喜得狼®

2018

ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding LiHong
Executive Chairman
Non–Independent Director

Ding PengPeng
Managing Director /
Chief Executive Officer ("CEO")
Non–Independent Director

Ding PengWan
Executive Director /
Deputy CEO cum Chief Operating Officer
Non–Independent Director

Lin YingYu
Executive Director
Non–Independent Director

Zhu GuoHe
Senior Independent
Non–Executive Director

Wong Yoke Nyen
Independent
Non–Executive Director

Woon Yeow Thong
Independent
Non–Executive Director

PRINCIPAL PLACE OF BUSINESS

Head Office & Production Centre

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

Tel: +86 (595) 8677 6888
Fax: +86 (595) 8677 7222
Email: xdl@xidelang.com.cn
Website: www.xidelang.com.my

COMPANY SECRETARIES

Secretarius Services Sdn. Bhd.

Conyers Corporate Services
(Bermuda) Limited
(Assistant Secretary)

AUDITORS

Afrizan Tarmili Khairul Azhar (AF 1300)
Aftaas, 2, Jalan Rampai Niaga 2
Rampai Business Park
53300 Kuala Lumpur
Malaysia

Tel: +603 - 4143 9330
Fax: +603 - 4142 9330

REGISTERED OFFICE IN BERMUDA

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Tel: +1 (441) 295 1422
Fax: +1 (441) 292 4720

REGISTERED OFFICE IN MALAYSIA

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

Tel: +603 - 2783 9191
Fax: +603 - 2783 9111

BERMUDA SHARE REGISTRAR

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Tel: +1 (441) 295 1422
Fax: +1 (441) 292 4720

MALAYSIAN SHARE REGISTRAR

Tricor Investor & Issuing House
Services Sdn. Bhd.

Office

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

Tel: +603 - 2783 9299
Fax: +603 - 2783 9222

Customer Service Center

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

AGENT IN MALAYSIA

PFA Corporate Consultants Sdn. Bhd.

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

Tel: +603 - 2783 9191
Fax: +603 - 2783 9111

PRINCIPAL BANKERS

China

- Industrial and Commercial Bank of China
  (中国工商银行)
- Fujian Jinjiang Rural Commercial Bank, China
  (中国福建晋江农村商业银行)
- Bank of Communications, China
  (中国交通银行)

Malaysia

- AmBank

STOCK EXCHANGE LISTING

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

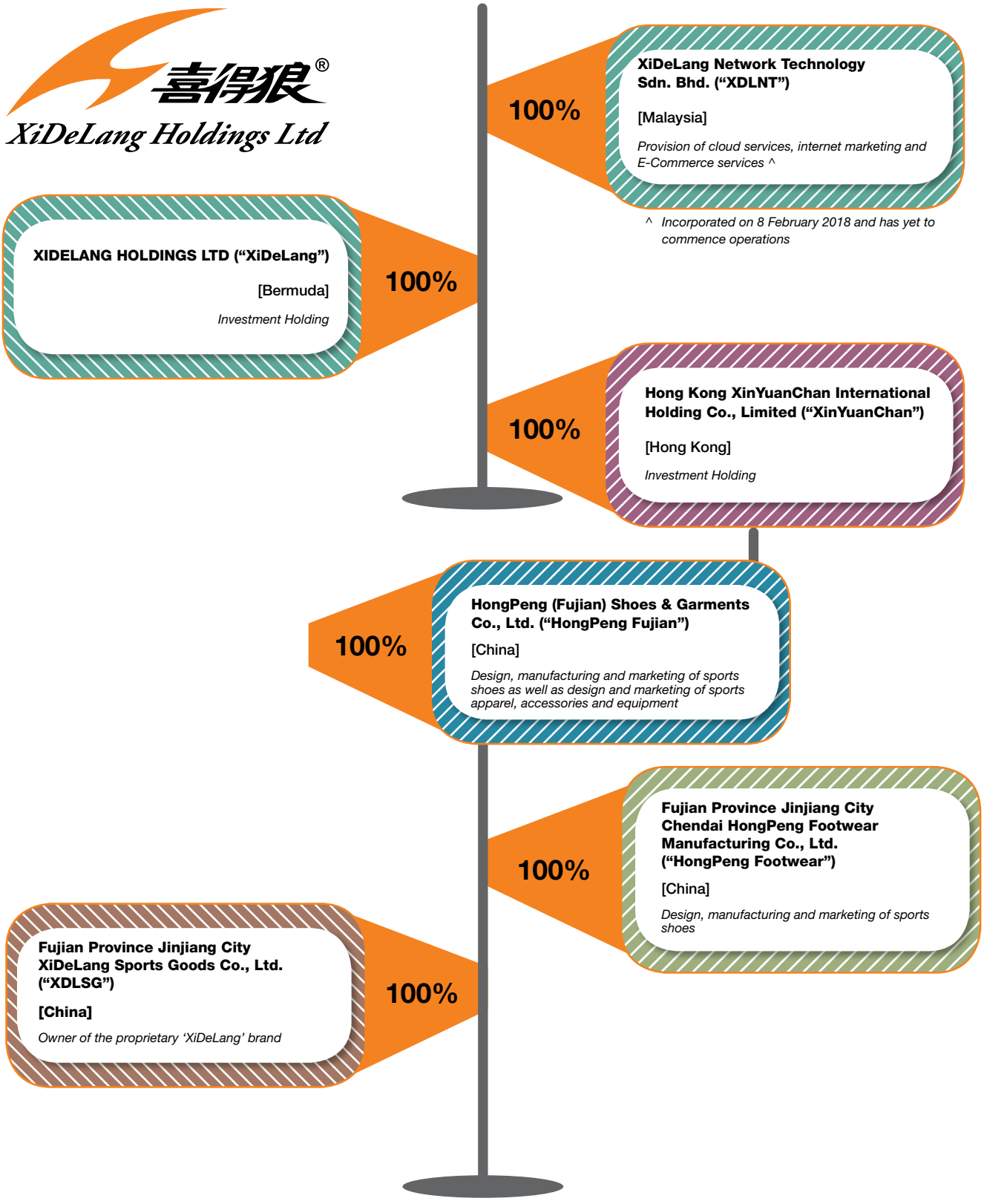
FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000
Revenue	530,035	544,812	503,834	542,422	454,259
Gross profit	130,751	103,193	83,928	92,900	86,807
Profit before tax	67,208	12,370	11,270	24,851	33,867
Net profit for the financial year	49,579	6,798	6,934	16,587	21,991
OTHER KEY FINANCIAL DATA	**2014 RMB'000**	**2015 RMB'000**	**2016 RMB'000**	**2017 RMB'000**	**2018 RMB'000**
Total assets	1,300,117	1,402,713	1,414,575	1,403,925	1,541,802
Total liabilities	115,258	159,051	163,979	136,742	132,946
Net current assets	571,275	643,469	665,807	690,743	848,075
Net assets / Shareholders' equity	1,184,859	1,243,662	1,250,596	1,267,183	1,408,856
Borrowings	10,000	10,000	10,000	5,000	12,400
KEY FINANCIAL INDICATORS	**2014 %**	**2015 %**	**2016 %**	**2017 %**	**2018 %**
Gross profit margin	24.67	18.94	16.66	17.13	19.11
Net profit margin	9.35	1.25	1.38	3.06	4.85
Borrowings-to-Equity	0.84	0.80	0.80	0.39	0.88
	('000 units)	**('000 units)**	**('000 units)**	**('000 units)**	**('000 units)**
Weighted average ordinary shares in issue ("WAOS") [1]	1,132,259	1,255,436	1,347,736	1,347,742	1,584,178
Adjusted number of ordinary shares outstanding as at the financial year-end ("Outstanding OS") [2]	1,149,497	1,347,740	1,347,741	1,347,742	1,804,883
	RMB cent	**RMB cent**	**RMB cent**	**RMB cent**	**RMB cent**
Basic earnings per share *(Based on WAOS)*	4.38	0.54	0.51	1.23	1.39
Net assets per share *(Based on Outstanding OS)*	103.08	92.28	92.79	94.02	78.18

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

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

CORPORATE STRUCTURE

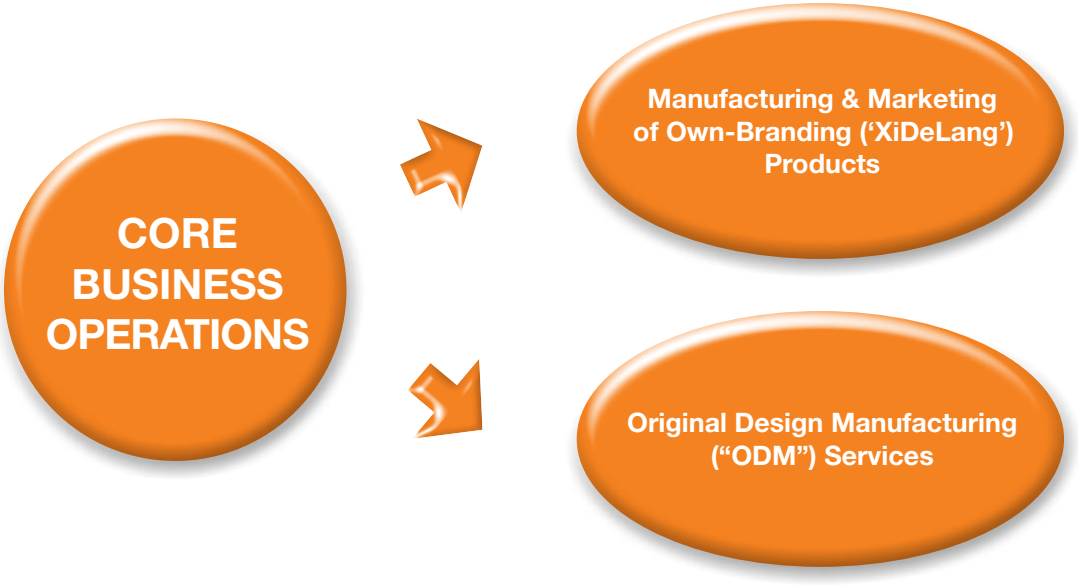


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

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



Own-branding segment

o Objective:

To become one of preferred domestic brands for trendy casual sportswear in China.

o Targeted Customer:

End-consumers, mass market in China.

o Distribution Channel:

Primarily through the authorised distributors who are responsible to coordinate and manage the retail outlets across various cities in China. Our Group enjoyed market presence in 23 cities within China during year 2018, consistent with prior year.

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

MANAGEMENT DISCUSSION AND ANALYSIS
(CONT'D)

BUSINESS OVERVIEW (CONT'D)

Own-branding segment (Cont'd)

o Focus and business strategies:

(a) Distribution network management

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

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

- Modernising the layout of the retail outlets, to enhance the brand appeal to the younger generation and to improve the in-store experience of the consumers in line with our online-to-offline marketing strategy
- Promoting brand unity, where standardised layout and promotional materials are adopted for the retail outlets.
- Optimising the retail outlets coverage, where smaller size and less profitable stores were either closed or merged to form a flagship store, so that resources can be concentrated on areas with sustainable profitability and growth potential.
- Optimising the in-store inventory level, where authorised distributors and retailers are encouraged to be more flexible in making replenishment orders in accordance to the market conditions and demands. Our Group's marketing team maintains close communication with the authorised distributors and retailers, with periodic visit to the retail outlets as part of the proactive control to prevent overstocking issues.

(b) Brand management

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

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

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

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

BUSINESS OVERVIEW (CONT'D)

Own-branding segment (Cont'd)

o Focus and business strategies (cont'd):

(c) Product innovation

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

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

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

(i) Our sales and marketing personnel engage the authorised distributors regularly to gather the end-consumers' feedbacks and insights to the consumers' preferences;

(ii) Our purchasing team communicates with our raw material suppliers regularly to gather updates on new materials for footwear production; and

(iii) Our in-house research and product development team will keep abreast with the changes in market trend and new technologies available in the market.

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

(d) Supply-chain management and quality control

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS
(CONT'D)

BUSINESS OVERVIEW (CONT'D)

Own-branding segment (Cont'd)

o Focus and business strategies (cont'd):

(d) Supply-chain management and quality control (cont'd)

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

ODM segment

o Objective:

To become the reliable, trusted production partner for international brand names.

o Targeted Customer:

International brand names, where products are primarily for distribution in overseas markets.

o Distribution Channel:

Foreign trading / export companies and intermediaries based in China

o Focus and business strategies:

(a) Production and design capability and capacity

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

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

(b) Quality control

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

TRENDS & RISK FACTORS

Known Trend

The key factor/trend affecting our Group's performance for the recent years, as well as the financial year under review, is intensifying market competition for the footwear and apparels market. Despite the gradual recovery of demand for sports-inspired footwear and apparels both in the context of China market and overseas market, consumers are generally more selective in spending and their expectations are growing more sophisticated where industry players will have to be more proactive in order to stay competitive.

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

(i) Adopted multi-channel marketing strategy, leveraging on third-party e-commerce platforms to promote brand awareness in addition to conventional television and radio advertisement;

(ii) Optimised the existing distribution and retail network for own-branding products to improve efficiency at the retail stores, to promote brand unity and to provide better consumer experience. In particular, in line with our online-to-offline marketing strategy, the physical stores are transformed to serve as the "experience stores" providing consumers access to an extensive collection of our products and personalised, physical experience of our products to boost their desire to buy;

(iii) Enhanced the sports shoes production capability and capacity of the Group, so that our Group is more flexible in accommodating to the changes in market demands;

(iv) Stepped up the efforts in securing additional ODM production orders, to diversify the revenue base of our Group; and

(v) Halted the supply of own-branding sports apparel, accessories and equipment temporarily in response to the sudden glut in the apparels market of China, to steer clear of price competition given that the margin from apparels sales were eroding and to mitigate risk of overstocking.

Principal Risk Factors

The principal risk factors faced by our Group's operations remained largely consistent with prior year, comprising the following:

MANAGEMENT DISCUSSION AND ANALYSIS
(CONT'D)

TRENDS & RISK FACTORS (CONT'D)

Principal Risk Factors (Cont'd)

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

PERFORMANCE REVIEW

	Financial Year Ended 31 December		Variance (%) 2018 vs 2017	
	2017 (RMB'000)	2018 (RMB'000)		
Overall revenue	542,422	454,259	↓	16.25
Analysis by business segment				
Own-branding sports shoes	346,912	233,242	↓	32.77
ODM operations - sports shoes	195,510	221,017	↑	13.05

(1) Revenue

Our Group recorded total revenue of approximately RMB454.26 million for the financial year under review, decreased by 16.3% as compared to prior year.

The moderation in sales performance during the financial year under review was primarily due to softer demand for own-branding sports shoes as a result of intensifying market competition, whereby quantities sold reduced from 4.33 million pairs in prior year to 2.89 million pairs for the financial year under review.

The moderation was, however, partially mitigated by the improved performance of our ODM segment whereby the revenue increased by approximately 13.1% for the financial year under in line with the increase in sales volume from 3.04 million pairs in prior year to 3.34 million pairs for the financial year under review.

Own-branding segment

During the financial year under review, in view of the intensifying market competition within the China, our Group has placed the emphasis primarily on enhancing the existing retail outlets managed by the authorised distributors and retailers and has temporarily put on hold further expansion of outlets.

Our Group will continue to monitor closely the conditions and developments of the sports shoes and apparels market in China, and where necessary, will make prompt adjustment to our business strategies.

Going forward, our Group plans to deepen the online-to-offline marketing efforts, leveraging on the third-party e-commerce platforms to enhance market awareness on our brand and products. The existing retail outlets managed by the authorised distributors and retailers will be transformed into "experience stores", where consumers will get access to an extensive range of our products and have personalised experience and physical touch of our products, which are crucial in boosting their confidence in our products and desire to purchase.

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

PERFORMANCE REVIEW (CONT'D)

(1) Revenue (cont'd)

ODM segment

Backed by our Group's enhanced production and design capability as well as increased production capacity, our Group has the flexibility to step up our efforts in securing additional orders for ODM production of sports shoes.

In view of the gradual recovery of market demands for sportswear in overseas market, our Group intends to further expand our ODM operations. Our Group will, from time to time:

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

(2) Other Income

Other income comprised mainly interest income earned by our Group. Other income for the financial year under review stood at approximately RMB3.07 million, increased by approximately RMB0.78 million or 34.16%, primarily due to higher interest income earned in line with the enhanced cash and bank balances held by our Group.

(3) Administrative and Other Expenses

During the financial year under review, administrative and other expenses incurred by our Group stood at RMB55.43 million, lower by approximately 20.42% as compared to the prior year. The cost-saving achieved during the financial year under review was primarily due to lower brand promotion and advertisement costs incurred in view of the uncertainties within the operating environment.

Our Group has adopted a multi-channel marketing strategy whereby the conventional television and radio advertising was balanced and complemented by digital marketing through listing of our products on third-party e-commerce platforms.

(4) Effective tax rate

The Group's effective tax rate stood at approximately 35.07% for the financial year under review, higher as compared to 33.25% in the preceding year. The effective tax rate was higher than the statutory tax rates applicable to our Group primarily due to the following factors:

- Deferred tax assets have not been recognised for temporary differences arising from the unused tax losses of investment holding entities within the Group;
- Withholding tax on undistributed profits of the Group's subsidiaries in China were accounted for as deferred tax liabilities; and
- Non-allowable expenses added back for the tax computation, in particular the employees' benefit expenses in respect of share options granted to employees during the financial year under review.

MANAGEMENT DISCUSSION AND ANALYSIS
(CONT'D)

PERFORMANCE REVIEW (CONT'D)

(5) Profitability

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

	Financial Year Ended 31 December 2017 (RMB'000)	2018 (RMB'000)	Variance (%) 2018 vs 2017
• Gross profit ("GP")	92,900	86,807	↓ 6.56
• Profit before tax ("PBT")	24,851	33,867	↑ 36.28
• Net profit ("NP")	16,587	21,991	↑ 32.58
Financial ratios			
• GP Margin	17.13%	19.11%	
• PBT Margin	4.58%	7.46%	
• NP Margin	3.06%	4.84%	

Our Group's GP for the financial year under review was lower by approximately 6.56% as compared to the preceding year, in line with the moderation of sales performance.

Our Group's PBT and NP for the financial year, on the other hand, were higher as compared to the preceding year; primarily attributable to active monitoring of administrative costs by our Group particularly cost-saving arising from the realignment of marketing strategy as explained above.

(6) Financial Position

	[--------- As at 31 December ---------] 2017 (RMB'000)	2018 (RMB'000)	Variance (%) 2018 vs 2017
• Total assets	1,403,925	1,541,802	↑ 9.82
• Total liabilities	136,742	132,946	↓ 2.78
• Net assets / Shareholders' equity	1,267,183	1,408,856	↑ 11.18
• Net current assets	690,743	848,075	↑ 22.78
Financial ratios			
• Quick ratio [1]	690.03%	864.53%	
• Debt-to-equity ratio [2]	10.79%	9.44%	

Remark

[1] *Formula: (Cash and cash equivalents + Receivables) / Current liabilities*

[2] *Formula: Total liabilities / Shareholders' equity*

Backed by the improved performance and proceeds from issuance of new shares during the financial year under review, our Group's financial position as of 31 December 2018 remained relatively strong and healthy.

PERFORMANCE REVIEW (CONT'D)

(7) Liquidity

Working Capital Turnover Days	[--------- As at 31 December ---------] 2017 (Days)	2018 (Days)
• Inventories [1]	5	2
• Trade receivables [2]	121	121
• Trade payables [3]	(67)	(69)
Net working capital turnover days	**59**	**54**

Remark

[1] *Formula: Inventories / Cost of sales x 365 days*

[2] *Formula: Trade receivables / Total revenue x 365 days*

[3] *Formula: payables / Cost of sales x 365 days*

The net working capital turnover days remained relatively consistent for the financial year under review, stood at 54 days (2017: 59 days), in line with our Group's continued efforts in working capital management.

(8) Capital Requirements, Structure & Resources

Our Group's capital commitment as of 31 December 2018 was as stated below:

	(RMB'000)
Capital expenditure in respect of purchase of property, plant and equipment	31,152

Our Group had raised net proceeds (after deducting the relevant expenses) of RM83.70 million, which translated into RMB151.25 million, from the renounceable rights issue exercise completed on 27 January 2014. The net proceeds raised was earmarked to fund the stage-2 construction of our Group's design and production centre ("Stage-2 Construction"). For further details, kindly refer to the abridged prospectus dated 23 December 2013.

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

As of 31 December 2018, the Stage-2 Construction was still awaiting the necessary approvals and accordingly, the actual capital expenditure requirements cannot be ascertained at this juncture. Our Group will assess the capital expenditure required and reflect the relevant disclosures in the financial reports when Stage-2 Construction is ready to commence.

The abovementioned net proceeds raised, the term loan facility and the credit facilities remained unutilised as of 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS
(CONT'D)

PERFORMANCE REVIEW (CONT'D)

(8) Capital Requirements, Structure & Resources (cont'd)

Capital structure & resources

	(RMB'000)
Cash and cash equivalents as at 31 December 2018	805,983
Less:	
- Net proceeds from renounceable rights issues exercise completed on 27 January 2014	(151,246)
- Borrowings as at 31 December 2018	(12,400)
- Capital commitment as at 31 December 2018	(31,152)
Cash and cash equivalents available for working capital and operational funding requirements as at 31 December 2018	**611,185**

As of 31 December 2018, our Group had sufficient cash reserves to fund the existing capital expenditure requirements, to settle the existing indebtedness and to carry out our day-to-day business operations. Although there is no immediate shortage in capital resources, our Group may, from time to time, assess the need for additional fund-raising to meet future capital expenditure requirements while ensuring that our Group's financial and liquidity position remains healthy.

PROSPECTS

Looking ahead, demands for sportswear within the China market and the global markets are generally expected to be on gradual growth momentum, backed by the following catalysts:

(i) Active measures and initiatives by the China Government to promote the development of the domestic sports industry and boost domestic consumption. These measures and initiatives are expected to contribute positively to the sports industry growth in the medium and long term;

(ii) Huge and rising population within China, particularly with the implementation of two-child policy;

(iii) Rising disposable income per capita for China citizen; and

(iv) Increasing awareness on healthy lifestyle and growing popularity of sports.

In the near term, however, the outlook of the sports industry within China is expected to remain challenging in view of the intensifying market competition and the uncertainties in the global economy particularly those associated with Brexit and changes in United States of America's fiscal policies and diplomatic stance under Trump's administration. Notwithstanding that, the outlook for the sportswear industry within China for the medium and long term is expected to remain promising.

Our Group believes that the prospects remain promising for our own-branding operations, but remains cautious on the increasing short-term volatility for the near future.

Barring any unforeseen circumstances, our Group is cautiously optimistic that the performance for the financial year ending 31 December 2019 will remain positive.

DIVIDEND POLICY

The Board has established a dividend policy to distribute up to 20% of the Company's profit after tax as dividend payment to our shareholders. The dividend payment will be made after taking into consideration, inter alia, cash availability, return on equity and the projected level of capital expenditures; always bearing in mind the importance of long-term value creation for our shareholders.

The declaration of interim dividends and the recommendation of any final dividends are subject to the discretion of the Board, whilst any final dividend proposed is subject to our shareholders' approval.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

PROFILE OF THE BOARD OF DIRECTORS

DING LIHONG

(Female, aged 46 - Citizen of the People's Republic of China)
Executive Chairman

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

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

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

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

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

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

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

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

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

She has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

PROFILE OF THE BOARD OF DIRECTORS
(CONT'D)

DING PENGPENG

(Male, aged 44 - Citizen of the People's Republic of China)
Managing Director / CEO

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

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

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

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

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

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

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

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

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

He has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

PROFILE OF THE BOARD OF DIRECTORS
(CONT'D)

DING PENGWAN

(Female, aged 42 - Citizen of the People's Republic of China)
Executive Director / Deputy CEO cum COO

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

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

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

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

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

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

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

She has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

LIN YINGYU

(Female, aged 41 - Citizen of the People's Republic of China)
Executive Director

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

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

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

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

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

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

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

She has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

PROFILE OF THE BOARD OF DIRECTORS
(CONT'D)

ZHU GUOHE

(Male, aged 49 - Citizen of the People's Republic of China)
Senior Independent Non-Executive Director

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

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

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

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

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

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

He is also an independent non-executive director of Flyke International Holdings Ltd, a public listed company in Hong Kong.

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

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

He has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

PROFILE OF THE BOARD OF DIRECTORS
(CONT'D)

WONG YOKE NYEN

(Male, aged 60 - Malaysian)
Independent Non-Executive Director

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

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

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

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

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

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

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

He has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

PROFILE OF THE BOARD OF DIRECTORS
(CONT'D)

WOON YEOW THONG

(Male, aged 53 - Malaysian)
Independent Non-Executive Director

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

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

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

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

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

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

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

He has attended all the five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

This Corporate Governance Overview Statement ("Statement") provides an overview on the extent of how our Group has applied the three (3) key principles of good governance as set out in the Malaysian Code on Corporate Governance 2017 ("MCCG 2017").

Recognising that proper corporate governance framework is one of the crucial factors that contributes to the intrinsic value of an organisation, our Group endeavours to ensure that the practices and guidance advocated in the MCCG 2017 are applied within our Group where applicable and appropriate to create and deliver long term and sustainable shareholders' value.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

1. BOARD COMPOSITION

The Board of Directors of the Company ("Board") consist of four (4) Executive Directors and three (3) Independent Non-Executive Directors. Members of the Board, and their respective attendance record for the Board meetings conducted during the financial year under review, are as follows:

Name	Designation	Attendance
Ding LiHong	Executive Chairman	5/5
Ding PengPeng	Managing Director / Chief Executive Officer ("CEO")	5/5
Ding PengWan	Executive Director / Deputy CEO cum Chief Operating Officer ("COO")	5/5
Lin YingYu	Executive Director	5/5
Zhu GuoHe	Senior Independent Non-Executive Director	5/5
Wong Yoke Nyen	Independent Non-Executive Director	5/5
Woon Yeow Thong	Independent Non-Executive Director	5/5

The Board takes note of the recommended practice 4.1 of the MCCG 2017 that at least half of the board shall comprise independent directors. Notwithstanding the deviation, the Board wishes to advise that there was no incidence of dominance by the Executive Directors over the matters deliberated at the Board meetings. The Board is in the midst of evaluating the feasible action plans for compliance with the recommended practice.

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

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

2. BOARD CHARTER

A board charter ("the Charter") has been drawn up, the primary objectives of which are to promote high standards of corporate governance and to clarify the roles, responsibilities, functions, compositions, operation and processes of the Board. The Board reviews the Charter periodically, as and when there are changes to the governance structure or applicable requirements, to ensure compliance with the relevant standards of corporate governance. The Charter can be accessed at the Company's corporate website at www.xidelang.com.my ("Corporate Website").

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

3. CODE OF ETHICS AND CONDUCT

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

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

4. BOARD RESPONSIBILITIES

The Board is collectively responsible for formulating and reviewing the strategic objectives and key policies of our Group, as well as charting the strategic direction for our business operations. In addition to that, the Board also assumes the overall responsibility for the following:

- Strategic allocation of resources to align with the overall objectives of our Group;
- Monitoring of our Group's financial performance, financial position and cash flows;
- Evaluation and management of the principal risks faced by our Group;
- Implementation and review of risk management and internal control systems;
- Succession planning; and
- Development of investor relations programme and shareholders' policy.

The Board, assisted by the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee, provides effective oversight over our Group's operations. Members of the Board exercise due diligence and care in discharging their responsibilities and act in the best interests of our Group and shareholders.

The functions of Executive and Non-Executive Directors are distinguished and clearly defined. The primary roles and responsibilities of the respective members of the Board are summarised below:

Chairman	o Provides leadership to the Board. o Ensure the efficient organisation and conduct of the Board. o Monitor Board's performance annually. o Facilitate Board's discussions to ensure core issues faced by our Group are addressed. o Brief all Directors in relation to issues arising at Board meetings. o Facilitate the effective contribution and ongoing development of all Directors. o Promote consultative, constructive, professional and respectful relations among Board members and between the Board and Management. o Chair shareholder meetings.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. BOARD RESPONSIBILITIES (CONT'D)

Managing Director / Chief Executive Officer ("CEO")	o Perform executive management of our Group's business covering, inter alia, the development of a strategic plan / budget, performance benchmarks to gauge management performance and the analysis of management reports. o Ensure the effective implementation of our Group's strategic plan and policies established by the Board as well as managing the daily conduct of the business to ensure its smooth operations. o Effectively oversee the human resources of our Group with respect to key position in the corporate hierarchy. o Assure the Company that its corporate identity, products and services are of high standards and are reflective of the market environment. o Assess business opportunities which are of potential benefit to our Group. o Supervise heads of divisions and departments who are responsible for all functions contributing to the success of our Group. o Highlight material and other relevant matters to the Board's attention in a comprehensive and timely manner.
Deputy CEO	o Provide assistance and support to the Managing Director / CEO to carry out his responsibilities. o To assume the role of CEO in the absence of Managing Director / CEO.
Chief Operating Officer ("COO")	o Monitor and manage day-to-day operations of our Group and keeping the Managing Director / CEO and/or Deputy CEO aware with the significant events of our Group. o Ensure our Group's operations in line with the short and/or long term strategic planning of our Group. o Communicate our Group's operational strategies and policies to the employees. o Evaluate our Group's performance and provide suggestions and solutions to improve/resolve identified issue(s).
Executive Director	o Responsible for the day-to-day management and operations of the relevant divisions and functions within our Group.
Independent Non-Executive Directors	o Responsible for providing unbiased, independent and professional views, advice and judgement, taking into consideration the interests of our Group and all its stakeholders. o Performance monitoring and enhancement of corporate governance and internal controls.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

4. BOARD RESPONSIBILITIES (CONT'D)

Executive Directors

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

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

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

Independent Non-Executive Directors

The Independent Non-Executive Directors exercise with professional competence and independence a supervisory role via their involvement in various Board committees and focus principally on performance monitoring and enhancement of corporate governance and internal controls. They offer a capable check and balance for the Executive Directors.

The presence of the Independent Non-Executive Directors ensures that issues pertaining to strategies, performance and resources allocation proposed by the Management (led by the Executive Directors) are objectively evaluated, taking into consideration the interests of shareholders and relevant stakeholders of our Group. The Independent Non-Executive Directors bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the financial performance of our Group, and monitor the overall risk profile of our Group. The Independent Non-Executive Directors communicate with the Management, and with the internal and external auditors, to address matters concerning management and oversight of our Group's operations.

5. ACCESS TO INFORMATION AND ADVICE

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

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

5. ACCESS TO INFORMATION AND ADVICE (CONT'D)

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

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

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

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

6. APPOINTMENT & RE-ELECTION OF DIRECTORS

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

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

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

The Nomination Committee, in connection to the nomination process, has full authority to:

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

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

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

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

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

In the selection process, the Board and the Nomination Committee endeavour to appoint member that can improve the Board's overall compositional balance and enhance the Board's overall effectiveness in discharging its duties, emphasizing primarily on the working experience and knowledge of the candidate; unbiased in respect of race, religion and gender.

During the financial year ended 31 December 2018, our Group has three (3) female Executive Directors although there is no female Independent Non-Executive Director. The Board is satisfied with the mix of skills, experience, and industry-specific knowledge gained to-date by the respective Directors. At present, the Board consists of Executive Directors with extensive industry knowledge and experience, and Independent Non-Executive Directors with well-balanced mix of knowledge and experience on corporate management, corporate finance and financial reporting, legal and regulatory requirements, as well as industry insights.

The Board takes note of the recommended practice 4.5 of the MCCG 2017 that the board of directors must have at least 30% women directors for large companies (i.e. companies on the FTSE Bursa Malaysia Top 100 Index or with market capitalisation of RM2 billion and above). This is not applicable to our Company, notwithstanding that based on our current board composition, we have fulfilled the requirement. At this juncture, the Board is of the opinion that maintaining an unbiased gender policy will be more constructive and beneficial to our Group.

The Board takes note of the recommended practice 4.2 of the MCCG 2017 that:

- The tenure of an independent director should not exceed a cumulative term of nine (9) years;
- If an independent director is intended to be retained beyond nine (9) years, the Board should justify the decision and seek annual shareholders' approval; and
- If an independent director is continued to be retained after the twelfth (12th) year, the Board should seek shareholders' approval through a two-tier voting process as set out in the MCCG 2017.

The Board takes note of the step-up practice 4.3 of the MCCG 2017 that a policy limiting the tenure of an independent director to nine (9) years should be established. At this juncture, the Board does not intend to impose such restriction. The Board seeks to strike a balance between tenure of service and the benefits to our Group from the continuity of service of an independent director.

To-date, all three (3) existing Independent Non-Executive Directors of our Company have served for more than nine (9) years. The Board will carry out assessment on the suitability of our current Independent Non-Executive Directors before recommending them for re-election to the Board.

Factors that will be taken into consideration include, amongst others, the following:

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

The Board may, upon satisfaction that the said independent director fulfils the definition of independence as stipulated in the Listing Requirements and can continue to add value and contribute to the Board and our Group, recommend the re-election of the said independent director to the Board subject to the approval of shareholders at the AGM.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

7. BOARD BALANCE AND TIME COMMITMENT

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

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

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

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

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

The Board is satisfied with the level of time commitment allocated by the Directors towards fulfilling their roles and responsibilities as directors for the financial year under review, as substantiated by the full attendance of the Directors at the Board meetings.

8. ANNUAL ASSESSMENT

The Board carries out assessment on the effectiveness of individual Directors, the Board as a whole, and the Board committees on annual basis, to identify areas for improvement and for the purposes of re-appointment of Directors of the Company.

Criteria/aspects considered in the annual assessment of the individual Directors are summarised below:

- In respect of Executive Directors

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

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

8. ANNUAL ASSESSMENT (CONT'D)

- In respect of Non-Executive Directors

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

  The performance assessment by the individual members of the Board were compiled and evaluated by the Nomination Committee, with the findings tabled to the Board for consideration. The Nomination Committee had collectively assessed, reviewed and evaluated the performance and effectiveness of the Board as a whole, the contribution by the individual members of the Board and the committees set up to assist the Board.

  Based on the evaluation, the overall performance of the Board as a whole, the individual members of the Board and the committees set up to assist the Board were considered to be satisfactory.

9. DIRECTORS' TRAINING

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

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

Directors recognise the importance of continuing professional development and the need for continuous update and training. During the financial year under review, the individual Directors kept abreast with the changes and developments in the marketplace and the corporate regulatory framework through the following channels:

- Briefings by the Company Secretary, Internal and External Auditors during the quarterly meetings;
- Daily work exposures and involvements in chamber of commerce and industry-related associations;
- Sharing of knowledge and information with other Directors, through the interactions during the Board meetings;
- Personal readings; and
- Structured training programme.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

9. DIRECTORS' TRAINING (CONT'D)

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

Name of Director	Title of Training Programmes
Ding LiHong	o New Amendment to Bursa Listing Requirements & Malaysia Corporate Governance Guide 2017
Ding PengPeng	o New Amendment to Bursa Listing Requirements & Malaysia Corporate Governance Guide 2017
Ding PengWan	o New Amendment to Bursa Listing Requirements & Malaysia Corporate Governance Guide 2017
Lin YingYu	o New Amendment to Bursa Listing Requirements & Malaysia Corporate Governance Guide 2017
Zhu GuoHe	o New Amendment to Bursa Listing Requirements & Malaysia Corporate Governance Guide 2017
Wong Yoke Nyen	o MCCG and Bursa's Listing Requirements: Towards Meaningful Disclosure o 1MDB: Its Impact on Malaysia Economy o Corporate Disclosure Policy under the Listing Requirements

Moving forward, the Board will get the assistance from the Company Secretary to identify and recommend suitable training programme for the Directors' participation.

10. DIRECTORS AND KEY MANAGEMENT REMUNERATION

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

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

The key elements of our Group's remuneration policy are set out below:

For Executive Directors and Key Management Personnel

(i) The remuneration package shall take into consideration the individual performance, service seniority, experience and responsibilities of the individual Executive Directors/key management personnel, and align to the corporate performance particularly the profitability of the Group.
(ii) The remuneration package shall consist of both fixed element (annual salary) and variable element (bonus).
(iii) The remuneration package shall be competitive and comparable to the pay level offered by other companies within similar industry.

The remuneration package for the Executive Directors shall be subject to review by the Remuneration Committee annually.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

10. DIRECTORS AND KEY MANAGEMENT REMUNERATION (CONT'D)

For Non-Executive Directors

(i) The fees payable shall commensurate with market trends, length of service and seniority, duties and responsibilities entrusted upon them as well as level of contribution.
(ii) The fees payable shall be a fixed sum, with additional allowance for attendance of meeting.
(iii) The fees payable to the Non-Executive Directors shall be subject to shareholders' approval at the AGM.

The determination of the remuneration package of Non-Executive Directors is a matter for the Board as a whole. Directors are required to abstain from deliberations and voting on decisions concerning their own remuneration.

Details of the remuneration for each of the Directors and key management personnel during the financial year ended 31 December 2018 are set out below:

Executive Directors

	Salary RMB'000	Bonus RMB'000	Other Emolument RMB'000	Total RMB'000
Ding LiHong	582	500	8	1,090
Ding PengPeng	582	500	8	1,090
Ding PengWan	221	250	8	479
Lin YingYu	97	55	8	160
Grand Total	**1,482**	**1,305**	**32**	**2,819**

Remark
The remuneration of the Executive Directors are payable by a subsidiary company.

Non-Executive Directors

	Fees RMB'000	Allowance RMB'000	Total RMB'000
Zhu GuoHe	84	–	84
Wong Yoke Nyen	140	40	180
Woon Yeow Thong	140	40	180
Grand Total	**364**	**80**	**444**

Remark
The remuneration of the Non-Executive Directors are payable by the Company, and subject to the approval of shareholders at the forthcoming AGM.

Remuneration of the Non-Executive Director resides in China is denominated in RMB, while remuneration of the Non-Executive Directors reside in Malaysia are denominated in RM. For presentation purpose, the amounts denominated in RM have been translated at the exchange rate of RMB1: RM0.6013 (Source: middle rate as at 31 December 2018 published by Bank Negara Malaysia).

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

10. DIRECTORS AND KEY MANAGEMENT REMUNERATION (CONT'D)

Key Management Personnel

	Salary RMB'000	Bonus RMB'000	Other Emolument RMB'000	Total RMB'000
Ding QingYa	114	150	8	272
Zhuang QiongHua	114	150	8	272
Ding MaoFeng	116	150	8	274
Grand Total	**344**	**450**	**24**	**818**

11. SUITABLY QUALIFIED AND COMPETENT COMPANY SECRETARY

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

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

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

The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in discharging its duties and responsibilities.

12. SUCCESSION PLANNING

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

Continuity is also preserved at the Board level.

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

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

12. SUCCESSION PLANNING (CONT'D)

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

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

13. BOARD COMMITTEES

The Board, in discharging its duties and responsibilities, is assisted by the several board committees including Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee (collectively referred to as "Board Committees").

Each of the Board Committees operate within the clearly defined terms of reference approved by the Board. The functions and terms of reference of the respective Board Committees, as well as the authority delegated by the Board to the Board Committees, are reviewed from time to time to ensure they remain relevant, up to date and comply with the applicable rules and regulations.

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

Nomination Committee

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

The Nomination Committee is governed by its terms of reference approved by the Board, which has been published under the Company's Corporate Website *(Investor Relations Section – Corporate Governance)*.

During the financial year ended 31 December 2018, two (2) meetings were held by the Nomination Committee and the following activities were undertaken:

- Reviewed and discussed the performance and contribution of the Executive Directors;
- Reviewed and discussed the performance and contribution of the Independent Non-Executive Directors;
- Assessed the performance of the Board as a whole as well as the contribution of the respective Board Committees;
- Evaluated the Directors that shall retire pursuant to the Bye-Laws of the Company, and made recommendation for their re-election; and
- Assessed the suitability for the continuation of services by the Independent Non-Executive Directors who have served for a cumulative tenure of nine (9) years.

The Nomination Committee members have abstained from deliberating and voting on matters related to themselves.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

13. BOARD COMMITTEES (CONT'D)

Nomination Committee (Cont'd)

The meetings were attended by all members of the Nomination Committee as reflected below:

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

Remuneration Committee

During the financial year under review, the Remuneration Committee comprised primarily Independent Non-Executive Directors with the involvement of one (1) Executive Director.

On 26 February 2018, the Executive Director resigned as a member of Remuneration Committee to adhere to the recommended guidance 6.2 of MCCG 2017 which advocates that the remuneration committee should only consist of non-executive directors with a majority of them must be independent directors.

The Remuneration Committee is governed by its terms of reference approved by the Board, which has been published under the Company's Corporate Website *(Investor Relations Section – Corporate Governance)*.

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

Name	Designation	Attendance
Woon Yeow Thong	Chairman	2/2
Zhu GuoHe	Member	2/2
Wong Yoke Nyen	Member	2/2
Ding PengPeng^	Member	1/1

Remark
^ *Resigned as member of the Remuneration Committee on 26 February 2018.*

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

1. AUDIT COMMITTEE

The Audit Committee is established by the Board and consists of three (3) members, all of whom are Independent Non-Executive Directors. The Chairman of the Audit Committee is appointed by the Board and is not the Chairman of the Board.

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

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

2. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

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

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

The Risk Management Committee comprises the following members:

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

The Board takes note of the step-up practice 9.3 of MCCG 2017 which advocates that the Risk Management Committee members should comprise a majority of independent directors. At this juncture, the Board is also assisted by the Audit Committee (which consists entirely of Independent Non-Executive Directors) in overseeing the effectiveness of the Company's risk management framework and policies. Accordingly, the Board is of the opinion that the deviation from the aforementioned step-up practice does not expose the Group to the threat of material deficiencies in risk management function.

The identified risks are classified into appropriate categories and encompass:

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

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

Further discussion on the risk management framework and internal control systems adopted by our Group, the principal risks faced by our Group and the processes put in place to monitor and manage the identified principal risks, the internal audit function and the review activities carried out during the financial year under review are set out in the Statement on Risk Management and Internal Control contained in this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

3. RELATIONSHIP WITH AUDITORS

Independent external auditor is engaged to express an independent opinion on whether our Group's financial statements give a true and fair view of the Group's financial position and performance to the shareholders. The Board recognises this helps to reassure the shareholders on the reliability of our Group's financial statements.

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

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

1. COMMUNICATION WITH STAKEHOLDERS

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

To this end, we have disseminated relevant information and updates on our Group's development from time to time through various medium including the annual report, quarterly reports, circular to the shareholders and other prescribed announcements lodged with Bursa Securities in its website at www.bursamalaysia.com to the extent permissible under the Listing Requirements of Bursa Securities.

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

While the Company strives to provide as much information as possible to its shareholders, stakeholders and general public, the Company upholds strict standards of confidentiality with regard to undisclosed material information under all circumstances and remains mindful of the legal and regulatory framework (particularly the Listing Requirements) governing the dissemination of information to shareholders and the general public.

The Company has established a corporate disclosure policy to govern the disclosure of material, non-public information in a manner designed to provide broad, non-exclusionary distribution of information so that the public has equal access to the information; and to prevent the abuse of undisclosed material information.

The Board is committed to providing a balanced, clear and comprehensive assessment of the Group's financial performance, position and prospects in presenting the annual financial statements and quarterly announcements of results to shareholders. The Board, assisted by the Audit Committee, takes due care and reasonable steps to ensure that the financial results are released to the shareholders and the general public on timely manner and the financial statements are presented with accuracy and adequacy and comply with all relevant regulatory reporting requirements and financial reporting standards.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (CONT'D)

2. CONDUCT OF GENERAL MEETINGS

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

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

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

POLL VOTING

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

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

3. INVESTOR RELATIONS

Ms. Ding PengWan, the Deputy CEO cum COO, is designated by the Board as the primary contact person for investor relations matter. She can be reached via the corporate email at xdl@xidelang.com.cn or private email at dpw6668@163.com.

In addition to that, shareholders and the public may also contact the Company Secretary and/or the Company's Agent in Malaysia, the contact details of which have been set out under the Corporate Information section of this Annual Report, for assistance in conveying their queries and concerns to the Senior Independent Non-Executive Director and/or any other Directors of our Group of their choice. The Board operates in an open environment in which information is freely exchanged among the Board members, with due care exercised to safeguard the confidentiality of the information.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
(CONT'D)

RESPONSIBILITY STATEMENT BY THE BOARD

In the course of preparing the annual financial statements of the Group and of the Company, the Directors reaffirm that they are collectively responsible for ensuring that these financial statements are drawn up in accordance with the requirements of the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Listing Requirements; and that the financial statements give a true and fair view of the financial position of the Group at the end of the financial year, the financial performance and cash flows of the Group for the financial year ended 31 December 2018.

In preparing the financial statements, the Directors have:

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

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

CORPORATE GOVERNANCE REPORT

Pursuant to the requirement under Paragraph 15.25(2) of the Listing Requirements, our Group shall submit to Bursa Securities the status of application of each Practice set out in the MCCG 2017 during the financial year under review in the prescribed format issued by Bursa Securities.

The said corporate governance report shall be announced together with the annual report, and can be downloaded from the website of Bursa Securities at www.bursamalaysia.com *(Listed Companies Section – Company Announcements).*

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

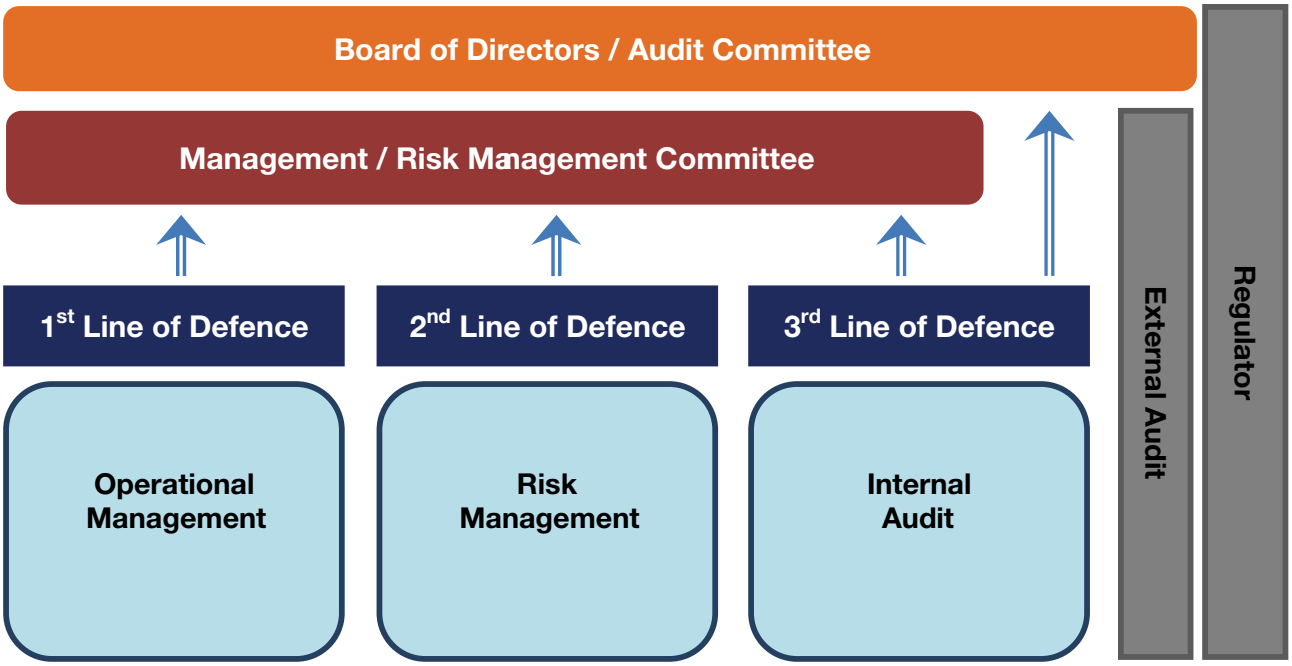
This Statement on Risk Management and Internal Control ("**Statement**") is made pursuant to Paragraph 15.26(b) of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements ("Listing Requirements"), and has been prepared in accordance with guidelines set out in the *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers* endorsed by Bursa Securities.

BOARD'S RESPONSIBILITIES

The Board of Directors of the Company ("Board") affirms its oversight responsibility for establishing and maintaining a sound risk management and internal control system to manage the risk exposure of the Company and its subsidiaries ("Group"), and for reviewing its adequacy and effectiveness.

Such risk management and internal control system is designed to identify, evaluate and manage the Group's risks within an acceptable tolerance level established by the Board and the Management; rather than to eliminate, the risks of non-adherence to the Group's policies, procedures and practices and failure to achieve the Group's goals and objectives. Accordingly, the system can only be relied upon to provide reasonable and not absolute assurance against the occurrence of any material misstatement of management and financial information, losses, fraud or breach of laws and regulations.

The Board has established three lines of defence to safeguard the effective functioning of the Group's risk management and internal control system as depicted below:



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(CONT'D)

BOARD'S RESPONSIBILITIES (CONT'D)

- 1st Line of Defence

  The Board is assisted by the Management (led by the Executive Directors) in implementing the approved policies and control procedures for the Group's day-to-day operations.

- 2nd Line of Defence

  The Board is assisted by the Management and Risk Management Committee in identifying and evaluating the risks faced by the Group's operations as well as implementing appropriate action plans / control measures to manage the risks; and by the outsourced independent internal auditors and Audit Committee in monitoring and reviewing the effectiveness of the risk management framework.

- 3rd Line of Defence

  The Board is assisted by the outsourced internal auditors and Audit Committee in obtaining independent assurance on the adequacy and effectiveness of the Group's risk management and internal control system. The outsourced internal auditors perform independent review of the Group's risk exposures and control activities. Findings identified during the course of internal audit, Management's responses thereto and actions taken/ recommended improvement action plans to be implemented are tabled to the Audit Committee for review and deliberation. Matters discussed at the Audit Committee's meetings will be minuted and reported to the Board for notation.

RISK MANAGEMENT

The Group adopts a structured approach to risk management, as summarised below:

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

The Board
- Overall oversight of risk management

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

Executive Directors and Key Management (Executive Team)
- Strategic risk assessment and oversight
- Recommending the levels of acceptable risk

Heads of Business Unit / Department
- Strategic and operational risk assessment, management, monitoring and reporting for all risks relative to their area of control

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

RISK MANAGEMENT (CONT'D)

Risks are rated in the context of prevailing operating environment, and after taking into consideration the likelihood of occurrence and the consequential impact. The principal risks (those rated to be high or moderate) faced by the Group together with the key risk management processes are outlined below:

Principal risks	Key Risk Management Processes
• Non-recoverability of trade debts	✓ Monthly reconciliation of outstanding balance with customers, and continuous follow-up on amount exceeding credit term. ✓ Monthly review and monitoring of the trade receivables' ageing analysis.
• Unfavourable macro and industry-related regulations and policies	✓ Maintain regular communication with local authorities to keep abreast with policies and requirements. ✓ Where necessary, obtain clarification and confirmation from the local authorities. For e.g. in relation to statutory payments. ✓ Regular update on new policies and measures implemented by the central government.
• The impact of global economic uncertainties on China's economy	✓ Maintain close monitoring on payments and collections. ✓ Assess the needs for expansion from time to time.
• Market competition and loss of customers	✓ Concentrate on sports shoes manufacturing, both own-branding and ODM segments. ✓ Monitor the market development closely and adopt a prudent strategy on expansion and new product offerings in view of the intensifying competition within China domestic market. ✓ Maintain close monitoring on the performance of the authorised distributors and obtain regular feedbacks from them. ✓ The Group's sales and marketing team to pay regular visits to the authorised distributors, in order to establish and maintain close relationship and rapport with the authorised distributors. ✓ Continue to enhance the relationship with ODM customers and strengthen their confidence on the Group.
• Natural disaster	✓ Comprehensive insurance coverage on assets. ✓ Regular update on weather forecast and any bad weather alert issued by the local authority. ✓ Management to issue directive to employees to stay indoors. ✓ Prompt actions to recover and remedy any damages caused by bad weather. ✓ Carry out reinforcement to trees and other hardware / equipment with risk of tumbling.

The Board is assisted by the Audit Committee in reviewing the adequacy and effectiveness of the risk management system. The Audit Committee, on the other hand, is supported by the Risk Management Committee ("RMC") in identifying and evaluating the risks faced by the Group's operations as well as implementing appropriate action plans / control measures to manage the risks. The Management, as an integral part of their overall stewardship responsibilities for the daily operations of the Group, monitor the key risks and action plans identified from time to time. Any weakness or new risk encountered will be reported to the RMC for assessment, and for formulation of appropriate action plans for mitigation where necessary. The findings of the RMC, if any, will then be tabled to the Audit Committee for deliberation before reporting to the Board for deliberation and approval.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(CONT'D)

INTERNAL CONTROL

The key elements of the internal control system of the Group are as follows:

Control Environment	
o	**Clearly defined lines of accountability and delegated authority** The Board and Management have established an organisational structure with clearly defined lines of accountability and delegated authority. This includes well-defined roles and responsibilities of the Board, the Board committees and various management levels, including authorisation levels and limits for all material aspects of the business.
o	**Active participation by top management** The Executive Directors actively participate on the day-to-day affairs of the Group, with discussions and meetings conducted with the various functions/departments to discuss on operational issues and performance as well as to formulate appropriate business strategies and targets in response to the changes in business environment and risks faced by the Group. The Board believes that active involvement by the Executive Directors would reinforce the awareness on the importance of a proper internal control system throughout the organisation.
o	**Oversight function by Audit Committee** The Board has established a fully independent Audit Committee comprising exclusively Independent Non-Executive Directors to assist the Board in reviewing internal control issues identified and evaluating the adequacy and effectiveness of the Group's risk management and internal control systems. The Audit Committee is accorded full and unrestricted access to both internal and external auditors, as well as the management team. The Audit Committee, assisted by the outsourced internal auditors, hold discussion with the management to deliberate appropriate action plans in addressing the identified internal control issues and report to the Board accordingly.

Information & Communication	
o	**Human resource management** The Management has put in place formal policies for both the recruitment of employees and resignation of employees. New employees are briefed on the rules and requirements as contained in the Employee Handbook, and the company's policies. Leaving employees are interviewed to understand, and record in writing, the reason for resignation.
o	**Code of ethics and conduct** The Board has established and adopted a formal code of ethics and conduct, which sets out the principles and standards of behaviour that are expected of employees.
o	**Whistle-blowing policy** The Board has established a whistle-blowing policy and procedures to provide guidance for employees to report on actual or suspected malpractice, misconduct or violation of the applicable laws and regulations and the Group's policies.

INTERNAL CONTROL (CONT'D)

Control Activities
o **Formal operating policies, procedures and processes** The Management has established formal operating policies and procedures for the various key functions of the Group's operations to ensure that control measures are in place to govern the day-to-day affairs of the Group.
o **Insurance** The Group has procured insurance coverage on its assets to safeguard the Group from financial losses in the event of mishap. A yearly review on the insurance coverage is undertaken by the Management in conjunction with the policy renewal.

Monitoring
o **Periodic reporting and review** Periodic meetings are held by the Board to review the financial results of the Group and discuss on operational matters, with all members of the Board accorded full and unrestricted access to information. The participation by the Independent Non-Executive Directors ensures that all major decisions are subject to appropriate level of independent, objective evaluation. Quarterly financial reports and annual audited financial statements are reviewed by the Audit Committee, prior to the Board's approval for announcement. The Board has engaged the services of an independent professional internal audit firm to carry out the internal audit function, whereby the internal auditors' findings are circulated to the Audit Committee periodically at their meetings.

INTERNAL AUDIT FUNCTION

An independent professional internal audit firm, Total Advisors Sdn. Bhd. has been engaged by the Company to carry out the internal audit function, to provide much of the assurance the Board requires regarding the adequacy, integrity and effectiveness of the internal control system of the Group.

The Audit Committee is entrusted by the Board to assist in evaluating and reviewing the adequacy and effectiveness of the internal control system of the Group. To ensure independence, the outsourced internal auditors report directly to the Audit Committee.

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(CONT'D)

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Listing Requirements, the external auditors have reviewed this Statement in accordance with scope set out in the *Audit and Assurance Practice Guide 3: Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* ("AAPG 3"), issued by Malaysian Institute of Accountants.

AAPG 3 does not require the external auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system. AAPG 3 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Annual Report will, in fact, remedy the problems.

The external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement, in all material respects:

(a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers*; or

(b) is factually inaccurate.

CONCLUSION

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

The Board, after due consideration, is satisfied that that the risk management and internal control system in place for the financial year under review and up to the date of issuance of this Statement is adequate and effective to safeguard the Group's assets and the interests of shareholders.

This Statement is made in accordance with the resolution of the Board dated 26 April 2019.

AUDIT COMMITTEE REPORT

1) COMPOSITION

The Audit Committee ("the Committee") is established by the Board of Directors of the Company ("Board") to assist the Board in ensuring timely and accurate financial reporting, proper implementation of adequate and effective risk management and internal control system, and regulatory compliance.

The Committee comprises three (3) members, all of whom are Independent Non-Executive Directors as disclosed below:

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

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

2) RESPONSIBILITIES AND DUTIES

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

The Committee is established to assist the Board in fulfilling the oversight responsibilities for the following core areas:

(a) Risk Management and Internal Control

- Assist the Board in identifying the principal risks in the achievement of the Company's objectives and ensuring implementation of appropriate systems to manage these risks.
- Oversees the Company's internal control structure to ensure operational effectiveness and efficiency, reduce risk of inaccurate financial reporting, protect the Company and its subsidiaries' ("Group") assets from misappropriation and encourage legal and regulatory compliance.
- Overall oversight responsibilities over the internal audit function.
- Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

(b) Financial Reporting

- Propose best practices on disclosure in financial results and annual report of the Company in line with the principles set out in the Malaysian Code on Corporate Governance, other applicable laws, rules, directives and guidelines.
- Review the interim and annual financial reports of the Company and of the Group, prior to the approval of the Board for announcement, focusing on:
  - Any changes in accounting policies and practices
  - Any significant adjustments arising from the audit
  - Any significant and unusual events
  - The appropriateness of the going concern assumption
  - Compliance with accounting standards and other legal requirements

AUDIT COMMITTEE REPORT
(CONT'D)

2) RESPONSIBILITIES AND DUTIES (CONT'D)

(c) External Audit

- Recommend to the Board on the appointment and re-appointment of the External Auditors and their audit fees.

- Review the following and report to the Board:
  - The audit plan tabled by the External Auditors
  - The audit report issued by the External Auditors
  - The assistance given by the employees to the External Auditors
  - The External Auditors' management letter and management's responses thereto
  - Any significant audit findings, reservations, difficulties encountered or material weaknesses reported by the External Auditors
  - Any related party transaction and conflict of interest situation that may arise including any transaction, procedure or course of conduct that raises questions over management integrity
  - Any letter of resignation from the External Auditors and questions of resignation or dismissal
  - Whether there is reason (supported by grounds) to believe that the External Auditors are not suitable for re-appointment

- Discuss problems and reservations arising from interim and final audits, and any matter the External Auditors may wish to discuss (in the absence of Management if necessary).

3) ATTENDANCE OF MEETINGS

Audit Committee Members	Attendance of Meetings
Wong Yoke Nyen	6/6
Zhu GuoHe	6/6
Woon Yeow Thong	6/6

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

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

4) SUMMARY OF ACTIVITIES

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

Risk Management and Internal Control

o Reviewed the reports tabled by the Internal Auditors.

o Communicated with the Management on the Internal Auditors' findings to ensure that appropriate remedial actions and improved procedures are implemented. The Committee also obtained update on the status of implementation for past findings via follow-up review by the Internal Auditors.

o Assessed the independence, objectivity and competency of the Internal Auditors.

4) SUMMARY OF ACTIVITIES (CONT'D)

Financial Reporting

- Reviewed the unaudited interim/quarterly financial reports, before recommending them to the Board for approval and public announcement to Bursa Securities and Securities Commission ("SC"). In reviewing the unaudited interim/quarterly financial results, the Committee had considered the following:

  (i) The appropriateness of the basis of preparation, in particular, the accounting policies and practices adopted and applied as well as the impact of the new accounting standards that came into effect during the financial year ended 31 December 2018; and

  (ii) The fluctuations in the financial performance. The Committee had sought clarifications from the Management on the reasons for the variances in the financial results (as compared to preceding year corresponding periods), particularly on the Group's revenue, profitability and expenses; and ensured that consistent disclosures were made in the interim/quarterly financial reports.

- Reviewed the annual audited financial statements, before recommending them to the Board for approval and public announcement to Bursa Securities and SC. In reviewing the annual audited financial statements, the Committee had communicated with the External Auditors with particular focus on:

  (i) Compliance with the applicable Malaysian Financial Reporting Standards, International Financial Reporting Standards, and other relevant legal and regulatory requirements; and

  (ii) Significant audit and accounting matters highlighted, significant judgements made by the Management in preparing the financial statements as well as significant events and/or transactions during the financial year under review; and how these matters were addressed.

  The review of the annual audited financial statements for the financial year ended 31 December 2017 was conducted in April 2018. The review of the annual audited financial statements for the financial year ended 31 December 2018 was conducted subsequent to the year-end, in April 2019.

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

  The review of the Annual Report for the financial year ended 31 December 2017 was conducted in April 2018. The review of the Annual Report for the financial year ended 31 December 2018 was conducted subsequent to the year-end, in April 2019.

External Audit

- Reviewed with the External Auditors the results of the annual audit for the financial year ended 31 December 2017, the audit report, management letter including the Management's responses thereto and the extent of compliance with legal and regulatory requirements.

- Noted that the former External Auditors had no intention to seek re-appointment.

- Assessed the regulatory requirements for the appointment of new External Auditors, and evaluated the candidates in terms of their experience, independence, objectivity and competency before making recommendation to the Board.

AUDIT COMMITTEE REPORT
(CONT'D)

4) SUMMARY OF ACTIVITIES (CONT'D)

External Audit (Cont'd)

- Reviewed with the External Auditors, Messrs Afrizan Tarmili Khairul Azhar, the audit plan for the financial year ended 31 December 2018, which covered the audit approach, concept of materiality and the basis applied in determining the materiality level, areas of focus, tentative timeline, key members of the audit engagement team and the proposed audit fees.

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

- Met twice with the External Auditors without the presence of the Executive Directors and Management where it was confirmed that full assistance was given by Management and employees and there was no restriction to the scope of audit.

- Subsequent to the year-end, in April 2019, reviewed with the External Auditors the results of the annual audit for the financial year ended 31 December 2018, the audit report and the extent of compliance with legal and regulatory requirements.

Other Matters

- Enquired on the status of utilisation of proceeds raised from Private Placement and Right Issue of Warrants in 2012 and Right Issue in 2014, and the status and project proposal for the construction of the second stage of the new design and production centre. Relevant disclosure on the status update had been reflected in the unaudited interim/quarterly financial reports.

- Reviewed the related party transactions of the Group, to ensure that they are based on terms favourable to the Group. The Committee noted that there was no related party transaction being entered into by the Group during the financial year under review.

5) INTERNAL AUDIT FUNCTION

The Company has outsourced the internal audit function to an independent external professional firm, namely Total Advisors Sdn. Bhd. ("the Internal Auditors").

The Internal Auditors report directly to the Committee. The primary role of the internal audit function is to review the adequacy and effectiveness of the Group's risk management and internal control system and this is performed with impartiality, proficiency and due professional care. Total internal audit fees incurred in respect of financial year ended 31 December 2018 amounted to RM60,000.

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

5) INTERNAL AUDIT FUNCTION (CONT'D)

During the financial year under review, the Internal Auditors had carried out the independent review on the following areas:

(i) The Group's purchasing and raw material store functions. The Internal Auditors concluded that the overall internal controls are in place and sound due to the effective applications and compliance to the Group's policies and procedures, operating, accounting and the applicable regulatory requirements, with only one (1) matter being highlighted that requires improvement.

(ii) The overall management procedures / current practices. The Internal Auditors concluded that the critical controls have been identified within the management procedures and relevant internal control activities have been implemented accordingly, with only one (1) matter being highlighted for enhancement.

(iii) Status of implementation for matters highlighted in previous reviews.

The findings, together with the management responses thereto and the recommended action plans, had been documented in the Internal Auditors' Reports and tabled directly to the Committee for monitoring.

ADDITIONAL CORPORATE DISCLOSURE

1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISES

Private placement and rights issue of warrants in 2012

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

(In RMB) Purpose	Intended Timeframe	Proposed Utilisation RMB'000	Actual Utilisation RMB'000	Deviation Amount RMB'000	%	
i) Purchase machinery and equipment for new design and production centre	Before 31 December 2019	53,670	36,038	17,632	32.9	N1
ii) Estimated expenses in relation to the corporate exercise	Immediate	1,107	1,107	–	–	
		54,777	37,145	17,632		

(In RM) Purpose	Intended Timeframe	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	%	
i) Purchase machinery and equipment for new design and production centre	Before 31 December 2019	29,100	20,064	9,036	31.1	#
ii) Estimated expenses in relation to the corporate exercise	Immediate	600	600	–	–	
		29,700	20,664	9,036		

N1 In line with the Group's strategic re-positioning of business focus, the Group is making appropriate alteration to the types of machinery and equipment to be invested in. Accordingly, a longer period is required for the remaining funds to be fully utilised. Barring any unforeseen circumstances, the Group expects the remaining funds to be fully utilised before 31 December 2019.

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

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

Rights Issue in 2014

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

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

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

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

2. AUDIT AND NON-AUDIT SERVICES

Relevant details have been disclosed under the Directors' Report – "Auditors' Remunerations" contained in this Annual Report.

3. MATERIAL CONTRACTS INVOLVING THE INTERESTS OF DIRECTORS, CHIEF EXECUTIVE WHO IS NOT A DIRECTOR OR MAJOR SHAREHOLDERS

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

ADDITIONAL CORPORATE DISCLOSURE
(CONT'D)

4. CONTRACT RELATING TO LOAN BY THE COMPANY

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

5. RECURRENT RELATED PARTY TRANSACTIONS

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

6. EMPLOYEE SHARE SCHEME

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

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

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

During the financial year ended 31 December 2018, there is only one (1) ESOS in existence.

The details of options granted under the ESOS since its establishment are as follows:

Financial Year	[---------- ESOS ----------]		
	Granted	Exercised	Outstanding
2015	198,224,000	198,224,000	–
2018	63,050,000	63,050,000	–

No options were granted to the following persons since the commencement of the ESOS and up to 31 December 2018:

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

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

7. KEY SENIOR MANAGEMENT

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

SUSTAINABILITY STATEMENT

This Sustainability Statement describes how our Group addresses the sustainability matters that are material to the continued success of our Group's operations in manufacturing and marketing of own-branding casual sportswear and ODM manufacturing of sports shoes for external customers, and presents the progress of strategies and practices implemented in managing the sustainability matters.

Our Group emphasises on the following core areas of sustainability:

Customer Satisfaction

Customer satisfaction is one of the crucial factors underlying the long-term sustainability of our Group's operations.

It is the fundamental policy of our Group to ensure all final products delivered to customers must not contain hazardous element, and must be of the required quality that meet the customers' and consumers' expectations.

We uphold the belief that consumer rights should be preserved at all times and "value-for-money" has been the core guiding principle that we adhere to in designing and manufacturing our final products.

Our Group recognises that a comprehensive quality assurance cannot be achieved without the efficient and effective functioning of the entire supply chain, involving the following parties:

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

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

Our Group values preventive measures over detective measures, to minimise the potential threat of disruption in the supply chain. To achieve that, we have put in place the following measures:

Internal

Appropriate control and monitoring mechanism has been implemented at various stages of the production process, in order to ensure early detection of error or quality issue. Quality inspection is performed upon receipt of the raw material, at the various stages of the production flow, as well as prior to the delivery of the finished products.

External

We value our close relationship with our raw material suppliers, which has been fundamental in ensuring stability of raw material supplies and providing early prompt to us in the event of any potential shortage of supply or material price increase. The close proximity of our production centre to our raw material suppliers also benefits us in the manner that any quality issue can be communicated and resolved promptly, ensuring that the incoming supplies always conform to our required specification and quality.

In return for the support from our raw material suppliers, we offer them recurring orders where appropriate and full payment as and when the amounts are due and payable.

SUSTAINABILITY STATEMENT
(CONT'D)

Similarly, we recognise that our authorised distributors and retailers managed by them are essential to the sustainability of our proprietary brand operations, benefiting us with market presence and retail coverage across the provinces and cities in China. As such, it is in our interest to ensure that our authorised distributors and retailers are operating efficiently and profitably.

To this end, we always ensure products supplied to the authorised distributors and retailers are of good quality, at a price which will allow them decent retail profit margin. Apart from that, we also benefit them with our strategic brand positioning and continuous brand-building activities.

The Management, assisted by the marketing team, maintain regular communication with the authorised distributors and retailers on the following:

(i) Optimisation of the existing retail network, in order to transform the retail outlets into "experience store" in line with our online-to-offline marketing strategy;

(ii) Consumer spending sentiments and trends for the local market, as well as acceptance level of our products; and

(iii) In-store inventory turnover rate, to ensure that inventory level is kept at reasonable level to minimise risk of slow-moving/excessive stocks as well as to allow us better planning on our production to achieve shorter delivery lead time.

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

Indicator	2017	2018
Customer base		
• Number of authorised distributors (own-branding)	23	23
• Number of transacted ODM customers	24	11
Total quantities sold (in '000 pairs)		
• Own-branding sports shoes	4,330	2,889
• ODM manufacturing of sports shoes	3,040	3,337
Trade payables turnover period (days)	67	69

The quantitative indicators pointed towards the following:

o Our Group has been able to maintain a continuing relationship with our authorised distributors as evidenced by the fact that there is no loss of authorised distributors, although the quantities sold for our own-branding sports shoes recorded a decrease during the financial year under review.

o Our Group's has been able to maintain good product quality, as evidenced by the fact that the quantities sold for ODM manufacturing of sports shoes recorded an increase during the financial year under review notwithstanding that we transacted with lesser number of ODM customers.

o We uphold our payment obligations to the suppliers, where the trade payables turnover period fell within the average credit period of 120 days extended to us by the suppliers.

Environmental Protection

Although our operations and production process do not post significant threat of pollutions to the environment, environmental protection remains one of our Group's core sustainability focus as a clean environment is fundamental to human development.

The layout of our Group's headquarter and production centre is specially designed to incorporate green initiatives, where the compound is surrounded by greenery landscape and plants. Our efforts have been recognised, with our Group's headquarter and production centre accredited as "Green Factory" by the Green Committee of Jinjiang City.

To prevent contamination to the surrounding public areas, our Group has put in place careful waste-handling procedures where off-cuts and other production wastes are gathered at designated area and subsequently sent to waste collection centres for proper disposal.

Our production operations are carefully monitored to minimise the wastage of raw materials consumed.

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

Indicator	2017	2018
Raw materials consumed (RMB'000)	361,672	287,374
Total revenue (RMB'000)	542,422	454,259
% of raw materials consumed over revenue	**66.7**	**63.3**

The quantitative indicators pointed towards that there is no significant concern of wastage and pollution to the environment associated with our production operations during the financial year under review.

Community Care

Our Group is of the opinion that a responsible organisation should not neglect its social obligations towards the community, as the well-being of the community has significant bearing on the long-term sustainability and growth of our business.

Our Group is dedicated to make annual contribution to the community, particularly in relation to improving the welfare of old folks and education environment (crucial element for the development of future generations). During the financial year under review, our Group has made donations totalling RMB112,000 as our initiative for community care.

SUSTAINABILITY STATEMENT
(CONT'D)

People-Centric

We recognise that the dedication and commitment of our employees are one of the key factors contributing to the continuous success of our Group. They are the key to the effective functioning of our Group's various departments, including but not limited to, product design and innovation, production, warehousing and logistics, purchasing, sales and marketing, finance, administrative and other support divisions.

We have identified the following aspects which we opine are amongst the primary considerations of an employee for long-term loyalty:

- **Safe and conducive working environment**. It is our Group's policy that production floor must be maintained clean and orderly organised at all times for safety consideration. In addition to that, we have also incorporated certain designated areas within our Group's headquarter and production centre for our employees to carry out leisure activities, so that they can attain work-life balance.

- **Sense of belonging**. We have established free accommodation within the compound of our Group's headquarter and production centre, to ease the burdens of our employees particularly those from other provinces and to help them adapt to the local environment.

- **Personal development**. On-the-job training and guidance are provided to the employees, from time to time, as the need arises.

- **Remuneration**. Our Group strives to ensure that the remuneration package offered encompasses all the staff welfare and benefits as prescribed by the local authorities and applicable labour laws and regulations, and is in line with the market trend.

During the financial year under review, our Group did not experience any dispute with our employees although there were some staff turnover nor any enforcement action or penalty by the local authorities associated with industrial relations; testimonial to our Group's continued efforts in this area of sustainability.

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

(i) Team building activities, where the Group has organised annual dinner, departmental meal gathering and festive celebration activity to enhance the bonding amongst the employees.

(ii) Orientation programmes for the new employees encompassing the following:

- Briefing on our Group's corporate cultures
- Briefing on internal rules and requirements applicable to our Group's operations
- Induction training on technical / production skills
- Briefing on emergency evacuation procedures and conduct of fire drill
- Comprehensive safety training

(iii) Sponsored the managerial employees for external training programmes and corporate visits, to enhance their exposure and leadership skills.

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding activities.

The principal activities of the subsidiary companies are disclosed in Note 8 of the financial statements. There has been no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RMB'000	Company RMB'000
Total profit/(loss) for the year	21,991	(4,322)

DIVIDENDS

There was no dividend proposed, declared or paid by the Company during the financial year.

RESERVES AND PROVISIONS

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

SHARE CAPITAL AND DEBENTURES

During the financial year, the issued and paid-up share capital of the Company was increased from 673,870,538 ordinary shares (including 1,000 shares held as treasury shares) to 1,804,883,364 ordinary shares (inclusive 250 Consolidated Shares held as treasury shares) pursuant to the following:

a) Conversion of 391,809,206 Warrant with a par value USD0.04 each;

b) Issuance of 676,153,620 units Bonus Issue of shares (BIOS); and

c) Full exercise of 63,050,000 Employees' Share Option Scheme ("ESOS") Option

All the above mentioned shares rank pari passu with the existing ordinary shares of the Company.

The Company did not issue any debentures during the financial year.

DIRECTORS' REPORT
(CONT'D)

SHARE OPTIONS

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

a) Eligible employees are those who are confirmed employee of the Group and have served full time in the Group or under an employment contract for a fixed duration and has been in the employment of the Group for such period;

b) The maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company (excluding treasury shares) at any point of time during the duration of the scheme;

c) The options granted may be exercised any time within the option period from the date of offer;

d) The option price of a new ordinary share under the ESOS is based on the five (5)-day volume weighted average market price of the shares immediately preceding the date of offer with a discount of not more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad or any other relevant authorities from time to time during the duration of the scheme;

e) The options granted are not entitled to dividends or voting rights. Upon exercise of the options, the shares issued rank pari passu in all respects with the existing ordinary shares of the Company; and

f) The employees to whom the options have been granted would be given opportunity to participate in the equity of the Company and thereby relate their contribution directly to the performance of the Group.

SHARES BUY- BACK

There was no renewal of shares buy-back approved by the Company during the financial year.

WARRANTS

Warrants 2015/2018

On 9 July 2015, the Company listed and quoted 440,639,689 free detachable Warrants (Warrants 2015/2018) pursuant to the bonus issue up to 501,139,441 warrants on the basis of one (1) Warrant for every three (3) existing ordinary shares subscribed.

The Warrants 2015/2018 were constituted by the Deed Poll dated 17 June 2015 ("Deed Poll").

Each Warrant entitles the registered holder thereof ("Warrant holder(s)") to subscribe for one (1) new ordinary share in the Company at an exercise price of RM0.115 or the RM equivalent of the par value of the Shares, whichever is higher, or such price as adjusted, subject to the adjustment as set out in the Deed Poll.

Pursuant to Share Consolidation of the Company on 18 May 2017, the Company had on 17 May 2017 issued 673,870,538 Consolidated Shares to the Shareholders, adjusted number of 220,309,112 Warrants 2015/2018 to the holders of outstanding Warrants 2015/2018. The exercise price of RM0.04 was subsequently adjusted to RM0.16 pursuant to the Share Consolidation.

The Warrants expired on 2 July 2018.

WARRANTS (CONT'D)

Warrants 2015/2018 (cont'd)

Movements in the Warrants since the listing and quotation thereof are as follows:

	Number of Warrants
As of 9 July 2015	440,639,689
Adjustment in financial year 2015:	
- Excercised during the financial year	(19,799)
Adjustment in financial year 2016:	
- Adjustment arising from the bonus issue	440,619,890
- Exercised during the financial year	(3,332)
Adjustment in financial year 2017:	
- Adjustment arising from the share consolidation	(660,927,336)
Adjustment in financial year 2018:	
- Adjustment arising from the bonus issue	218,025,780
- Exercised during the financial year	(391,809,206)
- unexercised upon expiry date	(46,525,686)
As of 31 December 2018	–

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

DIRECTORS

The Directors in office since the date of last report are:-

Ding LiHong
Ding PengPeng
Ding PengWan
Wong Yoke Nyen
Zhu GuoHe
Woon Yeow Thong
Lin YingYu

DIRECTORS' REPORT
(CONT'D)

DIRECTORS' INTERESTS

The Director holding office at the end of the financial year and his beneficial interests in ordinary shares and warrants in the Company during the financial year ended 31 December 2018 as recorded in the Register of Directors' shareholding kept by the Company were as follows:

	Number of ordinary shares			
	At 1.1.2018	Bought	Sold	At 31.12.2018
Shareholdings in which Directors have indirect interest:				
Ding PengPeng	225,000,000	225,000,000	–	450,000,000

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

The other Directors do not have any interest in the ordinary shares of the Company.

DIRECTORS' BENEFITS

During and at the end of the financial year, there is no arrangement subsisted to which the Company or its related corporations is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than disclosed in the notes to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' REMUNERATIONS

The amounts of the remunerations of the Directors or past Directors of the Company comprising remunerations received/ receivable from the Company and its subsidiaries during the year are as follows:

	Group 2018 RMB'000	Company 2018 RMB'000
Salaries	2,256	774
Bonus	1,305	–
Defined contribution plan	17	–
Other related cost	27	10
	3,605	784

INDEMNIFYING DIRECTORS, OFFICERS OR AUDITORS

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been the director, officer or auditor of the Company.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps:-

a) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts need to be written off and that no allowance for doubtful debts was necessary; and;

b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their value as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:-

a) which would render the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet its obligations as and when they fall due.

At the date of this report, there does not exist:

a) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liability of any other person; or

b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

The Directors state that:-

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

a) the results of the Group and of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

ULTIMATE HOLDING COMPANY

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

AUDITORS' REMUNERATIONS

Total amounts paid to or receivable by the auditors as remunerations for their services as auditors are as follows:

	Group 2018 RMB	Company 2018 RMB
Statutory Audit	428,000	288,000

AUDITORS

The auditors, Messrs AFRIZAN TARMILI KHAIRUL AZHAR, have expressed their willingness to continue in office.

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

DING PENGWAN
Director

LIN YINGYU
Director

Kuala Lumpur, Malaysia

Date: 18 April 2019

STATEMENT BY **DIRECTORS**

We, DING PENGWAN and LIN YINGYU, being two of the Directors of XIDELANG HOLDINGS LTD, do hereby state that in our opinion, the accompanying financial statements of the Group and of the Company, are properly drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

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

DING PENGWAN
Director

LIN YINGYU
Director

Kuala Lumpur, Malaysia

Date: 18 April 2019

STATUTORY **DECLARATION**

We, DING PENGWAN and LIN YINGYU, being the Directors primarily responsible for the financial management of XIDELANG HOLDINGS LTD, do solemnly and sincerely declare that the accompanying financial statements are, to the best of our knowledge and belief, correct and We make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in Federal Territory on 18 April 2019 }

DING PENGWAN

LIN YINGYU

Before me:

INDEPENDENT **AUDITORS' REPORT**

To the members of Xidelang Holdings Ltd
(Incorporated in Bermuda)

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of XIDELANG HOLDINGS LTD, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 68 to 120.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

1. Recoverability of trade receivables

As at 31 December 2018, trade receivables of the Group was amounted to RMB150,878,000. The details of trade receivables have been disclosed in Note 10 to the financial statements. Management assesses impairment losses on trade receivables based on specific known facts or circumstances or management judgement on customers' abilities to pay. The determination of whether trade receivables are recoverable involves significant management judgement.

Our audit approach to address the Key Audit Matter

Our audit procedures performed in this area includes:

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

Key Audit Matters (Cont'd)

2. Management of cash and bank

As at 31 December 2018, cash and bank balance of the group was amounted to RMB805,983,000. From this amount, RMB805,894,000 was recorded in the account of HongPeng (Fujian) Shoes & Garments Co. Ltd. and maintained in a single current account at Industrial and Commercial Bank of China (ICBC) in Jinjiang City, the People Republic of China. Management did not consider to make placement in other interest bearing account and spread across banking sector to mitigate risk of defaults by banks.

Our audit approach to address the Key Audit Matter

Our audit procedures performed in this area includes:

- we had requested the banks in the People's Republic of China ("PRC") to confirm bank transactions and balances of the PRC subsidiaries of the Company

- we critically assessed investment and credit ratings of the local bankers in the People Republic of China based on rates given by top three rating agencies.

Information Other than the Financial Statement and Auditors' Report Thereon

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

Our opinion on the financial statement of the Group and of the Company does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

INDEPENDENT AUDITORS' REPORT
(CONT'D)

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

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

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

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

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

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

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

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

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

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

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

Other Matters

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

AFRIZAN TARMILI KHAIRUL AZHAR
AF: 1300
Chartered Accountants

DATUK MOHD AFRIZAN BIN HUSAIN
Chartered Accountant
01805/11/2020 J
Partner

Kuala Lumpur, Malaysia

Date: 18 April 2019

STATEMENT OF PROFIT OR LOSS AND **OTHER COMPREHENSIVE INCOME**

For the financial year ended 31 December 2018

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Revenue	3	454,259	542,422	–	–
Cost of sales		(367,452)	(449,522)	–	–
Gross profit		86,807	92,900	–	–
Other income		3,071	2,289	–	–
Distribution cost		(355)	(391)	–	–
Administrative and other expenses		(55,426)	(69,646)	(4,322)	(2,799)
Net profit from operations		34,097	25,152	(4,322)	(2,799)
Finance costs		(230)	(301)	–*	–
Profit/(loss) before tax		33,867	24,851	(4,322)	(2,799)
Tax expense	4	(11,876)	(8,264)	–	–
Profit/(loss) for the financial year		21,991	16,587	(4,322)	(2,799)
Other comprehensive income/(loss)		–	–	–	–
Total comprehensive income/(loss)		21,991	16,587	(4,322)	(2,799)
Earnings per ordinary shares attributable to equity holders of the Company (RMB):					
Basic	5	0.0141	0.0123		
Diluted	5	0.0141	0.0109		

* *Represents RMB77*

The accompanying notes form an integral part of the financial statements

STATEMENTS OF **FINANCIAL POSITION**

As at 31 December 2018

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Non-current assets					
Property, plant and equipment	6	536,377	549,572	–	–
Land use rights	7	46,678	47,895	–	–
Investment in subsidiaries	8	–	–	633,960	631,916
Total non-current assets		583,055	597,467	633,960	631,916
Current assets					
Inventories	9	1,520	6,071	–	–
Receivables, deposits and prepayments	10	150,807	179,476	307,045	191,691
Tax recoverable		437	1,672	–	–
Cash and bank	11	805,983	619,239	17	26
Total current assets		958,747	806,458	307,062	191,717
Total assets		1,541,802	1,403,925	941,022	823,633
Equity					
Share capital	12	452,534	157,909	452,534	157,909
Reserves	13	956,322	1,109,274	486,838	664,950
Total equity		1,408,856	1,267,183	939,372	822,859
Non-current liabilities					
Deferred tax liability	14	22,274	21,027	–	–
Total non-current liabilities		22,274	21,027	–	–
Current liabilities					
Payables and accruals	15	98,272	110,715	1,650	774
Borrowings	16	12,400	5,000	–	–
Total current liabilities		110,672	115,715	1,650	774
Total liabilities		132,946	136,742	1,650	774
Total equity and liabilities		1,541,802	1,403,925	941,022	823,633

The accompanying notes form an integral part of the financial statements

STATEMENTS OF **CHANGES IN EQUITY**

For the financial year ended 31 December 2018

		← Non-distributable →									Distributable	
Group	**Note**	**Share capital RMB'000**	**Treasury shares RMB'000**	**Share premium RMB'000**	**ESOS reserve RMB'000**	**Capital redemption reserve RMB'000**	**Warrant reserve RMB'000**	**Statutory surplus reserve RMB'000**	**Merger deficit RMB'000**	**Exchange translation reserve RMB'000**	**Retained earnings RMB'000**	**Total equity RMB'000**
As at 1 January 2017		157,909	(1)	15,087	–	578,218	24,032	37,889	(204,906)	33,401	608,967	1,250,596
Profit for the financial year		–	–	–	–	–	–	–	–	–	16,587	16,587
Transfer to statutory reserve		–	–	–	–	–	–	2,185	–	–	(2,185)	–
Unexercised warrants lapsed		–	–	–	–	–	(24,032)	–	–	–	24,032	–
As at 31 December 2017		157,909	(1)	15,087	–	578,218	–	40,074	(204,906)	33,401	647,401	1,267,183
As at 1 January 2018		157,909	(1)	15,087	–	578,218	–	40,074	(204,906)	33,401	647,401	1,267,183
Impact from adoption of MFRS9		–	–	–	–	–	–	–	–	–	(1,153)	(1,153)
Profit for the financial year		–	–	–	–	–	–	–	–	–	21,991	21,991
Granting of ESOS		–	–	–	2,043	–	–	–	–	–	–	2,043
Exercise of warrants		101,315	–	–	–	–	–	–	–	–	–	101,315
Exercise of ESOS		17,230	–	2,290	(2,043)	–	–	2,899	–	–	(2,899)	17,477
Bonus issue		176,080	–	(15,087)	–	(160,993)	–	–	–	–	–	–
As at 31 December 2018		452,534	(1)	2,290	–	417,225	–	42,973	(204,906)	33,401	665,340	1,408,856

The accompanying notes form an integral part of the financial statements

STATEMENTS OF CHANGES IN EQUITY (CONT'D)

		← Non-distributable →					Distributable	
Company	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Warrant reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
As at 1 January 2017		157,909	(1)	15,087	578,218	24,032	50,413	825,658
Loss for the financial year		–	–	–	–	–	(2,799)	(2,799)
Other comprehensive income		–	–	–	–	–	–	–
Unexcercised warrants lapsed		–	–	–	–	(24,032)	24,032	–
As at 31 December 2017		157,909	(1)	15,087	578,218	–	71,646	822,859
As at 1 January 2018		157,909	(1)	15,087	578,218	–	71,646	822,859
Loss for the financial year		–	–	–	–	–	(4,322)	(4,322)
Exercise of warrants		101,315	–	–	–	–	–	101,315
Exercise of ESOS		17,230	–	2,290	–	–	–	19,520
Bonus issue		176,080	–	(15,087)	(160,993)	–	–	–
As at 31 December 2018		452,534	(1)	2,290	417,225	–	67,324	939,372

The accompanying notes form an integral part of the financial statements

STATEMENT OF **CASH FLOWS**

For the financial year ended 31 December 2018

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Cash flow from operating activities:					
Profit/(loss) before taxation		33,867	24,851	(4,322)	(2,799)
Adjustments for:					
Amortisation of land use rights		1,217	1,218	–	–
Depreciation of property, plant and equipment		14,243	14,129	–	–
Interest expense		230	301	–	–
Interest income		(2,731)	(2,280)	–	–
Loss on disposal ofproperty, plant and equipment		–	466	–	–
Property, plant and equipment written off		–	–	–	–
Unrealised gain on foreign exchange		1,327	–	–	–
Operating profit before working capital changes		48,153	38,685	(4,322)	(2,799)
Changes in working capital:-					
Inventories		4,551	1,279	–	–
Receivables, deposits and prepayments		28,668	59,153	–	–
Payables and accruals		(12,880)	(23,220)	877	(986)
Cash generated from operating activities		68,492	75,897	(3,445)	(3,785)
Tax paid		(9,394)	(7,398)	–	–
Net cash generated from/(used in) operating activities		59,098	68,499	(3,445)	(3,785)
Cash flow from investing activities					
Amount due from subsidiary	13	–	–	(115,356)	3,799
Interest received		2,731	2,280	–	–
Proceeds from disposal of property, plant and equipment		–	11	–	–
Purchase of property, plant and equipment		(1,047)	(8,458)	–	–
Net cash generated from/ (used in) investing activities		1,684	(6,167)	(115,356)	3,799

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS
(CONT'D)

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Cash flow from financing activities					
Proceed from issuance of share capital		118,792	–	118,792	–
Drawdown of borrowings		12,400	5,000	–	–
Interest paid		(230)	(301)	–	–
Repayment of borrowings		(5,000)	(10,000)	–	–
Net cash generated from /(used in) financing activities		125,962	(5,301)	118,792	–
Net increase/(decrease) in cash and cash equivalents		186,744	57,031	(9)	14
Cash and cash equivalents at beginning of the financial year		619,239	562,208	26	12
Cash and cash equivalents at end of the financial year	11	805,983	619,239	17	26

The accompanying notes form an integral part of the financial statements

NOTES TO THE **FINANCIAL STATEMENTS**

For the financial year ended 31 December 2018

1. GENERAL INFORMATION

The Company is incorporated in Bermuda under the Bermuda Companies Act as an exempt company limited by shares and registered as a foreign company in Malaysia under the Malaysian Companies Act 2016 and listed on the Main Market of Bursa Malaysia Securities Berhad.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during financial year.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, Leases
- IC Interpretation 23, Uncertainty over Income Tax Treatments
- Amendments to MFRS 3, Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9, Financial Instruments – Prepayment Features with Negative Compensation
- Amendments to MFRS 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 119, Employee Benefits – Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 123, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 128, Investments in Associates and Joint Ventures – Long-term interests in Associates and Joint Ventures

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

a) Basis of preparation of financial statements (cont'd)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, Insurance Contracts

MFRSs, Interpretations and amendments effective date of these Standards have been deferred, and yet to be announced

- Amendment to MFRS 10, Consolidated Financial Statements
- Amendment to MFRS 128, Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material impacts to the financial statements of the Group and the Company except as mentioned below.

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, Construction Contracts, MFRS 118, Revenue, IC Interpretation 13, Customer Loyalty Programs, IC Interpretation 15, Agreements for Construction of Real Estate, IC Interpretation 18, Transfer of Assets from Customers and IC 131, Revenue – Barter Transactions Involving Advertising Services. Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared with the current practices.

The adoption of MFRS 15 will result in a change in accounting policy. The Company is currently assessing the financial impact of adopting MFRS 15.

MFRS 9, Financial Instrument

This final version of MFRS 9 replaces all previous versions of MFRS 9. Retrospective application is required, but comparative information is not compulsory. The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The approach for classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held with two measurement categories – amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For financial liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

a) Basis of preparation of financial statements (cont'd)

MFRS 16, Leases

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group and the Company are required to account for major part of their operating leases in the balance sheet by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Group and of the Company. The financial effects arising from the adoption of this standard are still being assessed by the Group.

b) Basis of accounting

The financial statements of the Company have been prepared under the historical cost convention except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period as explained in the significant accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristic of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, Share-based Payment, leasing transaction that are within the scope of MFRS 117, Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 Inventories or value in use in MFRS 136 Impairment of Assets.

In addition for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

i) Level 1 inputs are quoted price (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

ii) Level 2 inputs are inputs, other than quoted price included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

iii) Level 3 input are unobservable inputs for the asset or liability.

c) Functional and presentation currency

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements of the Group and the Company are as follows:

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which all deductible temporary differences, unused tax losses and unused tax credits can be utilized. Management judgement is required in determining the amount of deferred tax assets that can be recognized, based on the assessment of the probability of the future taxable profits.

e) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale). The cost of investments includes transaction costs.

ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures the cost of goodwill at the acquisitions date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interest in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

e) Basis of consolidation (cont'd)

ii) Business combinations (cont'd)

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the appropriate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

iii) Changes in Group composition

Where a subsidiary issues new equity shares to minority interests for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the statements of profit or loss and other comprehensive income.

When the Group purchases a subsidiary's equity shares from minority interests for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group's reserves.

iv) Transactions eliminated on consolidation

Intra-group balances, and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Financial instruments

i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognized separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not recognised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

ii) Financial instrument categories and subsequent measurement

The Company categorise financial instruments as follows:

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

a) Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ('FVTOCI'):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at fair value through profit or loss ('FVTPL').

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Financial instruments (cont'd)

ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

b) Amortised cost and effective interest method

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

For purchased or originated credit-impaired financial assets, the Group and the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "investment income" line item.

c) Debt instruments classified as at FVTOCI

Subsequent measurement of debt instruments depends on the Group and the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group and the Company 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. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- FVTOCI: 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 FVTOCI. Movements in the carrying amount are taken through other comprehensive income ('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. OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). 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 and losses and impairment expenses in other expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Financial instruments (cont'd)

ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

c) Debt instruments classified as at FVTOCI (cont'd)

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

d) Equity instruments

The Group and the Company subsequently measure all equity investments at fair value. Where the Group and the Company's management have elected to present fair value gains and losses on equity investments in other comprehensive income, 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 income when the Group's and the Company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

e) Financial assets at fair value through profit or loss ('FVTPL')

This category comprises only in-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group and the Company do not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

f) Impairment of financial assets

The Group and the Company recognise a loss allowance for expected credit losses (ECL) on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI), lease receivables, amounts due from customers under construction contracts, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group and the Company always recognises lifetime ECL for trade receivables, amounts due from customers under construction contracts and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's and the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Financial instruments (cont'd)

ii) Financial instrument categories and subsequent measurement (cont'd)

Financial assets (cont'd)

f) Impairment of financial assets (cont'd)

For all other financial instruments, the Group and the Company recognise lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group and the Company measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

g) Derecognition of financial assets

The Group and the Company derecognise a financial asset when the contractual right to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group and the Company neither transfer nor retain substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group and the Company enter into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

a) Financial liabilities at FVTPL

This category comprises only out-of-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. The Group and the Company do not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group and the Company do not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Financial instruments (cont'd)

ii) Financial instrument categories and subsequent measurement (cont'd)

Financial liabilities (cont'd)

b) Other financial liabilities

Other financial liabilities include the following items:

- bank borrowings and the Group's and the Company's perpetual preference shares are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

c) Derecognition of financial liabilities

The Group and the Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group and the Company also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

g) Property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Property, plant and equipment (cont'd)

i) Recognition and measurement (cont'd)

The cost of property, plant and equipment recognised as a result of a business combination is based on a fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" and "other expenses" respectively in profit or loss.

ii) Subsequent costs

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost model

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

If there is no market-based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

Revaluation model

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Property, plant and equipment (cont'd)

ii) Subsequent costs (cont'd)

Revaluation model (cont'd)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost.

b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with MFRS 112 Income Taxes.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) Property, plant and equipment (cont'd)

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component are depreciated separately.

Depreciation is calculated to write off the cost of the assets to their residua l values on a straight line basis over their estimated useful lives. The estimated useful lives represent common live expectancies applied in the industries within which the Group operates.

The principal annual depreciation rates are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

h) Intangible assets

i) Goodwill

Goodwill arises on a business combination is measured at cost less any accumulated impairment losses. In respect of equity-accounted associates, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted associates.

ii) Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortization and any accumulated impairment losses.

iii) Amortisation

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative periods are as follows:

• Land use rights	50 years

Amortisation method, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) Foreign currency

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the entities operate (its functional currency). The consolidated financial statements of the Group are presented in RMB, which is also the functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the Group and of the Company, transactions in currencies other than the Group's and the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the statements of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity.

For such non-monetary items, any exchange difference component of that gain or loss is also recognised directly in equity.

The principal closing rates used in translation of foreign currency amount are as follows:

	2018 RMB	2017 RMB
1 US Dollar	6.88	6.52
1 Hong Kong Dollar	0.88	0.83
1 Ringgit Malaysia	1.66	1.61

j) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, Financial Instruments, the Group and the Company elected not to restate the comparatives.

Current financial year

The Group and the Company recognize loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and lease receivables. Expected credit losses are a probability-weighted estimate of credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Impairment (cont'd)

(i) Financial assets (cont'd)

Current financial year (cont'd)

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-months expected credit loss. Loss allowance for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the assets is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery of amount due.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Impairment (cont'd)

(i) Financial assets (cont'd)

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in the profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal is recognised in the profit or loss.

(ii) Non-financial assets

The carrying amounts on non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists, than the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use,the recoverable amount is estimated each period at the same time. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of asset (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Impairment (cont'd)

(ii) Non-financial assets (cont'd)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

k) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is measured based on weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriated share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

l) Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognises losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's and the Company's contract activities based on normal operating capacity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

l) Construction work-in-progress (cont'd)

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the differences is presented as amount due to contract customers which is part of the deferred income in the statement of financial position.

m) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

n) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are distributed as share dividends, the costs of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

When treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity, surplus or deficit on the transaction is presented in share premium.

o) Employee benefits

(i) Short term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(ii) Defined benefits plans

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.

The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

o) Employee benefits (cont'd)

(ii) Defined benefits plans (cont'd)

When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realisable during the life of the plan, or any other settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Company recognises all actuarial gains or losses arising from defined benefit plans in other comprehensive income.

(iii) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of employee stock options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(iv) Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a detailed formal plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as expenses if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

p) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of a time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

q) Revenue and other income

(i) Revenue

Revenue from the sales of goods is measured at fair value of the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognizes revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

a) The customer simultaneously receives and consumes the benefits provided as the Group or the Company performs;
b) The Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
c) The Group's or the Company's performance does not create an asset with an alternative use and the Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from sub-leased property is recognised as other income.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

r) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to take acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

s) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that is no longer probable that the related tax benefit will be realised.

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

t) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

u) Segment reporting

Segment reporting is presented for enhanced assessment of the Group's risks and returns. Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those components operating in other economic environments.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

3. REVENUE

	Group	
	2018 RMB'000	2017 RMB'000
Sales of goods	454,259	542,422

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

4. TAXATION

	Group	
	2018 RMB'000	2017 RMB'000
Taxation based on result for the financial year		
PRC income tax		
- Current year taxation	10,629	7,281
- Underprovision in previous year	–	–
	10,629	7,281
Deferred taxation		
- Current year taxation	1,247	–
- Under/(over)provision in previous year	–	983
	11,876	8,264

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

A reconciliation of income tax expenses applicable to profit before taxation of the statutory income tax rate to income tax expenses at the effective income tax rate of the Group and of the Company is as follows:-

	Group	
	2018 RMB'000	2017 RMB'000
Profit before tax	33,867	24,851
Tax at the domestic rates applicable to profits in the countries concerned	8,467	6,242
Income not subject to tax	–	(2)
Expenses not deductible for tax purposes	3,098	675
Deferred tax assets not recognised	312	366
Withholding tax on undistributable profits of PRC subsidiaries	–	983
Tax expenses for the year	11,876	8,264

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

4. TAXATION (CONT'D)

The Company was incorporated in Bermuda under the Bermuda Companies Act as an exempt company and is not subject to tax on income under the Bermuda Tax Law. Hence, no tax reconciliation has been prepared. The amount of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group	
	2018 RMB'000	2017 RMB'000
Unused tax losses		
Expire by 31 December 2018	–	4,664
Expire by 31 December 2019	5,560	5,560
Expire by 31 December 2020	783	783
Expire by 31 December 2021	1,462	1,462
Expire by 31 December 2022	1,462	1,462
Expire by 31 December 2023	1,255	–
	10,522	13,931

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

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

5. EARNINGS PER SHARE

a) Basic earnings per share

The basic earnings per share for the year has been calculated based on the consolidated profit after taxation of RMB21,991,000 (2017: RMB16,587,000) and the weighted number of ordinary shares issued and paid up during the year of 1,562,689,000 (2017: 1,347,740,000).

b) Diluted earnings per share

The fully diluted earnings per share is calculated based on the consolidated profit after taxation and non-controlling interests of RMB21,991,000 (2017: RMB16,587,000) and the weighted number of ordinary shares issued and paid up during the year of 1,562,689,000 (2017: 1,347,740,000). The number of shares that would have been issued arising from the exercise of the share options is anti-dilutive.

6. PROPERTY, PLANT AND EQUIPMENT

Group 2018	Factory buildings and warehouse RMB'000	Staff accomodation and amenities RMB'000	Infrastructure RMB'000	Plant and machinery RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fitting and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost									
As at 1 January	299,336	212,279	45,116	20,862	1,742	1,754	12,645	23,195	616,929
Addition	–	–	–	1,048	–	–	–	–	1,048
As at 31 December	299,336	212,279	45,116	21,910	1,742	1,754	12,645	23,195	617,977
Accumulated depreciation									
As at 1 January	29,379	20,868	4,435	7,454	700	1,041	3,480	–	67,357
Depreciation charges during the year	6,091	4,318	919	1,783	132	158	842	–	14,243
As at 31 December	35,470	25,186	5,354	9,237	832	1,199	4,322	–	81,600
Carrying amount as at 31 December 2018	263,866	187,093	39,762	12,673	910	555	8,323	23,195	536,377
2017									
Cost									
As at 1 January	298,826	212,279	45,116	19,235	1,501	1,754	12,475	17,918	609,104
Addition	510	–	–	2,261	240	–	170	5,277	8,458
Disposal	–	–	–	(634)	–	–	–	–	(634)
As at 31 December	299,336	212,279	45,116	20,862	1,741	1,754	12,645	23,195	616,928
Accumulated depreciation									
As at 1 January	23,299	16,550	3,517	5,910	580	883	2,645	–	53,384
Depreciation charges during the year	6,080	4,318	918	1,701	119	158	835	–	14,129
Disposal	–	–	–	(157)	–	–	–	–	(157)
As at 31 December	29,379	20,868	4,435	7,454	699	1,041	3,480	–	67,356
Carrying amount as at 31 December 2017	269,957	191,411	40,681	13,408	1,042	713	9,165	23,195	549,572

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

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

At the end of the reporting period, factory buildings and warehouse, staff accommodation and amenities, infrastructure and construction-in-progress with total carrying amounts of RMB513,916,000 (2017:RMB525,244,000) have been charged to licensed banks for banking facilities granted to the Group.

7. LAND USE RIGHTS

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Net book value		
As at 1 January	47,895	49,113
Amortisation	(1,217)	(1,218)
As at 31 December	46,678	47,895
As at 31 December		
Cost	60,860	60,860
Accumulated amortisation	(14,182)	(12,965)
Total carrying amount	46,678	47,895

Land use rights represent up-front payment to acquire long-term interests in the usage of land and are stated at cost less accumulated amortization and impairment losses, if any.

The Group has assessed and classified land use rights of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term.

The Group was granted land use rights for a period of fifty (50) years in relation to the lands situated in PRC.

During the financial year, land use rights with carrying amount of RMB41,824,000 (2017:RMB42,912,000) have been charged to licensed banks for the banking facilities granted to the Group.

8. INVESTMENT IN SUBSIDIARY COMPANIES

	Company	
	2018 RMB'000	2017 RMB'000
Unquoted equity shares, at cost	194,712	194,712
Equity loan to a subsidiary	439,248	437,204
	633,960	631,916

The shares of the subsidiary companies are held directly by the Company. Details of the subsidiary companies are as follows:-

	Equity interest 2018 %	Equity interest 2017 %	Principal activities
* XiDeLang Network Technology Sdn. Bhd. ("XDLNT")	100	–	Providing cloud services, internet marketing and E-Commerce services
* Hong Kong XinYuanChan International Holdings Co. Ltd. ("XinYuanChan")	100	100	Investment holding
Subsidiary company of XinYuanChan			
* HongPeng (Fujian) Shoes & Garments Co. Ltd. ("HPFJ")	100	100	Design, manufacturing and marketing of sports shoes as well as design and marketing of sports apparel, accessories and equipment
Subsidiary company of HPFJ			
* Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co. Ltd. ("CDHP")	100	100	Design, manufacturing and marketing of sport shoes
* XiDeLang Sports Goods Co. Ltd. ("XDLSG")	100	100	The registered scope of business under its business license is manufacturing of shoes and apparel. It is the registered owner of the Group's proprietary "XiDeLang" brand

* These financial statements are not audited by Messrs Afrizan Tarmili Khairul Azhar.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

9. INVENTORIES

	Group	
	2018 RMB'000	2017 RMB'000
At cost		
Raw materials	181	2,738
Work-in-progress	1,132	1,959
Finished goods	207	1,374
	1,520	6,071

Cost of inventories is determined using the weighted average formula.

During the financial year, management is not aware of any circumstance which would render it necessary to write off any inventory or to make any allowance for slow moving inventory.

10. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Current					
Trade					
Trade receivables	(a)	150,878	179,234	–	–
Less: Allowance for expected credit loss		(971)	–	–	–
		149,907	179,234	–	–
Non-trade					
Other receivables, deposits and prepayments	(b)	900	242	–	–
Amount due from subsidiary	(c)	–	–	307,046	191,691
		900	242	307,046	191,691
Total trade and other receivables (current)		150,807	179,476	307,046	191,691

10. TRADE AND OTHER RECEIVABLES (CONT'D)

a) Trade receivables

Trade receivables are non-interest bearing and are generally on 120 days (2017: 120 days) terms. Other credit terms are assessed and approved on a case-by-case basis. The Group recognised their original invoice amounts which represent their fair value on initial recognition. Trade receivables are denominated in RMB.

b) Other receivables, deposits and prepayments

Other receivables are non-interest bearing and are generally on 120 days (2017: 120 days) terms. Other receivables are denominated in RMB.

c) Amount due from subsidiary

Amount due from subsidiary is unsecured, interest-free and payable upon demand in cash and cash equivalents.

Ageing analysis of trade receivables

The ageing analysis of the Group's and Company's trade receivables is as follows:

	Group	
	2018 RMB'000	**2017 RMB'000**
Neither past due nor impaired	150,878	179,234
1 to 30 days past due not impaired	–	–
31 to 60 days past due not impaired	–	–
61 to 90 days past due not impaired	–	–
More than 90 days past due not impaired	–	–
	–	–
Impaired	(971)	–
	149,907	179,234

Receivables that are neither past due nor impaired

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

None of the Group's and the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

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

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

10. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are impaired

The Group's and the Company's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2018 RMB'000	2017 RMB'000
Trade receivables - nominal amount	150,878	179,234
Less: Allowance for expected credit loss	(971)	–
	149,907	179,234

Movement in allowance accounts:

	Group	
	2018 RMB'000	2017 RMB'000
At 1 January	–	–
Charge for the year	(971)	–
Write back during the year	–	–
At 31 December	(971)	–

Trade receivables that are individually determined to be impaired at the reporting date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

11. CASH AND BANK BALANCES

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Cash in hand	42	37	–	–
Cash at bank	805,941	619,202	17	26
Cash and bank balances	805,983	619,239	17	26

11. CASH AND BANK BALANCES (CONT'D)

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

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Renminbi	805,966	619,213	–	–
Ringgit Malaysia	17	26	17	26
As per statements of financial position	805,983	619,239	17	26

(b) Cash in bank of the Group of RMB805,941,000 (2017:RMB619,202,000) are subject to weighted average interest rate of 0.30% (2017:0.30%).

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

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

	Group	
	2018 RMB'000	2017 RMB'000
Profit after tax		
Increase by 0.1% (2017:0.1%)	471	471
Decrease by 0.1% (2017:0.1%)	(471)	(471)

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

12. SHARE CAPITAL

	Group and Company					
	2018			2017		
	Number of ordinary shares Units'000	Monetary amount USD'000	Monetary amount RMB'000	Number of ordinary shares Units'000	Monetary amount USD'000	Monetary amount RMB'000
Ordinary shares of USD0.04/USD0.01 each:						
Authorised ordinary shares	7,500,000	300,000	1,828,467	7,500,000	300,000	1,828,467
Issued and fully paid ordinary shares						
At 1 January	673,871	26,955	157,909	2,695,482	26,955	157,909
Issuance of ordinary shares pursuant to:-						
- Warrants	391,809	15,672	101,315	–	–	–
- Bonus issue	676,154	27,046	176,080	–	–	–
- ESOS	63,050	2,522	17,230	–	–	–
Consolidate pursuant to:-						
- Share consolidation	–	–	–	(2,021,611)	–	–
At 31 December	1,804,884	72,195	452,534	673,871	26,955	157,909

(a) During the financial year, the Company completed share issuance pursuant to the exercise of warrants, exercise of Employee Share Option Scheme (ESOS) and bonus issue by 1,131,013 units of ordinary shares.

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

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

(i) bonus issue of 1,347,738,911 new ordinary shares of USD0.03 each ("Bonus Shares") on the basis of one (1) Bonus Shares for every one (1) existing ordinary shares held;

(ii) par value reduction via cancellation of USD0.02 of the par value of every existing issued and unissued share of USD0.03; and

(iii) issuance of 3,332 new ordinary shares of USD0.01 each for cash vide the exercise of 3,332 detachable Warrants 2015/2018 at exercise price of RM0.04 per warrant on the basis of one (1) new ordinary share for every one (1) warrant exercised.

(iv) The owners of the parent are entitled to receive dividend as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

13. RESERVES

	Note	Group		Company	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Non-distributable:					
Treasury shares	(a)	(1)	(1)	(1)	(1)
Share premium	(b)	2,290	15,087	2,290	15,087
Capital redemption reserve	(c)	417,226	578,218	417,225	578,218
Warrant reserve	(d)	–	–	–	–
Statutory surplus reserve	(e)	42,973	40,074	–	–
Merger deficit	(f)	(204,906)	(204,906)	–	–
Exchange translation reserve	(g)	33,401	33,401	–	–
Distributable:					
Retained earnings		665,376	647,401	67,324	71,646
		956,359	1,109,274	486,838	664,950

(a) Treasury shares

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

Pursuant to the Share Consolidation on 18 May 2017, the Company issued 250 Consolidated Treasury Shares to Shareholders.

(b) Share premium

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

(c) Capital redemption reserve

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

(d) Warrant reserve

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

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

13. RESERVES (CONT'D)

(d) Warrant reserve (cont'd)

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

(i) Each Warrant will entitle its registered holder during the exercise period to subscribe for one (1) new ordinary share at the exercise price, subject to adjustment in accordance with the provision of the Deed Poll;

(ii) The exercise price of each warrant has been fixed at RM0.06, subject to adjustment under certain circumstances in accordance with the Provision of the Deed Poll; and

(iii) The Warrants shall be exercisable at any time within a period of three (3) years including and commencing from the issue date up to the expiry date.

(iv) the unexercised Warrants 2014/2017 lapsed and expired on 20 January 2017. Accordingly, the warrant reserve arose from Warrants 2014/2017 was transferred to retained earnings upon expiry of the warrants.

(e) Statutory surplus reserve

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

(f) Merger deficit

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

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

(g) Exchange translation reserve

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

14. DEFERRED TAX LIABILITY

	Group	
	2018 RMB'000	**2017 RMB'000**
At 1 January	21,027	20,044
Current year charged/(credited) to statement of profit or loss and other comprehensive income arising from:		
- provisions and others	1,247	983
	22,274	21,027
Current year charged/(credited) directly to equity arising from:		
- provisions and others	–	–
At 31 December	22,274	21,027

The Group is subject to income taxes in the tax jurisdiction in PRC. According to the New Corporate Income Tax Law ("CIT") and the Detailed Implementation Regulations ('DIR"), dividend distributed to a foreign investor by Foreign Invested Enterprises ("FIE") incorporated in PRC would be subject to a withholding tax of 5% to 10%. PRC tax authorities have granted a special tax concession which states that from 1 January 2018 onwards, dividend distributed to the foreign investors as dividend shall be subject to withholding tax.

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

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

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

15. TRADE AND OTHER PAYABLES

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
Current					
Trade					
Trade payables	(a)	69,062	83,076	–	–
Non-trade					
Other payables		12,929	11,798	–	–
Accrued expenses		16,281	15,737	1,650	774
	(a)	29,210	27,535	1,650	774
Amount due to Directors	(b)	–	104	–	–
Total		98,272	110,715	1,650	774

(a) Trade and other payables (current)

Trade and other payables are classified as other financial liabilities, and measured at amortised cost using the effective interest method. These amounts are non-interest bearing. The normal credit terms on trade and other payables granted to the Group is 120 days (2017: 120 days).

(b) Amount due to Directors

Amount due to Directors represent advances and payments made on behalf, which are unsecured, interest-free and payable upon demand in cash and cash equivalents.

16. SHORT TERM BORROWING

	Group 2018 RMB'000	Group 2017 RMB'000
Secured		
Short term bank loans	12,400	5,000
	12,400	5,000

16. SHORT TERM BORROWING (CONT'D)

The short term bank loans are secured by factory buildings and warehouse, infrastructure and land use rights with carrying amount of RMB263,372,000 (2017: RMB269,449,000), RMB19,881,000 (2017: RMB20,341,000) and RMB20,054,000 (2017: RMB20,576,000) respectively and are subject to weighted average interest rates of 5.04% (2017: 4.62%). The loan is jointly guaranteed by a Director, and a Key Management Personnel.

On 28 September 2013, the Group obtained a 6-year term loan facility amounting to RMB130,000,000 from a bank. The term loan facility is secured by factory buildings and warehouse, infrastructure and land use rights with carrying amount of RMB263,372,000 (2017: RMB269,449,000), RMB20,054,000 (2017: RMB20,341,000) and RMB20,054,000 (2017: RMB20,576,000) respectively. The credit facility has yet to be utilised as at the end of the reporting period.

On 10 September 2014, the Group obtained credit facilities from a bank up to RMB96,270,000. The credit facilities are secured by staff accommodation and amenities, infrastructure, construction-in-progress and land use rights with carrying amount of RMB187,093,000 (2017: RMB191,410,000), RMB19,881,000 (2017: RMB20,340,000), RMB23,195,000 (2017: RMB23,195,000) and RMB21,771,000 (2017: RMB22,336,000) respectively. The credit facilities have yet to be utilised as at the end of the reporting period.

The table below summarises the maturity profile of the borrowing at the end of the reporting based on contractual undiscounted repayment obligations.

	On demand or within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
31 December 2018	12,400	–	–	12,400
31 December 2017	5,000	–	–	5,000

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

	Group	
	2018 RMB'000	2017 RMB'000
Profit after tax		
- Increase by 0.1% (2017: 0.1%)	(4)	(4)
- Decrease by 0.1% (2017: 0.1%)	4	4

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

17. EMPLOYEE BENEFITS

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	61,668	74,674	–	494
Contributions to defined contribution plan	1,666	3,315	–	–
Other benefits	1,996	39	–	40
	65,330	78,028	–	534

(a) Included in the employee benefits of the Group are Executive Directors' remuneration amounting to RMB0 (2017: RMB2,820,000).

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

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Directors' remuneration				
- fees	–	495	–	495
- salaries and other emoluments	3,606	2,859	785	39
	3,606	3,354	785	534
Other key management personnel				
- short term employee benefits	819	914	–	–
	4,425	4,268	785	534

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

18. EMPLOYEES SHARE OPTION SCHEME ("ESOS")

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

(a) Eligible employees are those who are confirmed employees of the Group and have served full time in the Group or under an employment contract for a fixed duration and has been in the employment of the Group for such period;

(b) The maximum number of options to be offered under the ESOS shall not exceed fifteen percent (15%) of the issued and paid-up ordinary share capital of the Company (excluding treasury shares) at any point of time during the duration of the scheme;

(c) The options granted may be exercised any time within the option period from the date of offer;

(d) The option price of a new ordinary share under the ESOS is based on the five (5)-day volume weighted average market price of the shares immediately preceding the date of offer with a discount of not more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Malaysia Securities Berhad any other relevant authorities from time to time during the duration of the scheme;

(e) The options granted are not entitled to dividends or voting rights. Upon exercise of the options, the shares issued rank pari passu in all respects with the existing ordinary shares of the Company; and

(f) The employees to whom the options have been granted would be given opportunity to participate in the equity of the Company and thereby relate their contribution directly to the performance of the Group.

On July 018, the Company offered 63,050,000 units of ESOS to the eligible employees of the Group with an exercise price of RM0.165. Accordingly, employee benefits associated with the grant of ESOS of RMB2,042,702 were charged to profit or loss in accordance with the requirements of MFRS 2 – Share based Payment.

The entire 63,050,000 units of ESOS were exercised in September 2018, resulting in 63,050,000 units of new XDL Share being issued at the price of RM0.165 per share with the listing date on 4 September 2018. Total proceeds raised from the exercise of ESOS amounted to RMB17.48 million.

19. RELATED PARTY TRANSACTIONS

a) Identities of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties of the Group include:

(i) Direct and indirect subsidiaries as disclosed in Note 8 to the financial statements; and

(ii) Key management personnel are defined as those persons having the authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include the Executive Directors of the Group.

19. RELATED PARTY TRANSACTIONS (CONT'D)

b) Significant related party transaction

There is no material related party transaction carried out by the Company during the financial year.

c) Compensation of key management personnel

The key management personnel comprise the Executive Directors of the Group and their remuneration during the financial year are disclosed in Note 17 to the financial statements.

The terms and conditions of the ESOS are detailed in Note 18 to the financial statements.

d) Material contracts

There were no material contracts, which have been entered into by the Company or its subsidiaries which involved Directors' and major shareholders' interests subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous financial year except as disclosed elsewhere in the financial statements.

20. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

(i) Fair value through profit or loss ("FVTPL)

(ii) Amortised cost ("AC")

(iii) Fair value through other comprehensive income ("FVOCI")

	Group		Company	
	Carrying amount RMB'000	AC RMB'000	Carrying amount RMB'000	AC RMB'000
2018				
Financial assets				
Trade and other receivables	150,807	150,807	307,047	307,047
Cash and cash equivalents	805,983	805,983	17	17
2018				
Financial Liabilities				
Trade and other payables	87,264	87,264	1,650	1,650
Loan and borrowings	12,400	12,400	–	–

20. FINANCIAL INSTRUMENTS (CONT'D)

a) Categories of financial instruments (cont'd)

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

(i) Loans and receivables ("L&R")

(ii) Fair value through profit or loss ("FVTPL")

(iii) Available-for-sale financial assets ("AFS")

(iv) Held-to-maturity investments ("HTM")

(v) Financial liabilities measured at amortised cost ("FL")

	Group		Company	
	Carrying amount RMB'000	L&R/ (FL) RMB'000	Carrying amount RMB'000	L&R/ (FL) RMB'000
2018				
Financial assets				
Trade and other receivables	179,746	179,476	191,691	191,691
Cash and cash equivalents	619,239	619,239	26	26
2018				
Financial Liabilities				
Trade and other payables	110,715	110,715	774	774
Loan and borrowings	5,000	5,000	–	–

b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

c) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and loans and advances to related companies.

20. FINANCIAL INSTRUMENTS (CONT'D)

c) Credit risk (cont'd)

(i) Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally, credit evaluations are performed on customers requiring credit over a certain amount.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Company has only domestic receivables. The maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

Impairment losses

The ageing of receivables as at the end of the reporting period was:

Group	Gross RMB'000	Individual impairment RMB'000	Collective impairment RMB'000	Net RMB'000
2018				
Not past due	150,878	(971)	–	149,907
Past due 0-30 days	–	–	–	–
Past due 31-90 days	–	–	–	–
Past due more than 90 days	–	–	–	–
	150,878	(971)	–	149,907
2017				
Not past due	179,234	–	–	179,234
Past due 0-30 days	–	–	–	–
Past due 31-90 days	–	–	–	–
Past due more than 90 days	–	–	–	–
	179,234	–	–	179,234

20. FINANCIAL INSTRUMENTS (CONT'D)

c) Credit risk (cont'd)

(i) Receivables (cont'd)

Company	Gross RMB'000	Individual impairment RMB'000	Collective impairment RMB'000	Net RMB'000
2018				
Not past due	–	–	–	–
Past due 0-30 days	–	–	–	–
Past due 31-90 days	–	–	–	–
Past due more than 90 days	307,047	–	–	307,047
	307,047	–	–	307,047
2017				
Not past due	–	–	–	–
Past due 0-30 days	–	–	–	–
Past due 31-90 days	–	–	–	–
Past due more than 90 days	191,691	–	–	191,691
	191,691	–	–	191,691

(ii) Inter-company balances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to related companies. The Company monitors the results of the related companies regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Loans and advances are only provided to related companies which are owned by the holding company.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the related companies are not recoverable.

20. FINANCIAL INSTRUMENTS (CONT'D)

c) Credit risk (cont'd)

Credit risk concentration profile

The Group and the Company do not have any significant concentration of credit risk other than the amount owing by a subsidiary, which constitutes 100% (2017:100%) of total receivables of the Company as at the end of each reporting period.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 10. Deposits with banks and other financial institutions are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 10.

d) Foreign currency risk

The Group is exposed to foreign currency risk as a result of transactions denominated in foreign currency entered into by the Group. The Group does not hedge against this foreign currency exposure as it does not form a significant portion of the Group's gross assets.

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currency of Group entities, primarily RMB. The foreign currencies in which this transaction are denominated are mainly Ringgit Malaysia ("RM") and Hong Kong Dollars ("HKD").

The Group ensures that the net exposure to this risk is kept on an expectable level by buying or selling foreign currency at spot rates where necessary to address short term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweigh the potential risk of exchange rate fluctuations.

20. FINANCIAL INSTRUMENTS (CONT'D)

d) Foreign currency risk (cont'd)

	Group		Company	
	2018	2017	2018	2017
	Functional currencies		Functional currencies	
	Chinese Renminbi		Chinese Renminbi	
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets and liabilities not held in functional currency				
Trade and other receivables				
Ringgit Malaysia	307,047	191,691	307,047	191,691
Hong Kong Dollar	691,865	576,542	691,865	576,542
	998,912	768,233	998,912	768,233
Cash and bank balances				
Ringgit Malaysia	17	26	17	26
	17	26	17	26

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's net profit for the financial year to a reasonably possible change in the RM and HKD exchange rate against the respective functional currencies of the Group with all other variable held constant.

	Group	
	2018	2017
	Profit net of tax	Profit net of tax
	RMB'000	RMB'000
RM/ RMB		
- strengthened 1% (2017: 1%)	3,070	1,917
- weakened 1% (2017: 1%)	(3,070)	(1,917)
HKD/RMB		
- strengthened 1% (2017: 1%)	6,919	5,765
- weakened 1% (2017: 1%)	(6,919)	(5,765)

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

21. SEGMENTAL INFORMATION

The activities of the Group are predominantly in designing, manufacturing and marketing of sports shoes as well as designing and marketing of sports apparel, accessories and equipment within PRC. The operations of the Group are concentrated in Jinjiang City, Fujian Province of PRC, which represents its principal place of business and in which the assets and liabilities of the Group is located.

Due to the similarities in the business operations between the two operating subsidiaries in PRC, the chief operating decision maker of the Group, the Chief Executive Officer ("CEO") of the Group in this context manages the operations within the Group as a whole in single segment and relies on internal reports which are similar to those currently disclosed externally to make decisions about allocation of resources.

The Group evaluates performance on the basis of revenue from operation. The analysis is as follows:

	Own branding manufacturer RMB'000	Original design manufacturer RMB'000	Other RMB'000	Total RMB'0000
2018				
Revenue	233,242	221,017	–	454,259
Interest income	2,731	–	–	2,731
Finance cost	(230)	–	–	(230)
Net finance income	2,501	–	–	2,501
2017				
Revenue	346,912	195,510	–	542,422
Interest income	2,273	7	–	2,280
Finance cost	(301)	–	–	(301)
Net profit for the year	1,972	7	–	1,979

Accordingly, no further segmental analysis is available for disclosure except for the following entity-wide disclosures as required by MFRS 8 Operating Segments:

Revenue by region

During the financial year, the Group derived all of its revenue from PRC. In view of the vast geographical areas within PRC, customers can be stratified on a regional basis within PRC. The following is an analysis of the revenue of the Group by region by location of customers, irrespective of the origin of the goods/services:

21. SEGMENTAL INFORMATION (CONT'D)

	Revenue by region	
	2018	2017
	RMB'000	RMB'000
Within PRC:		
- Eastern region	15,342	25,173
- Southern region	288,723	297,803
- Western region	83,189	122,522
- Northern region	67,005	96,924
	454,259	542,422

In this context, the regions are grouped in the following manner by the Group:

- Eastern region includes Jiangsu and Shandong.
- Southern region includes Fujian, Hubei, Hunan, Jiangxi and Anhui.
- Western region includes Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu, Xinjiang and Shaanxi.
- Northern region includes Beijing, Henan, Heilongjiang, Liaoning, Shanxi and Jilin.

During the year, revenue of the Group is totally derived from sales of sport shoes. The Group does not have significant reliance on a single major customer, with whom the Group transacted ten percent (10%) or more of its revenue during the financial year.

22. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that it maintains a strong capital base and safeguard the Group's and the Company's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group and the Company manage its capital structure by monitoring the capital and net debt on an ongoing basis. To maintain the capital structure, the Group and the Company may adjust the dividend payment to shareholders or issue new shares. There were no changes in the Group's and the Company's approach to capital management during the financial year.

		Group		Company	
	Note	2018	2017	2018	2017
		RMB'000	RMB'000	RMB'000	RMB'000
Loan and borrowings	16	12,400	5,000	–	–
Trade and other payables	15	98,272	110,715	1,650	774
Less: Cash and bank balances	11	805,983	619,239	17	26
Net debt		916,655	734,954	1,667	800
Total equity		1,408,856	1,267,183	939,373	822,859
Debt-to-equity ratio		0.65	0.58	0.00	0.00

The Group is also required to comply with the disclosures and necessary capital requirements as prescribed in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

NOTES TO THE FINANCIAL STATEMENTS
(CONT'D)

23. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

a) On 11 January 2018, the Company announced that 676,153,620 new ordinary shares of USD0.04 each ("Bonus Share") were issued on the basis of one (1) Bonus Share for every one (1) existing ordinary share held by the entitled shareholders of the Company ("Bonus Issue"). As a consequence of the Bonus Issue, 218,025,780 additional Warrants 2015/2018 were issued, on the basis of one (1) Bonus Share for every one (1) existing ordinary share, pursuant to the Deed Poll dated 17 June 2015.

b) On 8 February 2018, the Company incorporated a new wholly-owned subsidiary in Malaysia, namely XiDeLang Network Technology Sdn. Bhd. ("XDLNT"). The total issued and paid-up share capital of XDLNT is RM1.00 comprising of one (1) ordinary share.

The intended principal activity of XDLNT is to provide cloud services, internet marketing and E-commerce services.

c) On 10 January 2019, the Company announced that the Board has been made aware from the China Judgement Online website that there are several litigation matters against a subsidiary of XDL, namely Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. ("HongPeng Footwear"). The litigation matter involves China Construction Bank Corporation Jinjiang Branch as plaintiff and HongPeng Footwear as one of the defendant. HongPeng Footwear was known to have provided corporate guarantee in relation to such loan granted by the plaintiff to the main defendant in this case which is Jinjiang Dasen Garment Co., Ltd. ("Jinjiang Dasen").

On 7 February 2018, the plaintiff had instituted a claim against the defendants claiming for a sum of RMB27,088,721 (being the principal sum of RMB26,940,000 and interest/penalty of RMB148,721) arising from the default of Jinjiang Dasen in serving of loan granted by the Bank. On 18 March 2018, the plaintiff had instituted a claim against the defendants claiming for a sum of RMB4,122,237 (being the principal sum of RMB4,100,000 and interest/penalty of RMB22,237) arising from the default of Jinjiang Dasen in serving of loan granted by the Bank.

The Company has appointed an independent law firm in China, namely Messrs Fujian Shilong Law Firm to undertake a thorough review of this Litigation Matters. The Fujian Shilong Law Firm has confirmed, based on the confirmation statement received from the Bank on 10 January 2019, it is confirming that Jinjiang Dasen has repaid in full the outstanding loans to the Bank in November 2018 and the guarantee provided by HongPeng Footwear has been deemed cancelled.

24. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

a) On 3 December 2018, the Company undertake a bonus issue of up to 902,441,557 free warrants in the Company ("Warrant D") on the basis of 1 Warrant D for every 2 existing ordinary shares of USD0.04 each in the Company held by registered holders of XDL Shares on 17 January 2019.

The Bonus Issue of Warrant has been completed on 25 January 2019, following the listing of and quotation for 902,441,557 Warrant D on the Main Market of Bursa Securities.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Board of Directors in accordance with a resolution of the Board of Directors on the date of these financial statements.

LIST OF **GROUP PROPERTIES**

Location	Description	Existing/ Intended usage	Tenure/ Approximate age of the building	Land area/ Built-up area (square metres)	Net book value @ 31 December 2018 (RMB'000)
Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	Land use right	An industrial land (vacant)	Leasehold for 50 years (from 22.05.2006 to 22.05.2056)	840	4,116
Hua Ting Kou Village, Chendai County, Jinjiang City, Fujian Province, PRC	Land use right	An industrial land (vacant)	Leasehold for 50 years (from 22.05.2006 to 22.05.2056)	576	738
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Land use right	An industrial land (site for new factory building and employees dormitories)	Leasehold for 50 years (from 31.07.2007 to 05.06.2057)	33,183	20,053
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Land use right	An industrial land (site for new office building and employees dormitories)	Leasehold for 50 years (from 31.07.2007 to 25.06.2057)	34,561	21,771
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Buildings	Headquarter and Design & Production Centre	Leasehold for 50 years (from 31.07.2007 to 25.06.2057) Age of the buildings:- Approximately 5 years	51,700/ 114,453	490,721
Zhai Nei Village, Nei Keng County, Jinjiang City, Fujian Province, PRC	Construction in progress	Stage-2 Design & Production Centre	Leasehold for 50 years (from 31.07.2007 to 25.06.2057)	16,000/ 52,000 (upon completion)	23,195

ANALYSIS OF **SHAREHOLDINGS**

As at 19 April 2019

Authorised Share Capital	:	USD300,000,000
Class of Shares	:	Ordinary shares of USD0.04 each
Voting Rights	:	One (1) vote per ordinary share

SHARE CAPITAL

ANALYSIS BY SIZE OF HOLDINGS

Size of holdings	No. of holders	% of holders	No. of shares held	% of issued capital
1 - 99	164	4.477	7,219	0.000
100 - 1,000	234	6.388	78,476	0.004
1,001 - 10,000	744	20.311	5,008,004	0.278
10,001 - 100,000	1,745	47.639	78,694,515	4.360
100,001 - 90,244,154 (*)	773	21.103	945,261,898	52.373
90,244,155 and above (**)	3	0.082	775,833,002	42.985
Total (***)	3,663	100.000	1,804,883,114	100.000

Remark:
* Less than 5% of issued shares
** 5% & above of issued shares
*** Excluding 250 treasury shares

SUBSTANTIAL SHAREHOLDERS

(As per Register of Substantial Shareholders)

	Direct Interest	
	No. of shares held	% of issued capital
HONGPENG INTERNATIONAL HOLDINGS LIMITED	450,000,000	24.932

DIRECTOR'S INTEREST

(As per Register of Director's Shareholdings)

	Indirect Interest	
Name of Director	No. of shares held	% of issued capital
Ding PengPeng^	450,000,000	24.932

^ *Deemed interested by virtue of his major shareholdings in HongPeng International Holdings Limited*

THIRTY LARGEST SHAREHOLDERS AS AT 19 APRIL 2019

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
1	HONGPENG INTERNATIONAL HOLDINGS LIMITED	450,000,000	24.932
2	UOBM NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	208,709,602	11.564
3	AFFIN HWANG NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	117,123,400	6.489
4	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CAROL VUN ON NEI	65,752,400	3.643
5	UOBM NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	31,426,600	1.741
6	M & A NOMINEE (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	28,061,100	1.555
7	LIN JINGBO	27,662,600	1.533
8	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE SECURITIES (EUROPE) LIMITED	26,910,600	1.491
9	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN JINGXUAN	24,520,100	1.359
10	DB (MALAYSIA) NOMINEE (ASING) SDN BHD EXEMPT AN FOR NOMURA PB NOMINEES LTD	23,050,600	1.277
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CAROL VUN ON NEI	20,784,000	1.152
12	DING SHUKUN	20,291,632	1.124
13	ZHANG TIANCAI	20,158,450	1.117
14	DING SHUWEI	18,900,238	1.047
15	DING HONGKE	18,900,000	1.047
16	DING SIZU	18,900,000	1.047
17	LIN JINGXUAN	18,900,000	1.047
18	XIANGFENG INTERNATIONAL HOLDINGS LIMITED	18,616,612	1.032
19	DING SHUWEI	18,287,578	1.013
20	HONG KONG HONGSHENG INVESTMENT COMPANY LIMITED	18,070,382	1.001
21	DING MAOYUAN	16,512,500	0.915
22	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZHANG ZHIXIONG	16,512,500	0.915
23	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GRACE VUN SIAW NEI	12,145,800	0.673
24	DING CHAOHUI	11,500,000	0.637
25	RHB NOMINEES (ASING) SDN BHD EXEMPT AN (BP) FOR RHB SECURITIES HONG KONG LIMITED A/C CLIENTS (RETAIL)	9,175,570	0.508
26	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STANDARD CHARTERED BANK SINGAPORE (EFGBHK-ASING)	8,833,332	0.489
27	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEOH TEIK SOON	8,245,000	0.457
28	GEY KA HONG	8,125,000	0.450
29	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PANG CHOW HUAT	7,907,300	0.438
30	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MAK SIEW WEI	7,698,000	0.427
	TOTAL	**1,301,680,896**	**72.120**

ANALYSIS OF **WARRANT HOLDINGS**

As at 19 April 2019

Total Warrants Issued – "Warrant D" : 902,441,557

WARRANT D

ANALYSIS BY SIZE OF HOLDINGS

Size of holdings	No. of holders	% of holders	No. of warrants held	% of issued warrants
1 - 99	315	9.956	12,105	0.001
100 - 1,000	188	5.942	99,218	0.011
1,001 - 10,000	1,018	32.174	5,902,855	0.654
10,001 - 100,000	1,190	37.611	45,754,732	5.070
100,001 - 45,122,076 (*)	451	14.254	524,225,996	58.090
45,122,077 and above (**)	2	0.063	326,446,651	36.174
Total	3,164	100.000	902,441,557	100.000

Remark:
* Less than 5% of issued warrants
** 5% & above of issued warrants

SUBSTANTIAL WARRANT HOLDERS

	Direct Interest	
	No. of warrants held	% of issued warrants
HONGPENG INTERNATIONAL HOLDINGS LIMITED	225,000,000	24.932

DIRECTOR'S INTEREST

	Indirect Interest	
Name of Director	No. of warrants held	% of issued warrants
Ding PengPeng^	225,000,000	24.932

^ *Deemed interested by virtue of his major shareholdings in HongPeng International Holdings Limited*

THIRTY LARGEST WARRANT HOLDERS AS AT 19 APRIL 2019

WARRANT D

NO	NAME	HOLDINGS	HOLDING PERCENTAGE (%)
1	HONGPENG INTERNATIONAL HOLDINGS LIMITED	225,000,000	24.932
2	UOBM NOMINEES (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	101,446,651	11.241
3	AFFIN HWANG NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	44,561,700	4.938
4	UOBM NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED	15,713,300	1.741
5	M & A NOMINEE (ASING) SDN BHD SANSTON FINANCIAL GROUP LIMITED FOR SFG INVESTMENT LIMITED	15,408,150	1.707
6	RHB NOMINEES (ASING) SDN BHD EXEMPT AN (BP) FOR RHB SECURITIES HONG KONG LIMITED A/C CLIENTS (RETAIL)	14,155,035	1.569
7	M & A NOMINEE (ASING) SDN BHD EXEMPT AN FOR SANSTON FINANCIAL GROUP LIMITED (ACCOUNT CLIENT)	14,030,550	1.555
8	LIN JINGBO	13,831,300	1.533
9	M & A NOMINEE (ASING) SDN BHD SANSTON FINANCIAL GROUP LIMITED FOR CRESCO INVESTMENTS LIMITED	12,630,802	1.400
10	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CAROL VUN ON NEI	12,449,200	1.380
11	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIN JINGXUAN	12,260,050	1.359
12	TAN DEE DEE	11,000,000	1.219
13	DING SHUKUN	10,145,816	1.124
14	ZHANG TIANCAI	10,079,225	1.117
15	DING SHUWEI	9,450,119	1.047
16	DING HONGKE	9,450,000	1.047
17	DING SIZU	9,450,000	1.047
18	LIN JINGXUAN	9,450,000	1.047
19	XIANGFENG INTERNATIONAL HOLDINGS LIMITED	9,301,256	1.031
20	DING SHUWEI	9,143,789	1.013
21	HONG KONG HONGSHENG INVESTMENT COMPANY LIMITED	9,035,191	1.001
22	DING MAOYUAN	8,256,250	0.915
23	RHB NOMINEES (ASING) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ZHANG ZHIXIONG	8,256,250	0.915
24	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CAROL VUN ON NEI (8078831)	7,708,750	0.854
25	CHONG SIEW CHIN	6,375,000	0.706
26	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GRACE VUN SIAW NEI	6,072,900	0.673
27	DING CHAOHUI	5,750,000	0.637
28	MAGESWARY A/P SAMYNATHAN	5,650,000	0.626
29	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR MAK SIEW WEI	4,849,000	0.537
30	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STANDARD CHARTERED BANK SINGAPORE (EFGBHK-ASING)	4,416,666	0.489
	TOTAL	**635,326,950**	**70.400**

NOTE TO **SHAREHOLDERS**

Notice of Annual General Meeting, Statement Accompanying Notice of Annual General Meeting and Proxy Form will be circulated separately to the shareholders.

XiDeLang Holdings Ltd

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