gross profit before reversal for/(provision for) impairment losses of inventories rose by RMB93 million to RMB955 million (2017: RMB862 million). Our overall gross profit margin before reversal for impairment losses of inventories in 2018 decreased by 3.2 percentage points to 56.0% from 59.2% in 2017.

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

	For the twelve months ended 31 December		
	2018	**2017**	**Change**
	Gross profit margin	**Gross profit margin**	**% pts**
China segment	**60.4%**	65.8%	-5.4
Kappa Brand:			
Apparel	**64.4%**	71.0%	-6.6
Footwear	**55.2%**	61.1%	-5.9
Accessories	**87.5%**	73.3%	14.2
Kappa Brand overall	**62.9%**	68.7%	-5.8
Kids business	**52.6%**	54.4%	-1.8
Japan segment	**38.0%**	35.8%	2.2
Group overall	**56.0%**	59.2%	-3.2

* Before reversal of/(provision for) impairment of inventories

Gross profit margin of Kappa Brand in China segment in 2018 decreased by 5.8 percentage points to 62.9% from 68.7% in 2017, of which there is a decline in its gross profit margin by approximately 1.3 percentage point after a one-off clean-up of obsolete stock, bulk returns have reduced the gross profit margin by 2.3 percentage points and the decrease in discount of retail terminal has reduced the gross profit margin by 1.0 percentage point.

Gross profit margin of Japan segment increased by 2.2 percentage points to 38.0% in 2018 from 35.8% in 2017. Such rise was mainly due to products optimisation.

Net gain on financial assets and other investments

Net gain on financial assets and other investments in 2018 was RMB464 million (2017: RMB960 million), which includes investment income of RMB424 million contributed by the investment segment and secured financial subsidies and others of RMB40 million.

Investment segment

Gain from investment segment of the Group in 2018 was RMB424 million (2017: RMB942 million), of which gains from fair value change of financial assets amounting RMB126 million, income distribution of financial assets of RMB152 million, interest income from external borrowings of RMB140 million and other gains of RMB6 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 3 set out in "notes to the condensed consolidated interim 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 in 2018 was RMB959 million (2017: RMB840 million), constituting 56.2% of the Group's total sales decrease of 1.5 percentage points as compared with that in 2017. 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 2017 and followed by the optimisation and adjustment made in internal organizational structure in 2018, efficiency of all staff members has further increased. Our overall staff costs increased by RMB19 million to RMB176 million in 2018 from RMB157 million in 2017;

In 2018, advertising and selling expenses increased by RMB89 million to RMB543 million from RMB454 million in 2017, principally due to the further optimisation and expansion of the sales channels of the Group and enhanced effort in sales promotion during the period.

In 2018, logistics and transportation fee increased by RMB4 million to RMB75 million as compared to RMB71 million in 2017 principally due to an adjustment to logistics model during the period;

In 2018, the Group continued to take a more cautious but effective approach in investment in product development, our design and product development expenses increased by RMB9 million to RMB45 million from RMB36 million in 2017. Such increase was principally due to design, research and development of new product during the period.

Operating Profit

In 2018, operating profit of the Group was RMB418 million (2017: RMB1,027 million). The operating profit margin was 24.5% in 2018 (2017: 70.6%).

Finance Income, Net

In 2018, net finance income of the Group amounted to RMB20 million (2017: net finance expenses of RMB79 million), which mainly consisted of interest income from bank deposit of RMB16 million (2017: RMB21 million), interest expenses for loans of RMB25 million (2017: RMB21 million) and net foreign exchange gains of RMB31 million (2017: foreign exchange losses of RMB75 million) in the reporting period.

Taxation

In 2018, income tax expense of the Group amounted to RMB120 million (2017: RMB129 million). The effective tax rate was 27.9% (2017: 13.9%).

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

Profit attributable to equity holders of the Company in 2018 was RMB315 million (2017: RMB805 million), and net profit margin of the Group was 18.5% (2017: 55.3%).

Earnings Per Share

The basic and diluted earnings per share were both RMB5.44 cents in 2018, decreased by 62.5% against the basic and diluted earnings per share of RMB14.51 cents in 2017.

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.

Interim Dividend

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

The Board resolved not to declare any interim dividend for the twelve months ended 31 December 2018.

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 had been utilised as general working capital as follows: (i) approximately HK$7 million interest payments for bank loans; (ii) approximately HK$10 million for legal consultancy fee; (iii) approximately HK$2 million for Hong Kong office rental expenses; and (iv) approximately HK$15 million for other administrative expenses. For the twelve months ended 31 December 2018, approximately HK$14 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$6 million and office rental by approximately HK$2 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 in 2018 and 2017 were 47 days and 44 days. Increase in number of average trade receivable turnover days was mainly due to an increase in average balance of trade receivable.

Average trade payable turnover days in 2018 and 2017 were 69 days and 96 days, respectively.

Average inventory turnover days in 2018 and 2017 were 194 days and 210 days respectively, the decrease in the average inventory turnover days was mainly due to a smaller degree of increase in average inventory balance as compared with that in cost of operation.

Japan Segment

Average trade receivable turnover days and average trade payable turnover days were 105 days and 90 days, respectively in 2018 as compared to 116 days and 130 days, respectively in 2017. Average inventory turnover days were 128 days in 2018 as compared to 111 days in 2017.

Liquidity and financial resources

As at 31 December 2018, cash and bank balances (including long-term bank deposits) of the Group amounted to RMB1,013 million, a decrease of RMB531 million as compared to a balance of RMB1,544 million as at 31 December 2017. This decrease was mainly due to:

1) Payment of 2017 final dividend and final special dividend as well as 2018 interim dividend and interim special dividend for an aggregate amount of equivalent to approximately RMB545 million;

2) Net cash outflows from operating activities of approximately RMB136 million;

3) Cash outflows from repayment of bank borrowings of an amount of RMB256 million and cash inflows from proceeds from bank borrowings secured of RMB661 million;

4) Investment in other financial assets of approximately RMB4,318 million and cash inflow from partial disposal of financial assets of approximately RMB3,816 million and cash inflow from interest income from external borrowings and income distribution of financial assets acquired of RMB231 million;

5) Others of an aggregate inflows amount of RMB16 million.

As at 31 December 2018, net assets attributable to our equity holders was RMB9,748 million (31 December 2017: RMB9,585 million). The Group's current assets exceeded current liabilities by RMB2,780 million (31 December 2017: RMB3,749 million). The Group also had a very strong liquidity position. The current ratio as of 31 December 2018 was 2.7 times (31 December 2017: 5.3 times).

Investments in financial assets

As at 31 December 2018, the Group's current and non-current financial assets at fair value through profit or loss amounted to RMB6,796 million in aggregate, the details of which are as follows:

Securities of listed companies:

Name	**Fair value as at 31 December 2018 RMB' million**	Fair value as at 31 December 2017 RMB' million
Shares of Alibaba	**1,403**	2,160
Other listed securities	**845**	336
Total	**2,248**	2,496

Funds of non-listed companies:

Investment projects	Fair value as at 31 December 2018 RMB' million	Fair value as at 31 December 2017 RMB' million
Shanghai Rongfu Investment (CITIC Asset Allocation Special Account)	**388**	406
Tibet Ruixintong — Zhongjiaxin REIT	**300**	300
Yuanxin Dongchao — ZC Rubber	**298**	273
Yunfeng Fund USD II	**368**	254
China Top Credit Microcredit	**131**	0
Jiashi Investment Preferred Cornerstone — JD Finance	**365**	198
Yunfeng Fund RMB II (Yunfeng Xinchuang)	**155**	163
CPE Overseas Special Account (CITIC Asset Allocation Special Account)	**205**	0
Yunfeng Fund RMB IV (Yunfeng Lintai)	**132**	0
CITIC Mezzanine Fund I	**97**	132
Yunfeng Fund RMB III (Yunfeng Xincheng)	**121**	100
Hongtai Growth Fund (Angel Plus)	**110**	63
Fuqing Linsheng III — Ant Financial	**102**	0
Jiashi Investment Preferred Fund II.3 — JD Finance	**178**	105
Jingyi Fund — Ant Financial	**90**	48
COCHELLA H. FUND, L.P. — Anneng Convertible Bond	**110**	0
Chishan Fund — WeBank	**83**	84
Hangzhou Hanyun Xinling (Ali new retail fund)	**166**	1
CDB BOYU RMB II Funds	**74**	49
Jiaxing Daotong	**77**	76
Others	**901**	632
Total	**4,451**	2,884

Others:

Investment projects	Fair value as at 31 December 2018 RMB' million	Fair value as at 31 December 2017 RMB' million
Investment products and others issued by commercial banks	**97**	1,115

Since 1 January 2018, the Group has adopted IFRS 9: Financial Instruments to measure our financial assets. For further details, please refer to note 3 set out in "notes to the condensed consolidated interim financial information".

Pledge of assets

As at 31 December 2018, 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 December 2018, 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 December 2018, 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 December 2018, the Group paid a capital contribution of RMB8 million with remaining balance of RMB12 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 December 2018, 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 December 2018, 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 December 2018, 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 December 2018, the Group paid a capital contribution of US$9 million with remaining balance of US$11 million (equivalent to approximately RMB69 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 December 2018, 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

The Group has made no significant investment or any material acquisition or disposal of subsidiaries for the twelve months ended 31 December 2018.

1. 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 had 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 twelve months ended 31 December 2018, none of the Restricted Shares were granted to any eligible participant pursuant to the Restricted Share Award Scheme. As at 31 December 2018, 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.

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

Save as disclosed above, 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.

Other Information

2. DISCLOSURE OF INTEREST

(a) Directors' Interests in securities

As at 31 December 2018, 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 Stock Exchange of Hong Kong Limited (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 The Model Code for Securities Transactions by directors of Listed Companies ("Model Code") contained in The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") on the Hong Kong Stock Exchange were as follows:

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

		Number and class of securities		Approximate percentage of total issued
Name of Directors	**Nature of interest**	**Long position**	**Short position**	**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 December 2018, 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.

(b) Interests and short positions of substantial shareholders

As at 31 December 2018, 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: Long position	Number of Shares: Short position	Approximate percentage of shareholding
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)	170,280,926	—	2.89%
	Person having a security interest in shares	156,808,294	—	2.66%

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 December 2018, 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.

3. 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.

During the period under review, 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"), except for the following deviation:

(i) 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), Dr. Chen Guogang and Mr. Gao Yu (independent non-executive directors) could not attend the extraordinary general meeting of the Company held on 26 March 2018 and the annual general meeting of the

Company held on 10 May 2018 due to important business appointments. However, the other executive director and the other independent non-executive director of the Company had attended said general meetings 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 year ended 31 December 2017.

4. 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. Having made specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard regarding securities transactions by the directors as set out in the Model Code during the period under review.

5. AUDIT COMMITTEE

The Audit Committee of the Company, comprising three independent non-executive directors, has reviewed the interim financial information, financial reporting system and internal control of the Company, including the interim results for the twelve months ended 31 December 2018.

The unaudited condensed consolidated interim financial information for the twelve months ended 31 December 2018 of the Group has also been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

6. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the twelve months ended 31 December 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

7. CHANGE OF FINANCIAL YEAR END DATE

Pursuant to the announcement of the Company dated 4 July 2018, the financial year end date of the Company has been changed from 31 December to 31 March. Accordingly the next financial year end date of the Company will be 31 March 2019 and the next published audited financial statements of the Company will cover a 15-month period from 1 January 2018 to 31 March 2019.

8. CHANGE IN DIRECTORSHIP

Mr. Chen Johnny, an independent non-executive Director of the Company, has been appointed as independent non-executive Director of China Travel International Investment Hong Kong Limited (香港中旅國際投資有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 308) with effect from 18 January 2019. Besides, Mr. Chen Johnny has resigned as an independent non-executive director of China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) with effect from 12 November 2018. Mr. Chen Johnny has resigned as an independent non-executive director of Viva China Holdings Limited (非凡中國控股有限公司) with effect from 13 February 2019.

Dr. Chen Guogang ("Dr. Chen"), an independent non-executive Director of the Company, 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) 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.

Interim Condensed Consolidated Statement of Comprehensive Income

For the twelve months ended 31 December 2018

	Note	For the twelve months ended 31 December 2018 Unaudited RMB'000	 2017 Audited Restated RMB'000
Revenue	5	**1,706,366**	1,455,331
Cost of sales	7	**(751,169)**	(592,929)
Reversal of/(provision for) impairment of inventories — net	7	**22,734**	(6,300)
Gross profit		**977,931**	856,102
Distribution expenses	7	**(782,264)**	(669,004)
Administrative expenses	7	**(176,812)**	(170,744)
(Provision for)/reversal of impairment of financial assets — net	7	**(65,149)**	50,632
Other gains — net	6	**464,153**	959,864
Operating profit		**417,859**	1,026,850
Finance income	8	**47,487**	21,003
Finance expenses	8	**(27,104)**	(100,476)
Finance income/(expenses) — net	8	**20,383**	(79,473)
Share of post-tax losses of joint ventures and associates accounted for using the equity method		**(8,075)**	(17,464)
Profit before income tax		**430,167**	929,913
Income tax expense	9	**(119,839)**	(128,984)
Profit for the period		**310,328**	800,929
Profit attributable to:			
— Owners of the Company		**315,254**	804,647
— Non-controlling interests		**(4,926)**	(3,718)
		310,328	800,929

Interim Condensed Consolidated Statement of Comprehensive Income

For the twelve months ended 31 December 2018

	Note	For the twelve months ended 31 December 2018 Unaudited RMB'000	2017 Audited Restated RMB'000
Profit for the period (continued)		**310,328**	800,929
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
— Fair value change on available-for-sale financial assets, net of tax		**—**	598,115
— Currency translation differences		**163,343**	(114,191)
Total items that may be reclassified subsequently to profit or loss		**163,343**	483,924
Other comprehensive income, net of tax		**163,343**	483,924
Total comprehensive income for the period		**473,671**	1,284,853
Total comprehensive income for the period attributable to:			
— Owners of the Company		**478,597**	1,288,571
— Non-controlling interests		**(4,926)**	(3,718)
		473,671	1,284,853
Earnings per share attributable to owners of the Company (expressed in RMB cents per share)			
— Basic and diluted earnings per share	10	**5.44**	14.51

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

Interim Condensed Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 Unaudited RMB'000	2017 Audited Restated RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**108,883**	97,168
Lease prepayments	13	**10,581**	10,866
Intangible assets	14	**214,840**	222,063
Investments accounted for using the equity method		**114,479**	120,703
Available-for-sale financial assets		**—**	4,850,968
Financial assets at fair value through profit or loss	15	**6,087,400**	119,167
Deferred income tax assets		**218,535**	138,198
Other financial assets at amortised cost	18	**422,253**	700,519
Other assets		**21,269**	28,048
Total non-current assets		**7,198,240**	6,287,700
Current assets			
Inventories		**382,250**	321,021
Trade receivables	16	**309,149**	234,194
Available-for-sale financial assets		**—**	212,412
Other current assets		**143,726**	100,758
Financial assets at fair value through profit or loss	15	**708,217**	322,846
Other financial assets at amortised cost	18	**1,827,413**	1,898,798
Restricted cash		**285,711**	390,859
Term deposits with initial terms over three months and within one year		**107,155**	100,899
Cash and bank balances		**620,064**	1,051,865
Total current assets		**4,383,685**	4,633,652
Total assets		**11,581,925**	10,921,352

Interim Condensed Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 Unaudited RMB'000	2017 Audited Restated RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital and share premium	19	**1,090,005**	861,165
Shares held for employee share scheme		**(196)**	(196)
Reserves		**8,658,479**	8,724,395
Capital and reserves attributable to owners of the Company		**9,748,288**	9,585,364
Non-controlling interests		**12,818**	13,295
Total equity		**9,761,106**	9,598,659
LIABILITIES			
Non-current liabilities			
Borrowings	20	**—**	274,497
Deferred income tax liabilities		**216,823**	163,287
Total non-current liabilities		**216,823**	437,784
Current liabilities			
Derivative	15	**2,876**	58,672
Contract liabilities		**34,610**	58,308
Borrowings	20	**934,056**	228,697
Trade payables	17	**155,852**	152,079
Accruals and other payables		**322,051**	264,661
Provisions		**6,000**	15,571
Current income tax liabilities		**148,551**	106,921
Total current liabilities		**1,603,996**	884,909
Total liabilities		**1,820,819**	1,322,693
Total equity and liabilities		**11,581,925**	10,921,352

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 31 December 2018

		Audited								
		Attributable to equity holders 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 2016 as originally presented		53,589	659,018	(196)	1,441,281	7,503,817	9,657,509	17,013	9,674,522
Change in accounting policies		—	—	—	—	—	—	—	—
Restated total equity 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 difference		—	—	—	(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		—	—	—	—	(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		—	—	—	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

Interim Condensed Consolidated Statement of Changes in Equity

For the twelve months ended 31 December 2018

		Unaudited							
		Attributable to equity holders 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	3(a)	—	—	—	(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		—	—	—	—	315,254	315,254	(4,926)	310,328
Currency translation difference		—	—	—	163,343	—	163,343	—	163,343
Total comprehensive income		—	—	—	163,343	315,254	478,597	(4,926)	473,671
Transaction with owners									
Issuance of new ordinary shares	19	1,698	227,142	—	—	—	228,840	—	228,840
Dividends relating to 2017 final and 2018 interim declared and paid in the current period		—	—	—	—	(544,513)	(544,513)	—	(544,513)
Total contribution by and distribution to owners, recognised directly in equity		1,698	227,142	—	—	(544,513)	(315,673)	—	(315,673)
Non-controlling interest on acquisition of a subsidiary		—	—	—	—	—	—	4,449	4,449
Appropriation to statutory reserves		—	—	—	3,814	(3,814)	—	—	—
Disposal of a subsidiary		—	—	—	(2,331)	2,331	—	—	—
Total transactions with owners, recognised directly in equity		1,698	227,142	—	1,483	(545,996)	(315,673)	4,449	(311,224)
Balance at 31 December 2018		56,466	1,033,539	(196)	146,649	8,511,830	9,748,288	12,818	9,761,106

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

Interim Condensed Consolidated Statement of Cash Flows

For the twelve months ended 31 December 2018

	Note	For the twelve months ended 31 December 2018 Unaudited RMB'000	2017 Audited RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations		**(47,262)**	120,309
Interest received		**16,435**	20,172
Income tax paid		**(105,010)**	(119,940)
Net cash (used in)/generated from operating activities		**(135,837)**	20,541
Cash flows from investing activities			
Purchase of property, plant and equipment		**(20,686)**	(41,079)
Purchase of intangible assets		**(2,586)**	(4,687)
(Increase)/decrease in term deposits with initial terms over three months		**(6,256)**	5,899
Proceeds from disposal of property, plant and equipment and intangible assets		**885**	29
Increase in investments in available-for-sale financial assets		**—**	(690,019)
Increase in financial assets at fair value through profit or loss		**(2,712,130)**	(1,973,936)
Proceeds from disposal of available-for-sale financial assets		**—**	1,471,789
Proceeds from disposal of other financial assets		**1,179,599**	1,325,684
Proceeds from disposal of financial assets at fair value through profit or loss		**2,636,072**	1,888,735
(Settlement of)/proceeds from call options and put options — net		**2,446**	16,708
Increase in loans receivables		**(1,606,347)**	(1,022,284)
Dividend received from available-for-sale financial assets		**—**	36,963
Interest received from other financial assets at amortised cost		**95,774**	100,258
Dividend and investment income from financial assets at fair value through profit or loss		**133,251**	41,098
Payment for acquisition of an associate		**(5,000)**	—
Payment for acquisition of a subsidiary, net of cash acquired		**(6,904)**	—
Net cash (used in)/generated from investing activities		**(311,882)**	1,155,158
Cash flows from financing activities			
Dividends paid	11	**(544,513)**	(1,509,274)
Proceeds from bank borrowings		**661,343**	228,697
Repayment of bank borrowings		**(255,952)**	(459,368)
Interest paid		**(24,812)**	(20,472)
Proceeds from issuance of ordinary shares		**40,145**	—
Decrease in restricted cash		**105,148**	6,633
Net cash used in financing activities		**(18,641)**	(1,753,784)
Net decrease in cash and cash equivalents		**(466,360)**	(578,085)
Cash and cash equivalents at the beginning of the period		**1,051,865**	1,713,464
Exchange gains/(losses) on cash and cash equivalents		**34,559**	(83,514)
Cash and cash equivalents at end of the period		**620,064**	1,051,865

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

Notes to the Condensed Consolidated Interim Financial Information

For the twelve months ended 31 December 2018

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 ("Hong Kong Stock Exchange") since 10 October 2007.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 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 interim financial period covers a twelve month period from 1 January 2018 to 31 December 2018 with the comparative financial period from 1 January 2017 to 31 December 2017.

This condensed consolidated interim financial information for the twelve months ended 31 December 2018 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34").

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments, if applicable, as a result of adopting the following standards:

- IFRS 9 *Financial Instruments*, and
- IFRS 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2 BASIS OF PREPARATION (CONTINUED)

(b) Impact of standards issued but not yet applied by the Group

(i) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, 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.

The accounting for lessors will not significantly change.

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 RMB42,831,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group will apply the new standard from the financial year beginning on 1 April 2019.

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 condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3 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 condensed consolidated interim financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated.

IFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting IFRS 9. The reclassification and adjustments are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group has adopted IFRS 15 using the full retrospective approach and has restated comparatives for the 2017 financial year.

Notes to the Condensed Consolidated Interim Financial Information

For the twelve months ended 31 December 2018

3 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**

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Impact on the financial statements (Continued)

Statement of comprehensive income (extract) — twelve months ended to 31 December 2017	As originally presented RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	Restated 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 — Impact of adoption

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 condensed consolidated interim financial information. The new accounting policies are set out in note 3(c) 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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial Instruments — Impact of adoption (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, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. 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 preciously recognised in other reserves of RMB1,957,344,000 were reclassified from other reserves to retained earnings.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) IFRS 9 Financial Instruments — Impact of adoption (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.

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.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, there was no significant increase in the loss allowance for trade receivables which will be adjusted to the beginning balance of retained earnings in 2018.

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.

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. Applying the expected credit risk model. But no significant increase in the loss allowance in the twelve months ended 31 December 2018.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) IFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

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.

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.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) IFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018 (Continued)

(i) Investments and other financial assets (Continued)

Debt instruments (Continued)

- 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.

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.

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.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) IFRS 15 Revenue from Contracts with Customers — Impact of adoption

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 condensed consolidated interim financial information. 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 RMB'000	Reclassification RMB'000	Remeasurements RMB'000	IFRS 15 carrying amount 1 January 2018 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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) IFRS 15 Revenue from Contracts with Customers — Impact of adoption (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 recognised 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 recognised accruals and other payables and other current assets of RMB22,534,000 on 1 January 2018.

(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 twelve months ended 31 December 2017 increased by RMB102,688,000. For the twelve months ended 31 December 2018, revenue and distribution expenses increased by RMB116,032,000.

(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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the twelve months ended 31 December 2018

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(e) IFRS 15 Revenue from Contracts with Customers — Accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(i) 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 until 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.

Certain distributors are entitled to return goods or additional sales discounts in accordance with agreements between the Group and its distributors. Therefore, a refund liability (included in accruals and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Management estimates the quantities of goods returns and additional sales discounts based on historical experience and makes provision accordingly. Revenue is recognised to the extent of goods delivered less estimated goods returns and sales discounts.

(ii) Sale of goods — retail

The Group operates a chain of retail shops and outlets for selling sport apparels, footwears and accessories in China and Japan. Sales of goods are recognised when the Group sells a product to customers. Retail sales are usually in cash or by credit card.

Revenue from the provision of the sale of goods on the internet is recognised at the point that 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.

(iii) Sale 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 goods are sold by the recipient to a third party.

(iv) Royalty income

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

4 ESTIMATES

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

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 Mainland of 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 condensed consolidated statement of comprehensive income.

Notes to the Condensed Consolidated Interim Financial Information

For the twelve months ended 31 December 2018

5 SEGMENT INFORMATION (CONTINUED)

The segment results and other items included in the condensed consolidated statement of comprehensive income provided to the chief operating decision maker for the reportable segments for the twelve months period ended 31 December 2018 and 2017, respectively are as follows:

	Unaudited			
	China — Apparel RMB'000	Japan — Apparel RMB'000	Investment RMB'000	Total RMB'000
Twelve months ended 31 December 2018				
Total revenue before inter-segment elimination	**1,420,350**	**346,394**	**—**	**1,766,744**
Inter-segment revenue	**(50,589)**	**(9,789)**	**—**	**(60,378)**
Revenue from external customers	**1,369,761**	**336,605**	**—**	**1,706,366**
Cost of goods sold	**(542,282)**	**(208,887)**	**—**	**(751,169)**
Reversal of impairment losses of Inventories — net	**11,550**	**11,184**	**—**	**22,734**
Segment gross profit	**839,029**	**138,902**	**—**	**977,931**
Other gains, net	**35,448**	**4,215**	**424,490**	**464,153**
Segment operating profit/(loss)	**118,168**	**(27,776)**	**327,467**	**417,859**
Finance income	**35,505**	**1,519**	**10,463**	**47,487**
Finance expenses	**(4,004)**	**(2,581)**	**(20,519)**	**(27,104)**
Share of profit or loss of investments accounted for using the equity method	**1,387**	**(5,931)**	**(3,531)**	**(8,075)**
Profit/(loss) before income tax	**151,056**	**(34,769)**	**313,880**	**430,167**
Income tax expense	**(34,808)**	**(932)**	**(84,099)**	**(119,839)**
Profit/(loss) for the period	**116,248**	**(35,701)**	**229,781**	**310,328**
Material items of income and expense				
Depreciation and amortisation	**16,657**	**5,128**	**—**	**21,785**
(Reversal of)/provision for impairment of financial assets — net	**(8,100)**	**1,880**	**71,369**	**65,149**
Advertising and selling expenses	**501,185**	**42,240**	**—**	**543,425**

5 SEGMENT INFORMATION (CONTINUED)

	Audited			
	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 profit or 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 losses on financial assets — net	(45,250)	(5,382)	—	(50,632)
Advertising and selling expenses	413,537	40,006	—	453,543

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the twelve months ended 31 December 2018

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 December 2018				
Interests in investments accounted for using the equity method	46,706	9,397	58,376	114,479
Financial assets at fair value through profit or loss	—	—	6,795,617	6,795,617
Deferred income tax assets	213,016	—	5,519	218,535
Other assets	1,539,151	313,764	2,788,848	4,641,763
Total assets before inter-segment elimination	1,798,873	323,161	9,648,360	11,770,394
Inter-segment elimination	(180,297)	(8,172)	—	(188,469)
Segment assets	1,618,576	314,989	9,648,360	11,581,925
Deferred income tax liabilities	—	3,473	213,350	216,823
Current income tax liabilities	147,252	1,299	—	148,551
Other liabilities	1,138,924	243,524	204,455	1,586,903
Total liabilities before inter-segment elimination	1,286,176	248,296	417,805	1,952,277
Inter-segment elimination	(8,211)	(123,247)	—	(131,458)
Segment liabilities	1,277,965	125,049	417,805	1,820,819

5 SEGMENT INFORMATION (CONTINUED)

	China — Apparel RMB'000	Japan — Apparel RMB'000	Investment RMB'000	Total RMB'000
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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the twelve months ended 31 December 2018

6 OTHER GAINS — NET

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Gain on disposal of financial assets at fair value through profit or loss	**553**	18,157
Gain on disposal of available-for-sale financial assets	**—**	603,833
Investment income from financial assets	**151,858**	155,363
Interest income from loans receivables	**139,907**	108,649
Change in fair value of financial instruments	**126,420**	55,182
Government subsidy income	**32,016**	14,210
Royalty income	**3,963**	3,426
Others-net	**9,436**	1,044
	464,153	959,864

7 EXPENSES BY NATURE

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

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Cost of inventories recognised as cost of sales	**749,882**	592,929
Advertising and selling expenses	**543,425**	453,543
Employee salary and benefit expenses	**175,967**	157,325
Logistic fees	**74,725**	71,052
(Reversal of)/provision for impairment of inventories — net	**(22,734)**	6,300
Design and product development expenses	**45,162**	35,516
Operating lease in respect of buildings	**29,949**	27,133
Depreciation of property, plant and equipment and amortisation of lease prepayments and intangible assets	**21,785**	23,077
Legal and consulting expenses	**9,149**	13,974
Travelling expenses	**14,408**	18,750
Auditors' remuneration	**4,860**	4,470
Provision for/(reversal of) impairment of financial assets — net	**65,149**	(50,632)
Others	**40,933**	34,908
	1,752,660	1,388,345

8 FINANCE INCOME, FINANCE EXPENSES

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Finance income:		
— Foreign exchange gain, net	**31,052**	—
— Interest income	**16,435**	21,003
	47,487	21,003
Finance expenses:		
— Interest expenses	**(24,812)**	(21,408)
— Foreign exchange losses, net	**—**	(74,956)
— Others	**(2,292)**	(4,112)
	(27,104)	(100,476)
Finance income/(expenses), net	**20,383**	(79,473)

9 INCOME TAX EXPENSE

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax ("CIT")	**145,708**	147,719
— Taxation in Japan	**932**	1,092
Deferred income tax	**(26,801)**	(19,827)
	119,839	128,984

The corporate income tax rate of the Group's subsidiaries incorporated in Mainland of PRC is 25%, except for those incorporated in Tibet, which is 9%.

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 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 twelve months period ended 31 December 2018 (2017: nil).

9 INCOME TAX EXPENSE (CONTINUED)

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. The Group has provided a deferred withholding tax liability amounting to RMB146,350,000 (2017: RMB121,929,000) in relation to the undistributed profit for twelve months period ended 31 December 2018 of its PRC subsidiaries.

The subsidiary incorporated in Japan is subject to income tax and local inhabitant tax. The corporate income tax rate for the twelve months period ended 31 December 2018 applicable to this subsidiary was 15% for the taxable income part less than JPY10,000,000 and 23.4% for the taxable income part over JPY10,000,000 (2017: 15% and 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 twelve months period ended 31 December 2018 (2017: nil), the subsidiary was subject to the minimum inhabitant tax payments.

10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is 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.

	Twelve months ended 31 December	
	2018 Unaudited	2017 Audited
Profit attributable to owners of the Company (RMB'000)	**315,254**	804,647
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (thousands)	**5,795,915**	5,545,204
Basic earnings per share (RMB cents per share)	**5.44**	14.51

(b) Diluted

No diluted earnings per share have been presented since there was no potential diluted ordinary share as at 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Information

For the twelve months ended 31 December 2018

11 DIVIDENDS

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Interim dividend of RMB2.45 cent per share (2017: RMB2.90 cents per share)	**144,210**	160,556
Interim special dividend of RMB2.45 cent per share (2017: RMB20.22 cents per share)	**144,210**	1,119,460
Second interim dividend of nil (2017 final dividend: 1.42 cent per share)	**—**	80,838
Second interim special dividend of nil (2017 final special dividend: 2.84 cent per share)	**—**	161,303
	288,420	1,522,157

On 21 March 2018, the board of directors of the Company proposed a final dividend and final special dividend of RMB1.42 cents and RMB2.84 cents per ordinary share of the Company for the year ended 31 December 2017, respectively. The Board resolved not to declare any interim dividend for the twelve months ended 31 December 2018.

Notes to the Condensed Consolidated Interim Financial Information

For the twelve months ended 31 December 2018

12 PROPERTY, PLANT AND EQUIPMENT

Twelve months ended 31 December 2018	Unaudited RMB'000
Opening amount as at 1 January 2018	**97,168**
Additions	**20,747**
Disposals	**(1,087)**
Depreciation (Note 7)	**(10,734)**
Exchange difference	**2,789**
Closing amount as at 31 December 2018	**108,883**

As at 31 December 2018	Unaudited RMB'000
Cost	**215,000**
Accumulated depreciation	**(106,117)**
Net book amount	**108,883**

Year ended 31 December 2017	Audited RMB'000
Opening amount as at 1 January 2017	68,666
Additions	41,079
Disposals	(358)
Depreciation (Note 7)	(11,458)
Exchange difference	(761)
Closing amount as at 31 December 2017	97,168

As at 31 December 2017	Audited RMB'000
Cost	209,448
Accumulated depreciation	(112,280)
Net book amount	97,168

13 LEASE PREPAYMENTS

Twelve months ended 31 December 2018	**Unaudited RMB'000**
Opening amount as at 1 January 2018	**10,866**
Amortisation (Note 7)	**(285)**
Closing amount as at 31 December 2018	**10,581**

As at 31 December 2018	**Unaudited RMB'000**
Cost	**14,262**
Accumulated amortisation	**(3,681)**
Net book amount	**10,581**

Year ended 31 December 2017	Audited RMB'000
Opening amount as at 1 January 2017	11,151
Amortisation (Note 7)	(285)
Closing amount as at 31 December 2017	10,866

As at 31 December 2017	Audited RMB'000
Cost	14,262
Accumulated amortisation	(3,396)
Net book amount	10,866

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the twelve months ended 31 December 2018

14 INTANGIBLE ASSETS

	Unaudited			
	Kappa trademarks	Phenix and other brands	Computer software	Total
Twelve months ended 31 December 2018	RMB'000	RMB'000	RMB'000	RMB'000
Opening amount as at 1 January 2018	**210,142**	**6,957**	**4,964**	**222,063**
Additions	**—**	**—**	**2,586**	**2,586**
Exchange difference	**930**	**—**	**27**	**957**
Amortisation (Note 7)	**(7,537)**	**(215)**	**(3,014)**	**(10,766)**
Closing amount as at 31 December 2018	**203,535**	**6,742**	**4,563**	**214,840**
Year ended 31 December 2018				
Cost	**388,306**	**8,605**	**74,747**	**471,658**
Accumulated amortisation	**(184,771)**	**(1,863)**	**(70,184)**	**(256,818)**
Net book amount	**203,535**	**6,742**	**4,563**	**214,840**
Year ended 31 December 2017				
Opening amount as at 1 January 2017	218,057	7,172	3,906	229,135
Additions	—	—	4,687	4,687
Exchange difference	(411)	—	(14)	(425)
Amortisation (Note 7)	(7,504)	(215)	(3,615)	(11,334)
Closing amount as at 31 December 2017	210,142	6,957	4,964	222,063
Year ended 31 December 2017				
Cost	408,381	8,605	74,532	491,518
Accumulated amortisation	(198,239)	(1,648)	(69,568)	(269,455)
Net book amount	210,142	6,957	4,964	222,063

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under IFRS 9. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2018 and 31 December 2017 on a recurring basis:

At 31 December 2018	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	—	—	4,450,522	4,450,522
— Listed equity securities	1,784,378	—	735	1,785,113
— Preference shares	68,129	—	—	68,129
— Perpetual bonds	394,385	—	—	394,385
— Wealth management product	—	—	97,468	97,468
Total financial assets	2,246,892	—	4,548,725	6,795,617
Financial liabilities				
Derivatives	—	—	(2,876)	(2,876)

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15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) 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)

The Group analyses the financial instruments carried at fair value, by valuation method. The difference level have been define as follow:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale 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 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 maximize 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 are not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) 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.

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

The following table presents the changes in level 3 instruments for the Twelve months ended 31 December 2018.

	Equity securities RMB'000	Financial assets designated at fair value through profit RMB'000	Derivatives RMB'000	Others RMB'000	Total RMB'000
Balance as at 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 balance as at 1 January 2018	2,909,060	100,000	(15,764)	1,089,861	4,083,157
Exchange differences	18,689	—	(465)	—	18,224
Acquisitions	1,412,804	—	—	670,500	2,083,304
Reclassification to other financial assets at amortised cost	—	(100,000)	—	—	(100,000)
Disposals	(450,756)	—	—	(1,678,289)	(2,129,045)
Other gain-net*	561,460	—	13,353	15,396	590,209
Balance as at 31 December 2018	**4,451,257**	**—**	**(2,876)**	**97,468**	**4,545,849**

* including unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period.

Twelve months ended 31 December 2018	481,979	—	—	—	481,979

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15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) 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:

- Net Assets Valuation Report/Summary ("NAV report") method: NAV report of the private equity funds prepared by management teams of these funds;

- Price of recent investment method: the price of the recent investment and changes subsequent to the relevant transaction date;

- Discounted cash flow method: discount rates and expected future cash flows from these Investments.

(d) Fair values of other financial instruments (unrecognised)

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

16 TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Trade receivables		
— Third parties	**276,439**	258,456
— Related parties (note 22)	**56,673**	40,934
	333,112	299,390
Less: provision for impairment	**(23,963)**	(65,196)
Trade receivables, net	**309,149**	234,194

16 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. The ageing analysis of trade receivables based on goods delivery date as at 31 December 2018 and 31 December 2017 was as follows:

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Within 30 days	**181,846**	102,874
31 to 180 days	**130,922**	139,834
Over 180 days	**20,344**	56,682
	333,112	299,390

Movements on the Group's provision for impairment of trade receivables are as follow:

	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
At 1 January	**65,196**	108,402
Reversal of impairment losses of receivables	**(8,112)**	(43,150)
Written off impairment losses of receivables	**(33,121)**	(56)
At 31 December	**23,963**	65,196

17 TRADE PAYABLES

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Within 30 days	**76,646**	87,687
31 to 180 days	**71,652**	52,912
Over 180 days	**7,554**	11,480
	155,852	152,079

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the twelve months ended 31 December 2018

18 OTHER FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December	
	2018 Unaudited	2017 Audited Restated
Current Portion:		
Wealth management products	**—**	1,089,861
Loans receivables (a)	**1,815,645**	738,078
Receivable due from a related party (note 22)	**20,410**	19,818
Deposits for operating leases	**24,100**	18,941
Others	**38,874**	32,100
Less: provision for impairment	**(71,616)**	—
Total	**1,827,413**	1,898,798
Non-current Portion:		
Loans receivables (a)	**88,656**	568,999
Loans to related party (note 22)	**5,118**	5,118
Loans to management personnel and employees (b)	**333,597**	131,520
Less: provision for impairment	**(5,118)**	(5,118)
Total	**422,253**	700,519

(a) As at 31 December 2018, loans receivables due from third parties summed up to RMB1,904,301,000 with the interest rate in the range of 7% to 15% per annum. The amount of each loan receivables varies from RMB5,147,000 to RMB301,942,000.

The maturity period of each loan receivables varies with the range from 6 to 24 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 19).

19 SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Issued and fully paid				
	Number of ordinary shares of par value HK$0.01	**Nominal value of issued ordinary shares**	**Equivalent nominal value of ordinary shares**	**Share premium account**	**Total**
		HK$'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	**5,674,811,025**	**56,749**	**54,768**	**806,397**	**861,165**
Issuance of ordinary shares(a)	**211,310,000**	**2,113**	**1,698**	**227,142**	**228,840**
As at 31 December 2018	**5,886,121,025**	**58,862**	**56,466**	**1,033,539**	**1,090,005**
As at 1 January 2017	5,536,401,000	55,364	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	56,748	54,768	806,397	861,165

(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 18). 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.

Notes to the Condensed Consolidated Interim Financial Information

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20 BORROWINGS

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Bank loans		
— Pledged (a)	**645,738**	228,697
Loans from a company (b)		
— Unsecured and interest free	**288,318**	274,497
	934,056	503,194

(a) In May 2018, the Group borrowed an amount of HKD230,000,000 (equivalent to RMB193,880,000) from Industrial Bank Co., Ltd Hongkong 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.

In September 2018, the Group borrowed an amount of HKD494,955,000 (equivalent to approximately RMB433,794,000) from Morgan Stanley Asia International Limited at the prevailing interest rate.

In September 2018, the Group borrowed an amount of JPY166,807,000 (equivalent to approximately RMB10,323,000) from HSBC Japan Branch at an interest rate of 3 month Libor+ 2.00% per annum with maturity of 3 months. 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.

20 BORROWINGS (CONTINUED)

As at 31 December 2018, the Group's borrowings were repayable as follows:

	Bank loans As at 31 December		Other loans As at 31 December	
	2018	2017	**2018**	2017
Within 1 year	**645,738**	228,697	**288,318**	—
Between 1 and 2 years	**—**	—	**—**	274,497
	645,738	228,697	**288,318**	274,497

21 COMMITMENTS

The Group had the following commitments as at 31 December 2018:

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 December	
	2018 Unaudited RMB'000	2017 Audited RMB'000
No later than 1 year	**22,038**	28,414
Later than 1 year and no later than 5 years	**20,793**	20,723
Over 5 years	**—**	1,548
	42,831	50,685

22 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.

Save as disclosed elsewhere in this financial information, during the Twelve months periods and as at the balance sheet dates, the Group had the following transactions and balances with related parties:

(a) Transactions with related parties

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Sales of goods to		
— Joint Ventures of the Group	**185,523**	162,188
Purchase of goods from joint venture:		
— Joint Venture of the Group	**—**	142
Interest income		
— Joint Ventures of the Group	**1,481**	1,355
— management personnel	**4,988**	482

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

Trade receivables (Note 16)

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
— Joint Ventures of the Group	**56,673**	40,934

Other financial assets at amortised cost (Note 18)

	As at 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Current portion		
— Joint Ventures of the Group	**20,410**	19,818
Non-current portion		
— Joint Ventures of the Group	**5,118**	5,118
— Management personnel	**229,427**	131,520
— Provision	**(5,118)**	(5,118)
	249,837	151,338

The above balances with related parties except loans to management personnel as mentioned in note 18(b) were unsecured, non-interest bearing and collectable per demand.

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22 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Twelve months ended 31 December	
	2018	2017
	Unaudited	Audited
	RMB'000	RMB'000
Salaries, bonus and other welfares	**10,362**	6,657
Pension — defined contribution plans	**143**	191
	10,505	6,848

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