La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.

(a joint stock company incorporated in the People's Republic of China with limited liability)

ANNUAL REPORT 2016

(Stock Code: 06116)


MARC ECKŌ
NEW YORK


La Babité
拉·贝缇

Contents

Corporate Profile

Shanghai La Chapelle Fashion Co., Ltd. ("**We**", "**Our**" or the "**Company**") was incorporated in the People's Republic of China (the "**PRC**") as a joint stock company on 23 May 2011 converting from its predecessor, Shanghai Xuhui La Chapelle Fashion Limited that was founded in 1998. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2014 (the "**Listing Date**").

The Company and its subsidiaries (the "**Group**") are a fast-growing multi-brand fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market ladies' casualwear. The Group strives to offer customers the latest fashions at competitive prices through a wide range of apparel products under ten proprietary brands (namely La Chapelle, Puella, 7m, Candie's, La Babité, JACK WALK, Pote, MARC ECKŌ, La Chapelle Kids and UlifeStyle) and a number of invested brands (OTHERMIX, O.T.R, Siastella, tanni, Kin, Mum Meet Me, Maria Luisa, NN, GARTINE).

The Group sells apparel products directly to retail customers through both physical retail points and online platforms, 100% of which are directly controlled and operated by the Group (save as those retail points under the investing brands). As at 31 December 2016, the Group's extensive nationwide retail network comprised 8,907 retail points located in approximately 2,709 department stores and shopping malls across all 31 provinces, autonomous regions and municipalities in Mainland China.

7m

LA CHAPELLE

Corporate Information

REGISTERED CHINESE NAME
上海拉夏貝爾服飾股份有限公司

ENGLISH NAME
Shanghai La Chapelle Fashion Co., Ltd.

HEADQUARTERS AND REGISTERED OFFICE IN THE PRC
Room 3300, Level 3, Block 1
270 Cao Xi Road, Xuhui District
Shanghai, PRC

PLACE OF BUSINESS IN HONG KONG
18/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

COMPANY'S WEBSITE
www.lachapelle.cn

DIRECTORS
Executive Directors
Mr. Xing Jiaxing *(Chairman)*
Mr. Wang Yong
Mr. Wang Wenke

Non-executive Directors
Mr. Li Jiaqing
Mr. Lu Weiming
Mr. Cao Wenhai
Ms. Wang Haitong
Mr. Luo Bin

Independent non-executive Directors
Mr. Mao Jianong
Mr. Chen Wei
Dr. Chen Jieping
Mr. Chan, Wing Yuen Hubert

AUDIT COMMITTEE
Dr. Chen Jieping *(Chairman)*
Mr. Cao Wenhai
Mr. Luo Bin
Mr. Mao Jianong
Mr. Chan, Wing Yuen Hubert

NOMINATION COMMITTEE
Mr. Mao Jianong *(Chairman)*
Mr. Xing Jiaxing
Mr. Lu Weiming
Mr. Chen Wei
Mr. Chan, Wing Yuen Hubert

REMUNERATION AND APPRAISAL COMMITTEE
Mr. Chen Wei *(Chairman)*
Mr. Li Jiaqing
Dr. Chen Jieping

BUDGET COMMITTEE
Mr. Wang Yong *(Chairman)*
Ms. Wang Haitong
Mr. Luo Bin
Mr. Lu Weiming
Mr. Li Jiaqing
Dr. Chen Jieping

STRATEGY AND DEVELOPMENT COMMITTEE
Mr. Xing Jiaxing *(Chairman)*
Mr. Wang Yong
Mr. Li Jiaqing
Ms. Wang Haitong
Mr. Luo Bin
Mr. Mao Jianong
Mr. Chen Wei

JOINT COMPANY SECRETARIES
Ms. Fang Xian Li
Ms. Wong Wai Ling *(ACS, ACIS)*

AUTHORIZED REPRESENTATIVES
Ms. Fang Xian Li
Mr. Wang Yong

LEGAL ADVISERS TO THE COMPANY
Grandall Law Firm (Shanghai) *(as to PRC Law)*
Herbert Smith Freehills *(as to Hong Kong Law)*

AUDITOR
PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian LLP
(Special General Partnership)

H SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER
Bank of Communications Co., Ltd., Zhabei Sub-branch
Bank of China, Shanghai Luodian Branch

STOCK CODE
6116


Puella

Financial Highlights

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

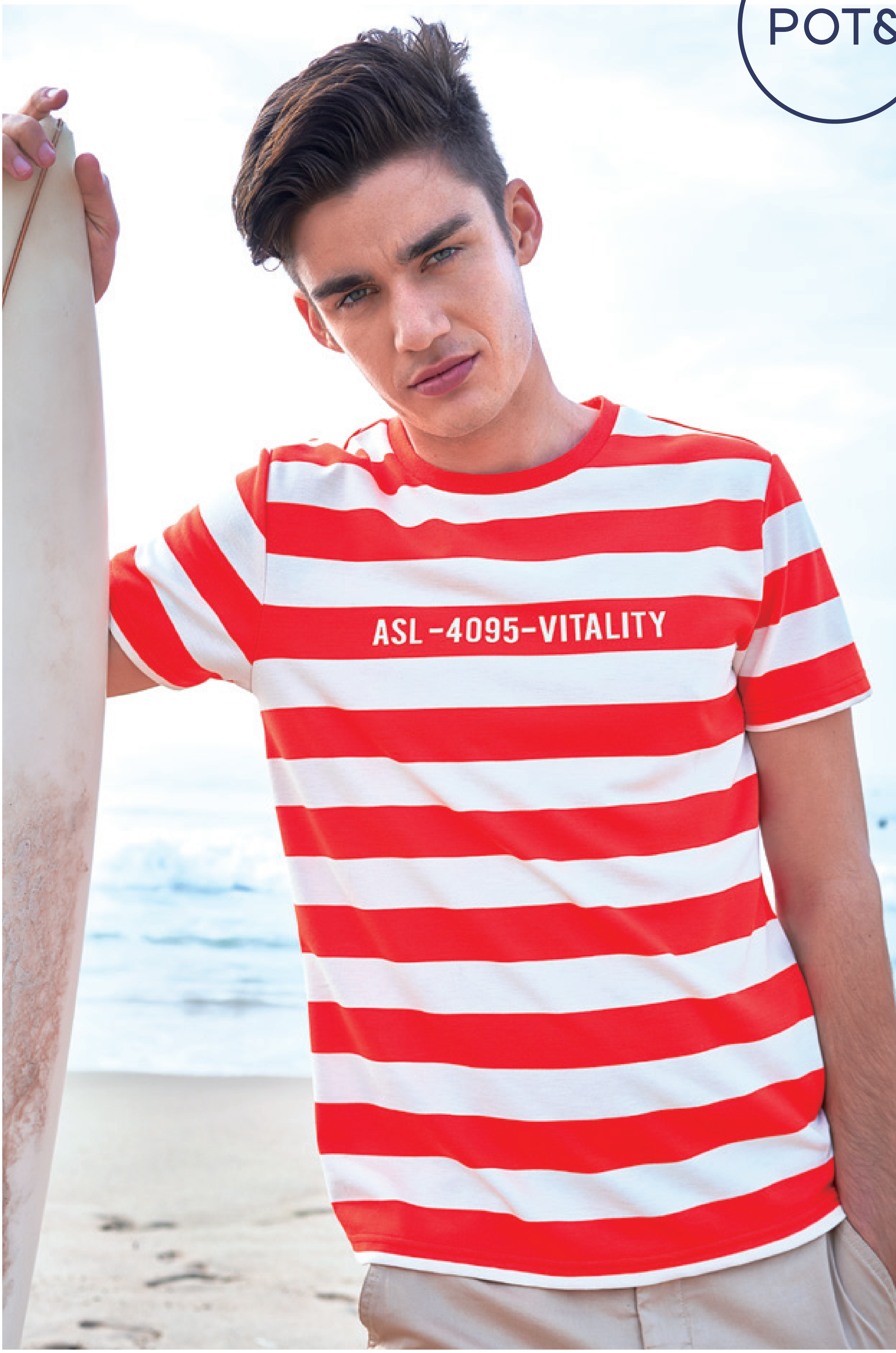
CONSOLIDATED RESULTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**10,232,593**	9,095,708	7,814,169	6,225,087	3,872,118
Gross profit	**6,812,609**	6,198,430	5,364,511	4,283,377	2,776,941
Gross profit margin	**66.6%**	68.1%	68.7%	68.8%	71.7%
Operating profit	**752,352**	828,396	733,560	589,530	364,477
Operating profit margin	**7.4%**	9.1%	9.4%	9.5%	9.4%
Profit for the year	**572,267**	658,398	511,211	413,373	259,555
Profit attributable to equity owners of the Company	**531,963**	615,251	503,452	407,298	259,905
Non-controlling interests	**40,304**	43,147	7,759	6,075	(350)

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**2,224,927**	1,538,487	1,095,561	957,731	532,654
Current assets	**4,078,716**	4,330,241	4,635,506	2,934,846	1,821,316
Total assets	**6,303,643**	5,868,728	5,731,067	3,892,577	2,353,970
EQUITY AND LIABILITIES					
Total equity	**3,510,218**	3,309,878	3,107,142	1,263,348	568,412
Non-current liabilities	**68,939**	57,573	51,042	6,725	3,641
Current liabilities	**2,724,486**	2,501,277	2,572,883	2,622,504	1,781,917
Total liabilities	**2,793,425**	2,558,850	2,623,925	2,629,229	1,785,558
Total equity and liabilities	**6,303,643**	5,868,728	5,731,067	3,892,577	2,353,970

The above summary does not form a part of the consolidated financial statements.


ASL-4095-VITALITY

Chairman's Statement

Dear Shareholders,

At a review of 2016, it was another year marked with challenges for the apparel industry. Growth in consumer spending remained feeble along with slowing economic growth in China. Last year, many new shopping malls were springing up like mushrooms, rippling through the existing retail market. Footfall of traditional department stores shrank due to customer divergence, resulting in disappointing results as well as an ongoing retail shakeout.

Dear Shareholders,

I am pleased to present the audited annual results of the Group for the year ended 31 December 2016.

According to the results for the twelve months ended 31 December 2016, the Group's revenue saw a year-on-year increase of 12.5% to RMB10,232.6 million and the profit attributable to the equity holders of the Company had an year-on-year decrease of 13.5% to RMB532.0 million. During the reporting period, the Group's cash and cash equivalents totaled RMB581.4 million. The Group had a total of 8,907 retail outlets covering all provinces, autonomous regions and municipalities of China other than Hong Kong, Macau and Taiwan.

Over the past year, the Group proactively launched its "customer-oriented" management model with an aim to closely tailor its actions toward customer need and adopt the changing market environment. To maintain organizational vitality, the Group further intensified its organizational structure by "treating brand division units as the core complemented by the headquarters and regions". In addition, a branch company of each sales region was established for managing its respective sales region, partial authority of decision making being delegated from the headquarters to the branch companies allowed policies implementation with higher flexibility.

On the brand front, the Group continued to enrich its existing brand mix and improve varieties through external investments. In 2016, we launched its first family clothing sets and high-end ladies' wear. More, the Group upgraded its store image and vigorously developed lifestyle store for the sake of improving our brand image.

On the e-commerce business front, the Group spun off some brands from Tmall collection store to establish single-brand flagship to elevate users' online shopping experience in a bid to release growth potential of each brand. The Group continued to optimize information system, enlarge intelligent construction of warehouse center in order to increase delivery efficiency.

For expansion of our store network, the Group entered into strategic cooperation with key commercial developers for acquiring quality resources for store opening while jointly facilitating development of shopping/retail district in communities. In 2016, the Group continued to strengthen its store network by increasing the share of store openings in shopping centers as compared to its other segments.

In 2017, we adopt back-to-basic approach that emphasizing on "the nature of retail" and customer-orientation, providing consumers good value for money products and great shopping experience. I am of the conviction that we can attain a sustainable development by persevere learning, changing and forging ahead with concerted efforts.

On behalf of the board of directors of the Company, I would like to express my sincere gratitude to the shareholders, business partners, customers and employees of the Group for their unremitting supports. Going forward, the Group will continue to pursue a robust growth and maximize shareholder value.

Xing Jiaxing
Chairman of the Company
16 March 2017


JACK WALK

Management Discussion and Analysis

FINANCIAL REVIEW

In 2016, the Group's revenue and operating profit reached RMB10,232.6 million and RMB752.4 million respectively, representing an increase of 12.5% in the Group's revenue and a decrease of 9.2% in operating profit as compared with that of 2015. The profit attributable to shareholders of the Company in 2016 amounted to RMB532.0 million, representing a decrease of 13.5% as compared with that of 2015.

Revenue

The revenue of the Group in 2016 saw a steady growth, increasing from RMB9,095.7 million in 2015 to RMB10,232.6 million in 2016, representing an increase of 12.5%. The growth in revenue was mainly attributable to the growth in revenue of standalone retail outlets and revenue from online platform. The number of retails points of the Group increased from 7,893 as at 31 December 2015 to 8,907 as at 31 December 2016. The Company recorded a same store sales growth rate of -6.4% in 2016 as compared with of -3.2% in 2015.

Revenue by distribution channel

The following table sets out the revenue breakdown by type of retail points during the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
Concessionaire counters	**5,992,328**	**58.6**	5,977,005	65.7
Standalone retail outlets	**3,217,499**	**31.4**	2,514,299	27.6
Online platform	**1,003,638**	**9.8**	588,939	6.5
Franchise/Associate	**18,510**	**0.2**	15,465	0.2
Others	**618**	**0.0**	—	—
Total	**10,232,593**	**100.0**	9,095,708	100.0

Note: Franchise/Associate is the type of sales channel attributable to Jack Walk (Shanghai) Fashion Limited (傑克沃克（上海）服飾有限公司) ("**JACK WALK**") that the Group invested in 2015, and the brand under Guangzhou Xichen Fashion Co., Ltd. ("**Guangzhou Xichen**") that the Group invested in 2016; and Others represent revenue from non-apparel items, such as coffee.

The revenue from concessionaire counters slightly increased from RMB5,977.0 million in 2015 to RMB5,992.3 million in 2016. The revenue from standalone retail outlets increased by 28.0% from RMB2,514.3 million in 2015 to RMB3,217.5 million in 2016. The growth in revenue from standalone retail outlets was mainly attributable to the increase in number of standalone retail points from 2,272 as at the end of 2015 to 3,175 as at the end of 2016. The revenue from online platform grew rapidly by 70.4% to RMB1,003.6 million in 2016, mainly due to the favourable factors of the Company's multi-brand retailing effects and continuing enhancement of the capacity of online professional operation. The revenue from Franchise/Associate increased by 19.7% from RMB15.5 million in 2015 to RMB18.5 million in 2016, due to the increase in sales of products of the brands under JACK WALK and Guangzhou Xichen.

Revenue by brand

The following table sets out the revenue breakdown by brand during the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
La Chapelle	**2,745,241**	**26.8**	2,933,792	32.3
Puella	**2,500,880**	**24.4**	2,460,600	27.1
Candie's	**703,417**	**6.9**	715,100	7.9
7m	**1,585,813**	**15.5**	1,321,234	14.5
La Babité	**1,234,632**	**12.1**	911,689	10.0
Vougeek/Pote	**462,096**	**4.5**	368,027	4.0
MARC ECKŌ	**21,233**	**0.2**	3,226	0.0
La Chapelle Kids	**99,944**	**1.0**	61,284	0.7
UlifeStyle	**474,812**	**4.6**	62,892	0.7
JACK WALK/O.T.R	**34,744**	**0.3**	22,713	0.2
Siastella	**5,666**	**0.1**	—	—
OTHERMIX/OTHERCRAZY	**363,497**	**3.6**	235,021	2.6
Others	**618**	**0.0**	130	0.0
Total	**10,232,593**	**100.0**	9,095,708	100.0

Note:

1) JACK WALK/O.T.R are the brands under JACK WALK invested by the Group.

2) In 2016, the Group launched a new brand, namely Siastella, which is a brand owned by Guangzhou Xichen.

In 2016, most of the brands of the Group recorded an increase in revenue as compared to 2015, in particular the revenue from 7m and La Babité, which are ladies' apparel brands, increased by over 20%, the aggregated revenue from Vougeek/Pote and MARC ECKŌ, which are men's apparel brands, increased by over 30% and the revenue from OTHERMIX/OTHERCRAZY, which are online apparel brands, increased by over 50%. In addition, the revenue from UlifeStyle, a brand launched in the second half of 2015, was RMB474.8 million in 2016, representing 4.6% of our total revenue as compared to 0.7% in 2015. However, the revenue from La Chapelle and Candie's, two ladies' apparel brands, recorded a decrease by 6.4% and 1.6% respectively, mainly due to decrease in same store sales and relatively fewer net additional retail points.

Revenue by tier of cities

The following table sets out the revenue breakdown by tier of cities during the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
First-tier cities	**1,277,573**	**12.5**	1,131,466	12.4
Second-tier cities	**4,168,239**	**40.7**	3,756,528	41.3
Third-tier cities	**2,598,272**	**25.4**	2,245,116	24.7
Other cities	**2,188,509**	**21.4**	1,962,598	21.6
Total	**10,232,593**	**100.0**	9,095,708	100.0

Note: In respect of the classification of the tier of cities, please refer to the prospectus of the Company dated 24 September 2014 (the "**Prospectus**").

The Group recorded an increase in revenue from all tiers of cities in 2016, mainly attributable to the expansion of retail network of the Group nationwide. In particular, increase in revenue from second-tier cities and third-tier cities was significantly higher than that from other categories principally due to larger number of second-tier and third-tier cities, larger room for growth and less competition in those cities so far as the Company is concerned.

Revenue by product type

The following table sets out the revenue breakdown by product type during the years indicated:

	Year ended 31 December			
	2016		2015	
	Revenue (RMB'000)	% of total	Revenue (RMB'000)	% of total
Tops	7,013,302	68.5	6,074,918	66.8
Bottoms	1,032,983	10.1	833,248	9.2
Dresses	2,107,256	20.6	2,149,537	23.6
Accessories	78,434	0.8	37,875	0.4
Others	618	0.0	130	0.0
Total	**10,232,593**	**100.0**	9,095,708	100.0

Note: "Others" mainly refers to the sales revenue of non-apparel products.

Cost of Sales

The cost of sales of the Group increased from RMB2,897.3 million in 2015 to RMB3,420.0 million in 2016. The increase was primarily attributable to the growth in sales volume.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from RMB6,198.4 million in 2015 to RMB6,812.6 million in 2016, up by 9.9%.

The gross profit of concessionaire counters of the Group increased from RMB4,196.2 million in 2015 to RMB4,257.8 million in 2016, up by 1.5%. The gross profit of standalone retail outlets increased from RMB1,664.2 million in 2015 to RMB2,022.7 million in 2016, up by 21.5%. The gross profit of online retail business increased by 59.0% from RMB334.0 million in 2015 to RMB531.2 million in 2016.

The overall gross profit margin of the Group dropped from 68.1% in 2015 to 66.6% in 2016 due to a slight decrease in average unit selling price of our products and an increase in share of sales from online platform which has a lower profit margin compared to physical outlets.

Selling and Marketing Expenses and Administrative Expenses

Selling and marketing expenses in 2016 amounted to RMB5,727.0 million (2015: RMB5,050.5 million), consisting primarily of sales staff salaries and benefits, concessionaire fees and rental expenses relating to retail points. Selling and marketing expenses as a percentage of total revenue in 2016 were 56.0% (2015: 55.5%). Selling and marketing expenses as a percentage of total revenue in 2016 increased by 0.5 percentage point as compared to that in 2015, primarily due to: 1) an increase in rental income as a percentage of total revenue in 2016 by 0.29 percentage point over 2015; and 2) an increase in marketing expenses as a percentage of total revenue in 2016 by 0.39 percentage point over 2015.

Administrative expenses in 2016 amounted to RMB414.2 million (2015: RMB383.8 million), consisting primarily of administrative employee salaries and benefits as well as travelling expenses. Administrative expenses as a percentage of total revenue in 2016 were 4.0% (2015: 4.2%). Administrative expenses as a percentage of total revenue in 2016 decreased by 0.2 percentage point as compared to 2015, primarily due to the fact that the increase in administrative expenses of the Group was less than the increase in revenue.

Other Gains — Net

Other gains — net in 2016 amounted to RMB80.9 million (2015: RMB64.3 million), consisting primarily of subsidies granted by the local governments in some cities where the Company operates.

Finance Income — Net

Finance income — net of the Group decreased from net income of RMB50.8 million in 2015 to net income of RMB17.5 million in 2016, mainly due to net decrease in exchange gains of RMB29.9 million generated from the raised funds deposited in HKD and net decrease in interest income from deposits of RMB17.2 million.

Profit before Income Tax

Profit before income tax of the Group decreased by 12.6% from RMB879.2 million in 2015 to RMB768.7 million in 2016. Such decrease was primarily attributable to increase in selling and marketing expenses and decrease in finance income.

Income Tax Expense

Income tax expense amounted to RMB196.5 million in 2016 (2015: RMB220.8 million). The effective income tax rate in 2016 was 25.6%, and the effective income tax rate in 2015 was 25.1%.

Net profit and net profit margin

As a result of the decrease in profit before income tax, profit for the year of the Group decreased from RMB658.4 million in 2015 to RMB572.3 million in 2016, down by 13.1%. Profit margin for the year of the Group was 5.6% in 2016, compared to that of 7.2% in 2015, down by 1.6 percentage points.

Capital expenditure

Capital expenditure of the Group was made in 2016 in connection with the payments and deposits paid for purchase of properties, plants and renovation of stores. In 2016, the total capital expenditure was RMB871.4 million (2015: RMB659.7 million).

Liquidity and financial resources

Net cash generated from operating activities decreased from RMB1,063.6 million in 2015 to RMB703.0 million in 2016, primarily due to increase in expenses relating to operating activities, such as rental deposits, expenses on purchase of inventory, as compared to the same period last year as a result of net increase in number of new stores in 2016. Net cash inflow per share generated from operating activities was RMB1.43.

In 2016, net cash used from investing activities was RMB1,136.1 million. Major investment activities were: 1) net cash outflow of RMB845.5 million for the purchase of properties, plants and equipment as well as intangible assets; 2) net cash outflow of RMB174.5 million for investments in subsidiaries, associates and available-for-sale financial assets; and 3) placement of term deposits of RMB120.5 million. Net cash generated from investing activities in 2015 was RMB674.4 million which mainly resulted from a net cash inflow from term deposits deducting investments in subsidiaries, acquisition of properties, plants and equipment and land use rights as well as intangible assets.

In 2016, net cash used in financing activities was RMB103.9 million. Major financing activities were: 1) obtaining bank loans and repayment of bank loans and payment of interest amounting to net cash inflow of RMB300.0 million; and 2) payment of dividends amounting to RMB405.0 million. Net cash used in financing activities in 2015 was RMB1,238.1 million, mainly due to the financing activities, such as repayment of bank borrowings, share repurchase and payment of dividends.

In 2016, average inventory turnover days of the Group were 185 days (2015: 194 days), and average receivables turnover days of the Group were 37 days (2015: 42 days), reflecting a quicker turnover rate of working capital of the Group in 2016 as compared to 2015.

The Group's financial position remained solid. As at 31 December 2016, the Group had cash and cash equivalents in the total amount of RMB581.4 million (31 December 2015: RMB1,118.4 million).

The gearing ratio, as calculated by dividing total borrowing by total assets, of the Group as at 31 December 2016 was 4.8% and the gearing ratio of the Group as at 31 December 2015 was 0.

As the Group carries out its operations in mainland China, most of the transactions are settled in Renminbi. The Group has a portion of cash and cash equivalents dominated in Hong Kong dollar and US dollar. The Group also pays dividends to shareholders of H Shares in Hong Kong dollar. The Group manages foreign exchange risk by monitoring foreign exchange rates on a regular basis.

Pledge of assets

As at 31 December 2016, no properties, plants and equipment, land use rights and investment properties have been pledged by the Company in respect of any available bank credit (no pledge of assets as at 31 December 2015).

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Human resources

As at 31 December 2016, the Group had 39,289 full-time employees in total (31 December 2015: 34,160). The Group offers appropriate compensation package for its employees associated with their duties, including mandatory pension funds, insurance, medical benefits and other subsidies. In addition, the Group established a union fund which aimed at helping the employees with family difficulties or to whom accidents occurred. Meanwhile, the Group is committed to building up a culture of learning and sharing within the organization. Since the Group's success depends on the effort of skilled active employees in each department, the Group especially focuses on training employees and fostering team spirit.

BUSINESS REVIEW AND OUTLOOK

Industry overview

In 2016, the growth of the PRC economy further slowed down. According to the statistical data of National Bureau of Statistics, the gross domestic product (GDP) for the year increased by 6.7% in 2016, representing a further slower growth as compared to the increase of 6.9% of 2015. The domestic consumer price index (CPI) in the PRC represented a year-on-year growth of 2%, 0.6 percentage point more than last year. Among others, the price of apparel products represented a year-on-year growth of 1.4%. Total retail sales of consumer goods represented a year-on-year nominal growth of 10.4%, further slowing down as compared to 2015 (10.7%). Among others, online retail sales still maintained rapid growth, representing a year-on-year growth of 26.2%. As the market become more mature, the integration between the online and offline sales has sped up.

According to the statistical data of China National Commercial Information Centre, the retail sales of the top 50 national retail enterprises for the year decreased by 0.5% in 2016 as compared to the decrease of 0.2% in 2015. Among others the retail sales of apparel products for the year slightly increased by 0.2% in 2016, representing a rise as compared to the decrease of 0.4% in 2015.

During the reporting period, there were no substantive changes in the market dynamics. The industry still faced many changes, such as the adjustment of channels, personalized consumption pattern and impact of overseas brands. Industry counterparts either underwent transformation or enlargement/expansion by merger and acquisition, in the hope of successfully going through the industry adjustment period.

In the previous year, the Group continued to determinedly execute the predetermined market strategy of multi-brand through external investment cooperations and internal nurturing of its own brands, in order to continually enrich brand combinations of the Group. For store network, while the Group kept expanding its store network, it also continued to optimise and adjust its channel structure. As the scale of the Group kept expanding, in order to maintain vitality, the Group further consolidated its organizational structure, treating brand division units as the core assisted by the headquarter and regions, thus continually enhancing the brands' autonomous operational capability and competitiveness in the industry. In addition, to enhance refined management capability and operational efficiency, the Group further increased its investment in informatization projects.

Retail Network

The map below shows the geographical distribution of the Group's retail points in the PRC as at 31 December 2016.

<50 retail points	
Tibet	3
Hainan	28

50–100 retail points	
Qinghai	53
Guizhou	76
Gansu	85

101–200 retail points	
Ningxia	104
Tianjin	141
Yunnan	159
Jiangxi	183
Guangxi	187
Inner Mongolia	191
Xinjiang	192

>200 retail points	
Heilongjiang	209
Jilin	221
Shanxi	227
Chongqing	261
Hunan	266
Anhui	284
Beijing	287
Shanghai	288
Shaanxi	292
Zhejiang	314
Liaoning	398
Hubei	429
Hebei	440
Fujian	452
Jiangsu	548
Guangdong	582
Sichuan	639
Shandong	675
Henan	693

For the year ended 31 December 2016, our retail network expanded considerably, with the number of retail points increasing from 7,893 as at 31 December 2015 to 8,907 as at 31 December 2016. These retail points were situated at approximately 2,709 physical locations.

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2016 and 2015 by tier of cities.

	As at 31 December			
	2016		2015	
	Number of retail points	**% of total**	Number of retail points	% of total
First-tier cities	**814**	**9.1%**	792	10.0%
Second-tier cities	**3,286**	**36.9%**	2,946	37.3%
Third-tier cities	**2,459**	**27.6%**	2,145	27.2%
Other cities	**2,348**	**26.4%**	2,010	25.5%
Total	**8,907**	**100.0%**	7,893	100.0%

Notes:

1. In respect of the classification of the tier of cities, please refer to the Prospectus.

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2016 and 2015 by type of the retail points.

	As at 31 December			
	2016		2015	
	Number of retail points	**% of total**	Number of retail points	% of total
Concessionaire counter	**5,730**	**64.3%**	5,588	70.8%
Standalone retail outlet	**3,175**	**35.6%**	2,272	28.8%
Franchise/Associate	**2**	**0.1%**	33	0.4%
Total	**8,907**	**100.0%**	7,893	100.0%

The table below sets out the distribution of the Group's retail points in the PRC as at 31 December 2016 and 2015 by brand.

	As at 31 December			
	2016		2015	
	Number of retail points	% of total	Number of retail points	% of total
La Chapelle	**1,855**	**20.8%**	1,833	23.2%
Puella	**2,090**	**23.4%**	1,980	25.1%
Candie's	**940**	**10.6%**	832	10.5%
7m	**1,610**	**18.1%**	1,332	16.9%
La Babité	**1,298**	**14.6%**	930	11.8%
Vougeek/Pote	**700**	**7.9%**	533	6.8%
MARC ECKŌ	**32**	**0.4%**	34	0.4%
La Chapelle Kids	**171**	**1.9%**	278	3.5%
UlifeStyle	**191**	**2.1%**	99	1.3%
JACK WALK/O.T.R	**7**	**0.1%**	42	0.5%
Siastella	**13**	**0.1%**	—	—
Total	**8,907**	**100.0%**	7,893	100.0%

The table below sets out the distribution of the Group's net additional retail points in the PRC as at 31 December 2016 and 2015 by brand.

	As at 31 December			
	2016		2015	
	Number of net additional retail points	% of total	Number of net additional retail points	% of total
La Chapelle	**22**	**2.2%**	34	2.3%
Puella	**110**	**10.8%**	226	15.0%
Candie's	**108**	**10.7%**	161	10.7%
7m	**278**	**27.4%**	263	17.4%
La Babité	**368**	**36.3%**	314	20.8%
Vougeek/Pote	**167**	**16.5%**	183	12.1%
MARC ECKŌ	**–2**	**–0.2%**	43	2.8%
La Chapelle Kids	**–107**	**–10.6%**	144	9.5%
UlifeStyle	**92**	**9.1%**	99	6.6%
JACK WALK/O.T.R	**–35**	**–3.5%**	42	2.8%
Siastella	**13**	**1.3%**	—	—
Total	**1,014**	**100.0%**	1,509	100.0%

Same store sales

During 2016, due to the general slow-down of the economy growth in the PRC, the general consumer market was weak. With the adjustment to the market structure, a portion of customer flow of department stores was absorbed by the rapidly expanding shopping centers and online platforms. Accordingly, the same store sales growth of traditional apparel companies, which rely on department stores as their major sales channel, continued to be affected by such diversion of customer flow. Despite the Group has strategically reduced the proportion of revenue from department stores, sales from concessionaire counters currently remains the key source of our revenue. In spite of a series of measures on sales channel management and stores operation taken by the Group, the same store sales of the Group in 2016 decreased by 6.4% as compared to that in 2015.

Multi-brand strategy

In 2016, the Group remained steadfast in executing the multi-brand strategy through external investment to continually enrich existing brand combinations and categories.

The Group currently has ten brands of its own, namely La Chapelle, Puella, 7m, La Babité, Candie's, JACK WALK, Pote, MARC ECKŌ, UlifeStyle and La Chapelle Kids.

In 2012, the Group successively launched two original brands, namely 7m and La Babité. After years of hatching and nurturing, the scale of sales of the two women's wear brands grew rapidly, becoming engines driving the Group's expansion of scale in recent years. During the reporting period, the sales of 7m increased year-on-year by 20%, and the sales of La Babité increased year-on-year by 35.4%.

Upon this foundation, through external investment or equity participation, the Group introduced various new fashion brands (including O.T.R, OTHERMIX, Siastella, tanni, Maria Luisa, NN, Mum Meet Me, Kin, GARTINE), covering categories such as mass leisure, designer-brands, high-end men and women's wear and parent-child clothing. During the reporting period, the Group invested in TNPI HK Co., Limited which is the holder of the franchise right to operate and manage Segafredo branded cafés in South Korea, Mainland China and Hong Kong. By introducing the concept of 'brand lifestyle shop', we took the first step in building the 'La Lifestyle'. In addition, the Group signed an investment agreement with Shanghai Bercent Industrial Co., Ltd. ("**Bercent Industrial**"), an e-commerce company specialising in men's wear.

In 2017, the Group will continue to increase external investment and introduce new brands and new categories in order to better satisfy the consumer demand and provide better service.

E-commerce business

The Group operated its women's wear online business through Hangzhou Anshe E-Commerce Company Limited ("**Hangzhou Anshe**"), a non-wholly-owned subsidiary of the Company. During the reporting period, the Group divided TMall collection stores into single-brand flagships, bringing forth an expansion of sales scale. In 2016, the Group's online business recorded revenue of RMB1 billion, representing a year-on-year increase of 70.4%, accounting for 9.8% of the Group's total revenue (6.5% for the year 2015).

To enhance customer experience, the Group launched more products with the same price for the same style, whether online or offline. Meanwhile, by utilizing the Group's extensive store network and three logistic bases, combined with the effective order allocation system, the delivery efficiency of e-commerce evidently increased.

In the first half of 2017, the Group will commence the men's wear online business, and attempt to operate the online business of men's wear through Bercent Industrial. Meanwhile, we will continue to take TMall, JD.COM and VIP.COM as our core cooperative platforms, continually enhancing user shopping experience through the three aspects of product, service, and logistics.

Front-end supply chain management

The Group is committed to optimizing the supply chain management, building a more flexible front-end supply chain.

In 2016, to speed up the response of the front-end supply chain, the Group continued to optimize and upgrade its Supply Chain Management system (SCM) in order to realize data visualization and data sharing with suppliers. On the other hand, through payment management and bill arrangement, the Group would be able to standardize and improve the billing process with suppliers.

In addition, the Group accessed the upstream suppliers from the two dimensions of product quality and delivery speed to choose the qualified and eliminate the unqualified suppliers. During the reporting period, the level of concentration of the Group's apparel supplier(s) increased further.

Back-end supply chain management (Warehouse logistic center)

As of 31 December 2016, the Group had three warehouse logistic centers located in Taicang, Chengdu and Tianjin, attaining nationwide goods allocation. Among others, the self-built Taicang Phase II has entered into trial operation; Tianjin Phase I will enter into trial operation in 2017; while Chengdu Centre is estimated to be completed in the first half of 2017.

In 2016, to speed up the circulation and distribution of goods, the warehouse logistic centers of the Group used the 'Smart Sorting System' to quicken the sorting and distribution of goods, raising the labor efficiency. Meanwhile, the automatic 3-dimensional warehouse, which is part of Taicang Phase II, is estimated to commence operation in the first half of 2017, which will further raise the goods' storage and circulation efficiency.

On the other hand, the warehouse logistic centers have started to implement 'flexible logistics'. By complying with the personalized demands of each brand's division such as product supply, mediation and product return, the center will attain speedy and timely distribution of goods. Meanwhile, '24-hour goods delivery' is implemented, solving the time difficulty of suppliers delivering goods to the warehouse.

In the second half of 2016, the warehouse logistic centers of the Group started to provide delivery services for the Group's women's wear e-commerce business. It is estimated that the dispatching service for men's wear e-commerce business will commence in the first half of 2017.

Information system

Informatized management has always been the Group's long term strategy.

In 2016, the Group started to implement the RFID (radio-frequency identification) scanner system, allocating each clothing an 'identity code' to track the flow of a single product and single clothing from a plant to a warehouse and then to a store. This not only helped refine the management of goods and raise the logistic efficiency of delivery of goods, but also raised the store's efficiency and accuracy in stocktaking.

Due to the Group's extensive store network and warehouse logistic centers, the Group continued to optimize O2O channels, i.e. 'online purchase, offline delivery'. Through optimizing the online order allocation system, the distribution speed of goods was raised, enhancing user experience.

Moreover, utilizing the marketing function of WeChat, the Group launched the Customer Relationship Management System (CRM). The conversion rate of promotional activities also continued to rise.

In 2017, the Group will fully launch the RFID system to raise logistic efficiency and the stores' inventory management capability. Meanwhile, the RFID system will be upgraded to capture the store clothing's 'try-on rate' in order to identify the best sellers, hence helping the front-end product planning.

Establish sales area

As the Company's scale kept on expanding, to streamline management and raise management efficiency, the Group organized and established sales areas according to different climate temperature zones and consumption habits. In the management framework set by the headquarter, part of the decision-making functions of the headquarter are decentralized to the areas, letting them implement region management policies according to the local conditions. This enables the organizational structure of the company to become more flexible and effective.

In 2017, the Group will continue to intensify the establishment of sales areas, increasing the nurturing and development of internal talents.

Partnership incentive programme

During the reporting period, the Group continued to adjust and improve the partnership incentive programme, implementing different incentive programmes for different types of stores.

For large stores or stores with established operation, sales staff's payroll calculation was changed from the original "fixed salary + commission" mode to a "sales-performance-directly-linked" mode, meanwhile granting the store manager more authority in managing the store. After implementing this programme, the per capita income, sales per store, personnel costs of stores all improved as compared to non-partnership stores.

For the stores in the nurturing stage or newly opened, to raise the stability of store staff, the Group used the method of raising employees' fixed wage, and giving certain floating bonuses when reaching the store's sales target.

In 2017, for the partnership incentive programme, the Group will grant more power to sales areas, allowing each area to set up its own incentive policy based on their local conditions.

Business outlook

In short term, any sign of improvement in the market dynamics has not yet been seen. In the face of the challenge-ridden market dynamics, the Group will return to its 'retail nature', by being customer-oriented, continue to provide high-quality products and keep on improving our service. In 2017, the Group will consistently carry out the following:

- continue to expand store network; for brands with small-scale stores, focus on expanding the number of stores; for brands with established scale, upgrade, transform and eliminate the stores with poor results;

- reinforce the efforts in expanding men's wear brands and integrating and advancing its online business;

- reinforce the efforts in investment as well as merger and acquisition, participate in the consolidation of the industry, focus investment on consumer goods sector;

- enhance and continue to invest in the information system functions in order to raise the refined management capability;

- fully launch the RFID system to facilitate logistic efficiency and inventory management capability; and

- reinforce the organization's back-end management capability, and reduce the organizational scale of the headquarter. The headquarter will focus on standardization in the front-end, and implementing standardized promotion in the back-end, meanwhile providing good service.

In addition, subsequent to the submission of application materials in relation to the proposed issuance of A share offering to the China Securities Regulatory Commission ("**CSRC**") and the notification of acceptance by the CSRC in October 2015, the Group will continue to prepare for the listing in the domestic A-share market in the PRC. In addition, the resolution of "Proposal on granting authorization to the Board at the general meeting to handle in its sole discretion matters related to the Company's application for the A Share Offering and listing of its A Shares" had expired on 14 September 2016, and the extension of the period for such resolution to 14 September 2017 was approved by the shareholders at the 2016 first extraordinary general meeting, the 2016 second class meeting for the holders of domestic shares and unlisted foreign shares and the 2016 second class meeting for the holders of H shares held on 25 July 2016.

For details, please refer to the announcements of the Company dated 21 April 2015, 20 July 2015 and 26 October 2015, and the circulars dated 31 July 2015, 27 August 2015 and 10 June 2016.

UlifeStyle

Profiles of Directors, Supervisors and Senior Management

The board of directors (the "**Board**") consists of 12 directors (collectively the "**Directors**" each a "**Director**"), whose biographies are set forth below:

CHAIRMAN, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Xing Jiaxing (邢加興), aged 44, established the Group in March 2001. Mr. Xing has been an executive Director of the Company since 9 May 2011 and is currently chief executive officer, chairman of the Board, chairman of the strategy and development committee of the Board (the "**Strategy and Development Committee**") and a member of the nomination committee (the "**Nomination Committee**").

Mr. Xing has more than 20 years of experience in the PRC fashion retailing industry. He was also involved in the apparel distribution business for Fuzhou Sophie Garment Co., Ltd. (福州蘇菲時裝有限公司) from July 1996 to July 1998. He established the predecessor of the Company and became the chairman of its board and its executive director in March 2001.

Mr. Xing obtained an EMBA degree from the China Europe International Business School in July 2015. He is now undertaking an EMBA degree at Xiamen University and a finance EMBA degree at PBC School of Finance, Tsinghua University.

EXECUTIVE DIRECTORS

Mr. Wang Yong (王勇), aged 43, is chairman of the budget committee of the Board ("**Budget Committee**"), a member of our Strategy and Development Committee and an executive Director, a position which he has held since 9 November 2012. Mr. Wang joined the Group in April 2012 and has been the executive vice president of the Company.

Mr. Wang had approximately eight years of experience in investment business in the PRC. Prior to joining the Group in April 2012, Mr. Wang had worked at the investment department of ChinaVest Co., Ltd. (中創企業管理諮詢（上海）有限公司) from 2004 to 2007, and at Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司) from 2008 to 2012 as an investment manager, vice president and general director.

Mr. Wang obtained a Bachelor's degree in International Business Administration from Shanghai University of Finance and Economics in July 1995 and a Master of Business Administration degree from McMaster University, Canada in June 2004. Mr. Wang received his designation as a Chartered Financial Analyst from the CFA Institute in March 2007.

Mr. Wang Wenke (王文克), aged 43, has been appointed as the executive vice president of the Company since 2 February 2015 and executive director since 17 July 2015.

Prior to joining the Company, Mr. Wang served as credit manager in China Citic Industrial Bank (now known as China Citic Bank) Weihai Branch from July 1995 to February 1998. From February 1998 to February 2002, Mr. Wang held positions of head of human resources department and head of marketing department in Weihai Hamada Printing Press Co., Ltd (Japan-owned enterprise) (威海濱田印刷機械有限公司（日資）). He worked in Sinochem International Corporation as assistant president from June 2002 to February 2015.

Mr. Wang obtained his bachelor of investment management from Central University of Finance and Economics in July 1995. He is pursuing an EMBA degree at China Europe International Business School.

NON-EXECUTIVE DIRECTORS

Mr. Li Jiaqing (李家慶), aged 43, is a member of the remuneration and appraisal committee of the Board ("**Remuneration and Appraisal Committee**"), Budget Committee, Strategy and Development Committee and a non-executive Director, a position which he has held since 9 May 2011. Mr. Li joined the Group in April 2010 as a non-executive director of the Company.

Mr. Li had worked at Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司) from July 2001 to June 2013 as investment manager, senior investment manager, executive director and managing director. Mr. Li is currently director, managing director of Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司) and director of Good Factor Limited ("**Good Factor**"), which is one of the substantial shareholders of the Company. Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司) and Good Factor are engaged in portfolio investment and fund management. Mr. Li is currently also a supervisor of Shanghai Amarsoft Information and Technology Co., Ltd. (上海安碩信息技術股份有限公司) (a company listed on the Shenzhen Stock Exchange), a director of Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd.(雲南鴻翔一心堂藥業（集團）股份有限公司)(a company listed on the Shenzhen Stock Exchange), a director of Anhui Ying Jia Distillery Co., Ltd. (安徽迎駕貢酒股份有限公司) (a company listed on the Shanghai Stock Exchange) and a director of Wuxi Lead Auto Equipment Co., Ltd. (無錫先導智能裝備股份有限公司) (a company listed on the Shenzhen Stock Exchange).

Mr. Li obtained a Bachelor's degree in Mechanical Engineering and a Bachelor of Business Administration degree from Tsinghua University in July 1996, and a Master's degree in Management Science and Engineering from Tsinghua University in July 1999.

Mr. Lu Weiming (陸衛明), aged 46, is a member of the Nomination Committee, Budget Committee and a non-executive Director, a position which he has held since 9 May 2011. Mr. Lu joined the Group in January 2008 as a non-executive director of the Company.

Mr. Lu is currently a partner of Boxin (Tianjin) Equity Investment Management Partnership (Limited Partnership) (博信（天津）股權投資管理合夥企業（有限合夥）), which is involved in private equity investment and is a general partner of one of the shareholders of the Company, Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership) (博信一期（天津）股權投資基金合夥企業（有限合夥）). Mr. Lu is currently also a director of Wuxi Xuelang Environment Technology Co., Ltd. (無錫雪浪環境科技股份有限公司) (a company listed on the Shenzhen Stock Exchange).

Mr. Lu was a director at Dalian East New Energy Development Co., Ltd. (大連易世達新能源發展股份有限公司) from November 2008 to February 2012 and at Shenzhen Tat Fook Technology Co., Ltd. (深圳市大富科技股份有限公司) from December 2009 to January 2013, both of which are listed on the Shenzhen Stock Exchange.

Mr. Lu obtained a Bachelor's degree in Management Information Systems from Tongji University, Shanghai in July 1992.

Mr. Cao Wenhai (曹文海), aged 49, is a member of the Audit Committee of the Board ("**Audit Committee**") and a non-executive Director, a position which he has held since 9 May 2011. Mr. Cao joined the Group in March 2010 as a non-executive Director of the Company.

Mr. Cao is currently the chairman of Shanghai Jinshangli Venture Capital Management Co., Ltd. (上海金尚鑫創業投資管理有限公司), the chairman of Shanghai Xindaolun Information Technology Co., Ltd. (上海新道侖信息科技有限公司) and a director of Eastern Pioneer Driving School Co., Ltd (a company listed on Shanghai Stock Exchange).

For the period from July 2009 to April 2016, Mr. Cao was the vice president of Shanghai Rongxi Venture Capital Management Co., Ltd. (上海融璽創業投資管理有限公司), which was involved in equity investment and fund management, and was a minority shareholder of one of the shareholders of the Company, Shanghai Ronggao Venture Capital Co., Ltd.. Mr. Cao obtained his PRC legal qualification in June 1997.

Mr. Cao also obtained a Bachelor's degree in Philosophy from Lanzhou University in July 1990 and a Master's degree in Law from East China College of Political Science and Law (now known as East China University of Political Science and Law) in June 2003.

Ms. Wang Haitong (王海桐), aged 33, was appointed as a non-executive Director of the Company on 31 July 2014 and is a member of the Budget Committee and Strategy and Development Committee.

Ms. Wang has been an executive director at Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd. (北京高盛寬街博華股權投資管理有限公司), which is engaged in investment management, since January 2014. Ms. Wang is also currently a non-executive director of Ozner Water International Holding Limited (浩澤淨水國際控股有限公司), a company listed on the Main Board of the Stock Exchange. Ms. Wang had worked at Morgan Stanley Dean Witter Asia Limited Beijing Representative Office from July 2005 to June 2006 as an analyst, at Morgan Stanley Dean Witter Asia Ltd., Investment Banking Division in Hong Kong, from August 2006 to August 2007 as an analyst, and at the Principal Investment Area of Goldman Sachs (Asia) L.L.C. from September 2007 to December 2013 as analyst, then associate and later executive director.

Ms. Wang obtained a joint Bachelor's degree in Finance and Statistics from Peking University in July 2005.

Mr. Luo Bin (羅斌), aged 45, was appointed as a non-executive Director of the Company on 5 May 2015. Mr. Luo became member at the Audit Committee, Budget Committee and Strategy and Development Committee on 21 January 2016 upon approval of the Board.

Mr. Luo is currently a director (a position which he has held since April 2013) and the chief finance officer (a position which he has held since April 2009) of Zhejiang Longsheng Group Co., Ltd. (浙江龍盛集團股份有限公司) ("**Zhejiang Longsheng**"), which is listed on the Shanghai Stock Exchange (stock code: 600352) and is the holding company of Senda International Capital Limited, an existing shareholder of the Company. Before joining Zhejiang Longsheng in April 2009, Mr. Luo worked as a partner in Sova Capital Co., Ltd. (上海盛萬投資顧問有限公司) from November 2004 to March 2009 and as a senior manager in the financial advisory department of Shanghai Shenyin & Wanguo Securities Co., Ltd. from August 2003 to November 2004.

Mr. Luo obtained a bachelor degree in engineering in July 1994 and a master degree in engineering in March 1998 from Donghua University (previously known as China Textile University) with. Mr. Luo passed the National Judicial Examination of the People's Republic of China (the "**PRC**") and obtained the Legal Profession Qualification Certificate in February 2006. Mr. Luo passed the National Unified Certified Public Accountants Examination in 1999 and is currently a non-practising member of the Chinese Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mao Jianong (毛嘉農), aged 53, is chairman of the Nomination Committee, a member of the Audit Committee and Strategy and Development Committee, and an independent non-executive Director, a position which he has held since 9 May 2011.

Mr. Mao is currently an independent non-executive director of China Hainan Natural Rubber Industry Group Co., Ltd. (海南天然橡膠產業集團股份有限公司) (a company listed on Shanghai Stock Exchange).

Mr. Mao was an executive director of SinoChem International Corporation from November 2007 to December 2010, a non-executive director of Nantong Jiangshan Agrochemical and Chemicals Co., Ltd. from January 2008 to December 2009, and a non-executive director of China Hainan Natural Rubber Industry Group Co., Ltd. from October 2008 to June 2011, and an independent non-executive director of Yonghui Superstores Co., Ltd. (永輝超市股份有限公司) from August 2009 to September 2015, all of which are companies listed on the Shanghai Stock Exchange. He was also the Deputy General Manager of Harbin Gloria Pharmaceuticals Co., Ltd (哈爾濱譽衡藥業股份有限公司) (a company listed on Shenzhen Stock Exchange) for the period from January 2015 to December 2016.

Mr. Mao obtained a Bachelor's degree in Medicine from the Second Military Medical University in July 1984, a Master of Management Science and Engineering degree from the Dalian University of Technology in April 2002 and an Executive Master of Business Administration degree from the China Europe International Business School in October 2011.

Dr. Chen Jieping (陳杰平), aged 63, Hong Kong resident, is the chairman of the Audit Committee and a member of the Remuneration and Appraisal Committee and Budget Committee, and an independent non-executive Director, a position which he has held since 29 April 2016.

Dr. Chen held positions of Assistant Professor, Associate Professor, vice head and head of the Department of Accountancy of the City University of Hong Kong from 1991 to 2008. He has been the Associate Dean, Director of the EMBA programme and a professor at the China Europe International Business School since 2008. Dr. Chen has been an independent non-executive director of Industrial Securities Co., Ltd., a company listed on the Shanghai Stock Exchange, since 2011; an independent non-executive director of Shenzhen Worldunion Properties Consultancy Incorporated, a company listed on the Shenzhen Stock Exchange, since 2013; an independent non-executive director of iOne Holdings Limited, a company listed on the Hong Kong Stock Exchange, since 2014; and an independent non-executive director of Jinmao (China) Investments Holdings Limited, a company listed on the Hong Kong Stock Exchange, since 2014.

Dr. Chen received a bachelor's degree in science and a master's degree in hospitality management, respectively, from the University of Houston in August 1990. He obtained a master's degree in business administration from the University of Houston in May 1992 and a doctoral degree in business administration from the University of Houston in August 1995.

Mr. Chen Wei (陳巍), aged 40, is the chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee and an independent non-executive Director, a position which he has held since 9 May 2011.

Mr. Chen obtained a Bachelor's degree in International Business Law from East China University of Political Science and Law in July 1998, a Bachelor's degree in Information Management (self-learning) from Fudan University in April 2002 and an Executive Master in Business Administration degree from China Europe International Business School in October 2011.

Mr. Chen is currently a partner of Llinks Law Offices (通力律師事務所).

Mr. Chan, Wing Yuen Hubert (陳永源), aged 59, Hong Kong resident, obtained a higher diploma in company secretaryship and administration from The Hong Kong Polytechnic University. Mr. Chan Wing Yuen Hubert has been an independent non-executive Director of the Company since 25 July 2016. He is currently a member of the Nomination Committee and Audit Committee.

Mr. Chan is currently the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司) and the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司).

Mr. Chan Wing Yuen Hubert has held various positions with a number of companies listed on the Hong Kong Stock Exchange for over 10 years, including an executive director of of China Pipe Group Limited (中國管業集團有限公司) (now known as "Softpower International Limited" (冠力國際有限公司)) (stock code: 380) and Interchina Holdings Company Limited (國中控股有限公司) (now known as "EverChina Int'l Holdings Company Limited" (潤中國際控股有限公司)) (stock code: 202), an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (now known as "China Smarter Energy Group Holdings Limited" (中國智慧能源集團控股有限公司)) (stock code: 1004) and a director of Guangdong Investment Limited (粵海投資有限公司) (stock code: 270). Mr. Chan has been the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司)(which shares are listed on the Main Board of the Hong Kong Stock Exchange, stock code: 475) since November 2011, the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司) (which shares are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange, stock code: 8246) since August 2014 and an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) (which shares are listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1980) since June 2014.

Mr. Chan, Wing Yuen Hubert obtained a higher diploma in company secretaryship and administration from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Chan, Wing Yuen Hubert has been an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Securities and Investments Institute. In addition, he has been a member of the Chinese People's Political Consultative Conference — Heilongjiang Province Committee (中國人民政治協商會議黑龍江省委員會).

SUPERVISORS

The Supervisory Committee of the Company (the "**Supervisory Committee**") consists of five supervisors (collectively the "**Supervisors**"; each "**Supervisor**"), whose biographies are set forth below:

Ms. Xie Hong (謝宏), aged 47, is general manager of human resources and chairman of the Supervisory Committee, a position which she has held since 9 May 2011. Ms. Xie joined the Group in August 2010 as director of human resources.

Prior to joining the Group, Ms. Xie had worked at Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司) from May 2006 to October 2007 as head of human resources and at Shanghai Ten Fashion & Accessories Co., Ltd. (上海天恩服飾有限公司) from June 2008 to May 2010 as director of human resources. Both are companies within the PRC fashion industry.

Ms. Xie obtained a Bachelor's degree in Technology Economics from Tianjin University in July 1992. She is currently pursuing an Executive Master of Business Administration degree at Xiamen University.

Ms. Yang Lin (楊琳), aged 51, is our Supervisor, a position which she has held since 9 May 2011.

Ms. Yang worked at Lenovo Group Limited, a technology company, from 1998 to March 2001 as vice general manager of the financial department and at Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限

公司) from April 2001 to 2006 as senior financial advisor. Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司) is engaged in portfolio investment and fund management.

Ms. Yang is currently the chief financial advisor of Legend Capital Co., Ltd. (君聯資本管理股份有限公司, formerly 北京聯想投資顧問有限公司).

Ms. Yang obtained a Bachelor's degree in Economics from Jiangxi University of Finance and Economics in July 1987 and a Master's degree in Economics from Renmin University of China in July 1990. Ms. Yang received her qualification as an accountant from the Ministry of Finance in November 1993.

Mr. Zhang Xueqing (張學慶), aged 50, is our Supervisor, a position which he has held since 28 January 2014.

Mr. Zhang worked at Shanghai Nong Gong Shang Supermarket Co., Ltd. (上海農工商超市（集團）有限公司) from June 2000 to September 2001 as head of finance, at Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (復星醫藥股份有限公司) from September 2001 to September 2002 as head of investment, at Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司) from September 2002 to March 2006 as head of investment and manager in the UHT Division, at Global Children Supplies Co., Ltd. (上海全球兒童用品股份有限公司) from May 2006 to June 2014 as founder, chairman and general manager and at Shanghai Fosun High Technology (Group) Co., Ltd from July 2014 to present as vice president, managing director of Health Holding Business Department and managing director of Health Consumer Goods Department.

Mr. Zhang obtained a Bachelor's degree in Auditing from Shanghai University of Finance and Economics in July 1989.

Mr. Wu Jinying (吳金應), aged 43, is our Supervisor (since 8 November 2015) and senior technical manager (software development) of the IT department of the Company. He is a system analyst in the IT department of the Company and subsequently promoted to the system R&D manager.

Mr. Wu graduated from senior high school in 1995.

Mr. Zhang Tao (張濤), aged 46, is our Supervisor, a position which he has held since 28 January 2014.

Mr. Zhang worked at Rong An De Equity Investment Management Partnership (Limited Partnership) (熔安德股權投資基金管理有限合夥企業) from April 2011 to present as founding partner, and Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司) (a company listed on Shenzhen Stock Exchange) from June 2014 to present as an independent non-executive Director.

Mr. Zhang obtained a degree of Master of Business Administration from Boston University School of Management in January 2005, a degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2013, and he completed the Global CEO Training Program from Shanghai Jiao Tong University in June 2013.

SENIOR MANAGEMENT

The biographies of the senior management of the Company ("**Senior Management**") are set forth below:

Mr. Wang Baohai (王寶海), aged 51, was appointed as vice president of operations of the Company on 21 April 2013. He is responsible for the management of the Group's supply chain, logistics and products' quality. Mr. Wang obtained a Bachelor's degree in Mathematics from Anqing Normal University in July 1988 and a Master of Business Administration degree (distance learning) from Asia International Open University (Macau) in July 2006.

Mr. Yin Xinzai (尹新仔), aged 45, was appointed as vice president of sales and marketing of the Company on 1 September 2013. He joined the Company in June 2013 and was designated as a general manager of sales and marketing in August 2013. Mr. Yin is responsible for the overall sales and marketing. Prior to joining the Company, Mr. Yin worked at Joeone Co., Ltd. (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd. (杭州九軒服飾有限公司) from June 2012 to May 2013. Both companies are in the PRC fashion industry. Mr. Yin is pursuing an Executive Master of Business Administration degree from Xiamen University.

Mr. Yu Qiang (于強), aged 43, appointed as the Chief Financial Officer of the Company with effect from 3 May 2016. Mr. Yu has over 20 years of experience in the financial management field. Prior to joining the Company, Mr. Yu worked at Sinochem International Corporation (中化國際（控股）股份有限公司) from December 1998 to January 2010 and was the general manager of the finance division from March

2007 to January 2010. Mr. Yu later joined Nantong Jiangshan Agrochemical & Chemicals Co., Ltd (南通江山農藥化工股份有限公司) in January 2010 as financial director and subsequently promoted to the director, deputy general manager and financial director since January 2011.

Mr. Yu holds a bachelor's degree in accounting from Renmin University of China, and a master's degree in professional accountancy from the Chinese University of Hong Kong. Mr. Yu has the qualification of on-practising member of the Chinese Institute of Certified Public Accountants.

Ms. Zhang Danling (章丹玲), aged 38, was appointed as a general manager of brands on 1 July 2011. She joined the Company as a design supervisor in March 2001, and was subsequently appointed as a general manager of the overall brand management centre of the Group in January 2007. Ms. Zhang was also a Director of the Company from May 2011 to November 2012. In her current role as a general manager of La Babité brand, Ms. Zhang is responsible for the management of the brand La Babité. Ms. Zhang obtained a junior college diploma in fashion design from Sichuan University in 1999. She obtained an EMBA degree from Antai College of Economics & Management, Shanghai Jiao Tong University in December 2015.

Ms. Dong Yan (董燕), aged 38, was appointed as a general manager of brands on 26 February 2011. She joined the Company as a designer in February 2004, and was subsequently appointed as a brand supervisor of brands in February 2008. In her current role as a general manager of La Chapelle brand, Ms. Dong is responsible for the management of the brand, La Chapelle. Ms. Dong is pursuing an Executive Master of Business Administration degree from Xiamen University.

Ms. Zhang Ying (張瑩), aged 37, was appointed as a general manager of brands on 1 September 2011. She joined the Company as a designer in March 2003, and was subsequently appointed as an associate supervisor of brands in January 2006, and a supervisor of brands in June 2010. In her current role as a general manager of Puella brand, Ms. Zhang is responsible for the management of the brand, Puella. Ms. Zhang obtained a Bachelor's degree in fashion design from Tianjin Polytechnic University in July 2002 and is pursuing an Executive Master of Business Administration degree from Xiamen University.

Ms. Shi Hai (石海), aged 42, was appointed as the general manager of development on 23 April 2012. Ms. Shi has more than 15 years of experience in the PRC fashion retailing industry. Prior to joining the Group, Ms. Shi had worked at Shanghai Itokin Fashion Centre Co., Ltd. (上海伊都錦時裝中心有限公司) from 1997 to 1999 as store manager. From 2001 to February 2008, Ms. Shi worked in the Group as store manager. From February 2008 to 2011, Ms. Shi worked at Shanghai Lagogo Fashion Co., Ltd. (上海拉谷谷時裝有限公司). In March 2012, Ms. Shi re-joined the Group and was subsequently appointed as the general manager of development in April 2012 and is responsible for strategic planning, in particular expansion of retail network. Ms. Shi was an executive Director from May 2013 to June 2014. Ms. Shi is now pursuing an Executive Master of Business Administration degree from Xiamen University.

Ms. Zhang Haiyun (張海雲), aged 38, was appointed as the deputy general manager of finance of the Company on 9 April 2014. She joined the finance department of the Group in March 2001, and was subsequently appointed as a financial manager in 2006, deputy director of the finance department from January 2010 to October 2010 and head of finance from November 2011. Ms. Zhang is responsible for the finance management. Ms. Zhang is now pursuing an Executive Master of Business Administration degree from Xiamen University.

Ms. Fang Xian Li (方先麗), aged 44, secretary of board of directors of the Company since June 2016. Prior to joining the Group, Ms. Fang Xian Li had held the positions of financial officer, head of external cooperation department, assistant to general manager of the Jinqiao Project, assistant to head of the organization and personnel department, assistant to general manager cum office director and assistant to executive director of capital operation department of SAIC Motor Corporation Limited (上海汽車集團股份有限公司) from August 2003 to December 2011. She has served as an executive director of Shanghai Homeland Asset Management Co., Ltd (上海嘉合明德資產管理有限公司) since August 2011. Ms. Fang was a deputy general manager and secretary of the board of directors of Kailong High Technology Co., Ltd (凱龍高科技股份有限公司) from January 2014 to November 2015. She has been a director of Zhengtai Engineering Machinery Co., Ltd. (鄭泰工程機械股份有限公司) since November 2015.

Ms. Fang Xian Li obtained a diploma in heating, gas supply, ventilating and air conditioning engineering from Huazhong University of Science and Technology in 1994. She holds a master degree and a doctoral degree in economics from Fudan University obtained in 2000 and 2003 respectively.

JOINT COMPANY SECRETARIES

Ms. Fang Xian Li (方先麗), one of the joint company secretaries of the Company (the "**Joint Company Secretary(ies)**"), is also a member of the Senior Management. Please refer to "Senior Management" for her biography.

Ms. Wong Wai Ling (黃慧玲), one of the Joint Company Secretaries, is assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SW Corporate Services Group Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. Ms. Wong has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong has over 12 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group designs, markets and sells apparel products with a focus on mass-market ladies' casualwear in the PRC. Principal activities and other particulars of the Company's subsidiaries are set out in note 36 to the consolidated financial statements.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the Management Discussion and Analysis on pages 13 to 24 of this report. The descriptions of the financial risk management of the Group are set out in note 3 to the consolidated financial statements. Five-year financial summary of the Group is set out on page 9 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 45 of this Directors' Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements on pages 66 to 148 of this report.

A discussion and analysis of the Group's performance during the year and material factors underlying its results and financial position are set out in the "Management Discussion and Analysis" section of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company are set out in note 16 to the consolidated financial statements.

FINAL DIVIDENDS

For the year ended 31 December 2016, the Board has proposed a final dividend of RMB0.3 (tax inclusive) per ordinary share (the "**Final Dividends**") to shareholders whose names appear on the register of members of the Company on 23 May 2017, subject to approval by the shareholders of the Company at the upcoming annual general meeting of the Company to be held on 12 May 2017 (the "**2016 AGM**"). Dividends on domestic shares and unlisted foreign shares will be paid in Renminbi and dividends on H shares will be paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for 5 business days immediately prior to the date of 2016 AGM). The payment of proposed Final Dividends is expected to be made on or about 30 June 2017 subject to approval at 2016 AGM.

Pursuant to the Corporate Income Tax Law of the PRC and its implementation rules and other relevant rules, where the Company distributes the Final Dividends to non-resident enterprise shareholders whose names appear on the register of members for H shares of the Company, it is required to withhold corporate income tax. The applicable tax rate is generally 10% and can be reduced to 5%, depending on the tax treaties between the PRC and those countries or regions where the non-resident enterprises reside if certain criteria are met. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident enterprise shareholders, and consequently will be subject to the withholding of the corporate income tax.

Pursuant to the PRC Individual Income Tax Law, the Implementation Regulations of the Individual Income Tax Law, the Tentative Measures on Withholding and Payment of Individual Income Tax and other relevant laws and regulations, the foreign individuals who are the holders of H shares shall pay individual income tax at a tax rate of 20% upon their receipt of distribution of dividend from domestic enterprises which issued such H shares, which shall be withheld and paid by such domestic enterprises on behalf of the such individual H shareholders. Shareholders are recommended to consult their taxation advisors for advice on the PRC, Hong Kong and other tax effects with respect to the holding and disposing of H shares of the Company. Dividends and other payments payable by the Company to unlisted foreign shareholders and H shareholders shall follow relevant requirements on foreign exchange stipulated by the PRC.

CLOSURE OF REGISTER OF MEMBERS

On 12 May 2017, the Company will hold the 2016 AGM for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the meeting. Relevant details of the resolutions are set out in the notice of the 2016 AGM dated 27 March 2017.

In order to determine the shareholders who are entitled to attend the 2016 AGM, the register of members of the Company will be closed from 12 April 2017 to 11 May 2017 (both days inclusive), during which period no transfer of shares of the Company can be registered. In order to be qualified to attend and vote at the 2016 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holder(s) of H shares), or the registered office of the Company in the PRC at Room 3300, Level 3, Block 1, 270 Cao Xi Road, Xuhui District, Shanghai, PRC (for holder(s) of domestic shares and unlisted foreign shares) for registration not later than 4:30 p.m. on 11 April 2017.

Shareholders whose names appear on the register of members of the Company at the close of business on 11 April 2017 are entitled to attend and vote at the 2016 AGM.

In order to determine the shareholders who are entitled to receive the Final Dividends, the register of members of the Company will be closed from 18 May 2017 to 23 May 2017 (both days inclusive), during which period no transfer of shares can be registered. In order to be qualified to receive the Final Dividends, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holder(s) of H shares), or the registered office of the Company in the PRC at Room 3300, Level 3, Block 1, 270 Cao Xi Road, Xuhui District, Shanghai, PRC (for holder(s) of domestic shares and unlisted foreign shares) for registration not later than 4:30 p.m. on 17 May 2017.

Shareholders whose names appear on the register of members of the Company at the close of business on 23 May 2017 are entitled to receive the Final Dividends.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note 6 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Bank loans and other borrowings of the Company and the Group as at 31 December 2016 are set out in note 19 to the consolidated financial statements.

DONATIONS

As a corporate citizen, the Company is driven by its wish to create maximum value for the community where its operation is located and participated in social welfare activities. During the year ended 31 December 2016, the Group and its staff made direct donations to a number of charity organizations.

Clothing Donation of the Company in 2016:

Beneficiary	Time	Quantity (piece)	Value (RMB)
China Foundation for Disabled Persons	April 2016	162,191	8,707,334.21
China Foundation for Disabled Persons	May 2016	148,313	8,941,748.95
Shanghai Foundation for Disabled Persons	May 2016	81,994	6,035,986.16
China Foundation for Disabled Persons	June 2016	537,432	30,889,192.12
Shanghai Foundation for Disabled Persons	June 2016	88,849	4,808,606.07
Youth League of Shanghai Xuhui District	June 2016	4,234	417,475.00
Strategic CSR Network Limited (donations in Hong Kong)	July 2016	30	1,014.96
Total		**1,023,043**	**59,801,357.47**

The Company and Mr. Xing Jiaxing, the Chairman of the Board, always pay close attention to and support the career of disabled persons in China and the development of China Foundation for Disabled Persons. Since 2009, the Company has actively donated new clothes and accessories to improve the living standard of disabled persons, making substantial contributions to their careers through concrete actions. Up to December 2016, the Company has accumulatively donated 1,999,000 brand new clothes and accessories to China Foundation for Disabled Persons. These donations were sent to 20 provinces, districts and cities, including Jiangxi, Xinjiang, Heilongjiang, Yan'an in Shaanxi and Linze in Gansu.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date before printing this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2016 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Xing Jiaxing (邢加興)	Chairman, Executive Director and chief executive officer	Overall management of the Group, strategic planning and decision making	9 May 2011	March 2001
Mr. Wang Yong (王勇)	Executive Director and executive vice president	Strategic planning and investment business	9 November 2012	April 2012
Mr. Wang Wenke (王文克)	Executive Director and executive vice president	marketing and administrative affair	17 July 2015	February 2015
Mr. Li Jiaqing (李家慶)	Non-executive Director	As a non-executive Director	9 May 2011	April 2010
Mr. Lu Weiming (陸衛明)	Non-executive Director	As a non-executive Director	9 May 2011	January 2008
Mr. Cao Wenhai (曹文海)	Non-executive Director	As a non-executive Director	9 May 2011	March 2010
Ms. Wang Haitong (王海桐)	Non-executive Director	As a non-executive Director	31 July 2014	July 2014
Mr. Luo Bin (羅斌)	Non-executive Director	As a non-executive Director	5 May 2015	May 2015
Mr. Mao Jianong[1] (毛嘉農)	Independent non-executive Director	As an independent Director	9 May 2011	May 2011
Dr. Chen Jieping (陳杰平)	Independent non-executive Director	As an independent Director	29 April 2016	April 2016
Mr. Zhou Guoliang[2] (周國良)	Independent non-executive Director	As an independent Director	23 May 2013	May 2011
Mr. Chen Wei[3] (陳巍)	Independent non-executive Director	As an independent Director	9 May 2011	May 2011
Mr. Chan, Wing Yuen Hubert (陳永源)	Independent non-executive Director	As an independent Director	25 July 2016	July 2016
Professor Japhet Sebastian Law[4] (羅文鈺)	Independent non-executive Director	As an independent Director	11 August 2013	August 2013

1. Mr. Mao Jianong's term of service will expire on 8 May 2017. As he will have served six years consecutively as an independent non-executive Director, according to the Articles of Association, he shall not continue to serve as an independent non-executive Director, the chairman of the Nomination Committee, a member of the Audit Committee and Strategy and Development Committee and a Director. Mr. Zhang Yi has been nominated by the Board as an independent non-executive Director of the third session of the Board. His appointment will be subject to the approval by the Shareholders at the 2016 AGM.

2. According to the requirement of Ministry of Education of the PRC, Mr. Zhou Guoliang resigned as an independent non-executive Director, the chairman of the Audit Committee, the member of the Remuneration and Appraisal Committee and Budget Committee and a Director on 29 April 2016.

3. Mr. Chen Wei's term of service will expire on 8 May 2017. As he will have served six years consecutively as an independent non-executive Director, according to the Articles of Association, he shall not continue to serve as an independent non-executive Director, the chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee and and a Director. Mr. Zhang Zeping has been nominated by the Board as an independent non-executive Director of the third session of the Board. His appointment will be subject to the approval by the Shareholders at the 2016 AGM.

4. Professor Japhet Sebastian Law resigned as an independent non-executive Director, a member of the Nomination Committee and Audit Committee and a Director on 25 July 2016 due to the increase in competing demand for his time to various matters.

The Supervisors during the year ended 31 December 2016 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Ms. Xie Hong[1] (謝宏)	Chairperson of the Supervisory Committee and general manager of human resources	Supervision of the Board and Senior Management, and management of the Group's human resources	9 May 2011	August 2010
Ms. Yang Lin (楊琳)	Supervisor	Supervision of the Board and Senior Management	9 May 2011	May 2011
Mr. Zhang Xueqing (張學慶)	Supervisor	Supervision of the Board and Senior Management	13 January 2014	January 2014
Mr. Wu Jinying (吳金應)	Supervisor and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001
Mr. Zhang Tao (張濤)	Supervisor	Supervision of the Board and Senior Management	13 January 2014	January 2014

1. Ms. Xie Hong has stepped down as an employee representative supervisor and the chairperson of the Supervisory Committee to devote more time to her other personal commitments, the resignation has been approved at the Supervisory Committee meeting of the Company held on 16 March 2017. Mr. Chen Fangping has been elected as the employee representative supervisor of the Company on the employee representative meeting of the Company held on 10 March 2017, and has been appointed as the chairperson of the Supervisory Committee in the Supervisory Committee meeting held on 16 March 2017.

Biographical details of the Directors, Supervisors and Senior Management are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Save as disclosed below, each of the Directors and Supervisors has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration, which is for a period of three years from May 2014. Dr. Chen Jieping has entered into a service contract for a term commencing from his appointment on 29 April 2016 and ending on the expiry of the second session of the Board. In addition, Mr. Chan Wing Yuen Hubert has entered into a service contract for a term commencing from his appointment on 25 July 2016 and ending on the expiry of the second session of the Board.

For the year ended 31 December 2016, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

None of the Director or Supervisor had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2016.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO; or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Long position in the shares of the Company

Name of Director, Supervisor and Chief Executive	Nature of interest and capacity	Number of shares interested	Approximate percentage of shareholding in the relevant class of shares as at 31 December 2016	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2016
Mr. Xing Jiaxing[1]	Beneficial owner, interest in a controlled corporation, deemed interest pursuant to section 318 of the SFO	187,078,815 Domestic Shares	72.32%	37.95%

1. Mr. Xing Jiaxing was the beneficial owner of 141,874,425 domestic shares of the Company ("**Domestic Shares**"), which represent approximately 28.78% of the total issued share capital of the Company as at 31 December 2016. As Mr. Xing Jiaxing holds more than one-third of the equity interest in the registered capital of Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**"), he is deemed, pursuant to section 316 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being 45,204,390 Domestic Shares), which represented approximately 9.17% of the total issued share capital of the Company as at 31 December 2016. In addition, Mr. Xing Jiaxing and Shanghai Hexia entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 Domestic Shares mentioned above), which represents approximately 9.17% of the total issued share capital of the Company as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the

SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO; or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2016, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest and capacity	Number of shares interested	Approximate percentage of shareholding in the relevant class of shares as at 31 December 2016	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2016
Shanghai Hexia[1]	Beneficial owner, deemed interest pursuant to section 318 of the SFO	187,078,815 Domestic Shares	72.32%	37.95%
The Goldman Sachs Group, Inc[2]	Interest in controlled corporation	18,236,842 Domestic Shares	7.05%	3.69%
LC Fund IV GP Limited[3]	Interest in controlled corporation	58,697,132 H Shares	27.32%	11.90%
Gabriel Li[4]	Interest in controlled corporation	21,655,200 H Shares	10.08%	4.39%
Lam Lai Ming[4]	Interest in controlled corporation	21,655,200 H Shares	10.08%	4.39%
Zhejiang Longsheng Group Co., Ltd.[5]	Interest in controlled corporation	20,396,400 H Shares	9.49%	4.13%
Senda International Capital Limited	Beneficial owner	16,630,800 H Shares	7.74%	3.37%

1 Shanghai Hexia was interested 45,204,390 Domestic Shares, which represented approximately 9.17% of the total issued share capital of the Company as at 31 December 2016. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to

section 318 of the SFO, to be interested in the Company's shares in which Mr. Xing Jiaxing is interested (being the 141,874,425 Domestic Shares, representing approximately 28.78% of the total issued share capital as at 31 December 2016 held by Mr. Xing Jiaxing as at 31 December 2016).

2 The Goldman Sachs Group, Inc is a company listed on the New York Stock Exchange. The Goldman Sachs Group, Inc, through its various entities, controls Beijing Broad Street Investment Centre (limited partnership) (formerly known as Beijing Goldman Sachs Investment Centre (Limited Partnership)), which was beneficially interested in 18,236,842 Domestic Shares and The Goldman Sachs Group, Inc was deemed to be interested in such shares by virtue of the SFO.

3 These H Shares of the Company were held by Good Factor Limited, 55.4% equity interest of which is owned by LC Fund IV, L.P. ("**LC Fund**"), which is controlled by LC Fund IV GP Limited.

4 Mr. Gabriel Li was deemed to be interested in an aggregate of 21,655,200 H shares of the Company by virtue of the SFO. Those interests held through Areo Holdings Limited comprised deemed interests in 20,574,800 H shares of the Company held by Orchid Asia V Group, Limited through its various entities, namely Orchid Asia V Group Management, Limited, Orchid Asia VI GP, Limited, Oavi Holdings, L.P., Orchid Asia VI, L.P. and 1,080,400 H shares of the Company held by Orchid Asia V Co-Investment, Limited. As a spouse of Mr. Gabriel Li, Ms. Lam Lai Ming was deemed to be interested in an aggregate of 21,655,200 H shares of the Company held by Mr. Gabriel Li by virtue of the SFO.

5 These H shares of the Company were held by Senda International Capital Limited and Well Prospering Limited, which holds 16,630,800 and 3,765,600 H shares of the Company respectively.

Other than as disclosed above, as at 31 December 2016, the Directors have not been notified by any person (not being the directors, supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

The Directors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments and the five highest paid individuals are set out in notes 26 and 39 to the consolidated financial statements respectively.

EMOLUMENT POLICY

The Remuneration and Appraisal Committee was set up to develop the Group's emolument policy and structure for remuneration of the Directors, Supervisors and Senior Management of the Group, having regard to the Group's operating results, individual performance of the Directors, Supervisors and Senior Management and comparable market practices.

PENSION SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "**Schemes**") organized by the local authorities whereby the subsidiaries are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries. Contributions to these Schemes vest to employees immediately. Under these Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2016 were RMB219,883,000.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2016, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases; and the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

SUSTAINABLE DEVELOPMENT

The Group is committed to promoting the sustainable development of the environment and community. We recognise the inevitable impacts on the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificates in compliance with the national and international environmental standards, safety standards and health for workers. In addition, the Group conducts performance assessment of its suppliers on environment and social responsibility regularly. These national and international standards include several standards and regulations, such as ISO14001 accreditation, OEKO-TEX accreditation, ISO9001 and the discharge standard of water waste for textile, dyeing and finishing industry (GB4287-92). Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2016" (the "**ESG Report 2016**"), which is available on the websites of the Stock Exchange and the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Group fully understands that employees, customers and partners are the key to our sustainable and steady development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our partners and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group values our staff as the most important resource. Hence, the Group has been endeavouring to provide our staff with equal opportunities and humane workplace. We offer a competitive remuneration package and great opportunities for promotion based on employees' performance. The Group also provides our staff with regular training, including internal training and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market and industry as well as to upgrade their job skills.

"Providing quality products and services to customers" has always been our goal. We uphold the philosophy of "Building up the brand reputation for the Company by placing equal emphasis on service and quality" to actively communicate with our customers to understand their views and suggestions so as to enhance our products and services.

We firmly believe that our suppliers are equally important in developing high-quality products. The Group has signed a bona-fide agreement for cooperation with every supplier at arms' length. Through open procedures for tender invitation and submission, the requirements of anti-corruption and antibribery are strictly followed, and various reporting channels are provided (including the mailbox and hotline made available to the public for reporting set up by the Audit Department). This agreement is an important legally binding attachment to any procurement cooperation agreement. In addition, we engaged a third-party inspection entity and adopted an "order management system" to strictly control the production process and product quality. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2016.

CONNECTED TRANSACTIONS

Continuing Connected Transaction

During the reporting period, the Group entered into or participated in certain transactions with Hangzhou Anshe. Since the Company is interested in 54.05% equity interest of Hangzhou Anshe, Hangzhou Anshe is a non wholly-owned subsidiary of the Company. As Aibo Technology Company Limited, which is interested in 14.32% equity interest of Hangzhou Anshe, is owned as to 90.5% by LC Fund, which in turn controls Good Factor Limited, a substantial shareholder of the Company, Hangzhou Anshe is a connected subsidiary of the Company. As such, the transactions entered into between the Group and Hangzhou Anshe constituted continuing connected transactions of the Company as defined under the Listing Rules. Details of the continuing connected transactions carried out between the Group and Hangzhou Anshe during the reporting period are as follows:

1. The Company entered into a service agreement (the "**Existing Service Agreement**") with Hangzhou Anshe on 27 August 2015, pursuant to which Hangzhou Anshe has agreed to provide services to the Company in relation to the sale of products under the Company's brands via various e-commerce platforms, which include website construction, marketing, maintenance of online stores, customer services and platform resource management. Entering into the Existing Service Agreement with Hangzhou Anshe was part of the Company's strategy to capitalize on the talents of Hangzhou Anshe to further strengthen the Company's online sales channels and to improve its online sales capabilities. The Existing Service Agreement has a term commencing from 10 March 2015 and ended on 31 December 2015 (which was subsequently extended to 31 December 2016). Pursuant to the Existing Service Agreement, the service fee payable to Hangzhou Anshe was determined based on revenue generated through third party e-commerce platforms multiplied by a set of percentages, ranging from 25% to 35% depending on platform type, minus expenses incurred. For details of the terms and conditions, please refer to the announcement of the Company dated 21 March 2016. The proposed cap under the Existing Service Agreement, being the total amount payable by the Company to Hangzhou Anshe under the Existing Service Agreement, for the period commencing from 1 January 2016 and ended on 31 December 2016 is RMB180,000,000. For the year ended 31 December 2015, the service fees payable by the Company to Hangzhou Anshe was RMB93,269,824. Therefore, the service fees did not exceed the relevant proposed cap.

2. The Company entered into a new service agreement (the "**New Service Agreement**") with Hangzhou Anshe on 29 April 2016, pursuant to which Hangzhou Anshe has agreed to operate various online sales platforms for the sale of the Group's products and the provision of services to the Group, which include but not limited to establishment and operation of webstores, marketing and promotion, customer services and platform resource management. Entering into the New Service Agreement with Hangzhou Anshe was part of the Company's strategy to capitalize on the talents of Hangzhou Anshe to further strengthen the Company's online sales channels and to improve its online sales capabilities. Additionally, by entering into the New Service Agreement, the Company and Hangzhou Anshe were able to further align both parties' interests with the actual operation results of the Group's

business through e-commerce platforms. The New Service Agreement has a term commencing from 1 May 2016 and ended on 31 December 2016 and is extendable for a further term of two years ending on 31 December 2018, provided that there is no disagreement between the parties and subject to the Company's compliance with the Listing Rules. Pursuant to the New Service Agreement, the service fee payable to Hangzhou Anshe was 50% of the profit derived from the Group's sales through e-commerce platforms, plus the actual cost incurred by Hangzhou Anshe for operating the e-commerce platforms in relation to the Group's business and the applicable PRC value added tax. For details of the terms and conditions, please refer to the announcement of the Company dated 29 April 2016. Upon the signing of the New Service Agreement, the Existing Service Agreement has been terminated automatically.

The proposed caps under the New Service Agreement, being the total amount payable by the Group to Hangzhou Anshe under the New Service Agreement, are as follows:

Term	1 May 2016– 31 December 2016	1 January 2017– 31 December 2017	1 January 2018– 31 December 2018
Cap (RMB)	150,000,000	200,000,000	200,000,000

For the period from 1 January 2016 to 30 April 2016, the total amount payable by the Group to Hangzhou Anshe under the Existing Service Agreement was RMB40,407,000, which was within the annual cap of RMB180,000,000 for the period. For the period from 1 May 2016 to 31 December 2016, the total amount payable by the Group to Hangzhou Anshe under the New Service Agreement was RMB100,550,000, which was within the proposed cap for the period from 1 May 2016 and ended on 31 December 2016 under the New Service Agreement.

3. Candie's Shanghai Fashion Co., Ltd. ("**CSF**") (a non wholly-owned subsidiary of the Company) entered into a licensing agreement (the "**Licensing Agreement**") with Hangzhou Anshe on 17 June 2016, pursuant to which CSF has agreed to grant to Hangzhou Anshe a license to use the covered trademarks in the design and sale of products via e-commerce platforms in the PRC. Entering into the Licensing Agreement with Hangzhou Anshe not only would allow Hangzhou Anshe to diversify its product offering and further expand its sales, but also would allow CSF to earn licensing income from the sales of the relevant products by Hangzhou Anshe. The Licensing Agreement has a term commencing from 1 June 2016 and ending on 31 May 2019. Pursuant to the Licensing Agreement, the license fees payable to CSF was calculated based on 3% of the revenue generated through the sale of products using the covered trademarks by Hangzhou Anshe on the e-commerce platforms in the PRC. For details of the terms and conditions, please refer to the announcement of the Company dated 17 June 2016.

The proposed caps under the Licensing Agreement, being the total amount payable by Hangzhou Anshe to CSF, are as follows:

Term	1 June 2016– 31 December 2016	1 January 2017– 31 December 2017	1 January 2018– 31 December 2018	1 January 2019– 31 May 2019
Cap (RMB)	3,000,000	6,000,000	9,000,000	4,000,000

For the period from 1 June 2016 to 31 December 2016, the licensing fees in total payable by Hangzhou Anshe to CSF was RMB304,000. As the proposed cap for transactions contemplated under the Licensing Agreement during that period is RMB3,000,000, the fees payable did not exceed the relevant proposed cap.

4. The Company entered into a sales agency agreement (the "**Sales Agency Agreement**") with Hangzhou Anshe on 3 November 2016, pursuant to which Hangzhou Anshe has agreed to sell the Group's products as an agent of the Group through ICON, an online Wechat sales platform developed and operated by Hangzhou Anshe. As Hangzhou Anshe owns various distribution channels on the ICON platform, entering into the Sales Agency Agreement with Hangzhou Anshe was a natural extension of the Group's ongoing cooperation with Hangzhou Anshe in the area of online sales channels, allowing the Group to capitalize on the talents of Hangzhou Anshe to diversify the Company's online sales channels to cover Wechat platforms and to further improve its online sales capabilities. The Sales Agency Agreement has a term commencing from 3 November 2016 and ended on 31 December 2016. Pursuant to the Sales Agency Agreement, the contract fees payable to Hangzhou Anshe was 50% of the net profit derived from the sales of the Group's product by Hangzhou Anshe through the ICON platform, plus the service costs incurred by Hangzhou Anshe under the Sales Agency Agreement for operating the ICON platform and the applicable PRC value added tax. For details of the terms and conditions, please refer to the announcement of the Company dated 3 November 2016. The Sales Agency Agreement and the New Service Agreement are aggregated for the purpose of classification of connected transactions in accordance with Rule 14A.81 of the Listing Rules.

   For the period from the date of the Sales Agency Agreement to 31 December 2016, the proposed cap for the transactions contemplated under the Sales Agency Agreement, being the total amount payable by the Group to Hangzhou Anshe under the Sales Agency Agreement, is RMB3,000,000. The aggregated cap, being the sum of the proposed cap under the Sales Agency Agreement and the cap for the period commencing from 1 May 2016 and ended on 31 December 2016 under the New Service Agreement (the "**Aggregated Cap**"), is RMB153,000,000. The following chart sets out the details:

	Proposed cap under the Sales Agency Agreement	Aggregated amount of the proposed caps under the New Service Agreement and the Sales Agency Agreement
Term	3 November 2016– 31 December 2016	1 May 2016–31 December 2016
Cap (RMB)	3,000,000	153,000,000

   For the period from 3 November 2016 to 31 December 2016, the contract fees payable by the Company to Hangzhou Anshe under the Sales Agency Agreement was RMB1,548. As the proposed cap for the transactions contemplated under the Sales Agency Agreement was RMB3,000,000, the contract fees did not exceed the proposed cap for the period from 3 November 2016 to 31 December 2016 under the Sales Agency Agreement and the Aggregated Cap of RMB153,000,000 for the period from 1 May 2016 to 31 December 2016.

Confirmations from the Directors and auditor

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed these transactions of the Company and confirmed that the continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better (as defined under the Listing Rules); and

(c) according to the agreement governing them, on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements HKSAE 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transaction disclosed by the Group on page 42 to page 44 of this annual report in accordance with the Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor has reviewed the above continuing connected transactions and confirmed to the Board that:

(1) Nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) For transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) Nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) The above continuing connected transactions did not exceed the cap and the Aggregated Cap proposed under relevant agreements.

The above disclosures are made pursuant to the relevant requirements of Chapter 14A of the Listing Rules.

Save as disclosed above, for the year ended 31 December 2016, the Group has not entered into any connected transactions (as defined under the Listing Rules). The related party transactions as set out in note 35 of consolidated financial statements do not constitute connected transaction under the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2016 or as at the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 31 December 2016.

AUDIT COMMITTEE

During the year ended 31 December 2016, the Audit Committee met 3 times to review the annual financial results in respect of the year ended 31 December 2015 and the interim financial results in respect of the six months ended 30 June 2016, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2016.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2016 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2016, the Remuneration and Appraisal Committee met twice to review and assess the annual job performance of the Senior Management, review the policy and structure of the remuneration of Directors and Senior Management and other related matters, and make recommendations to the Board accordingly.

NOMINATION COMMITTEE

During the year ended 31 December 2016, the Nomination Committee met twice to nominate Senior Management for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

PricewaterhouseCoopers has been appointed as international auditors of the Company for the year ended 31 December 2016. PricewaterhouseCoopers shall retire in the 2016 AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as international auditors of the Company will be proposed at the 2016 AGM.

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) was appointed as the PRC statutory auditors of the Company for the year ended 31 December 2016. The resolution regarding the re-appointment of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the PRC auditors of the Company will be tabled at the 2016 AGM.

The remuneration paid to PricewaterhouseCoopers in respect of the audit services rendered for the year ended 31 December 2016 and remuneration prepaid to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) in respect of A share listing was RMB3,700,000 and RMB2,300,000 respectively. Remuneration paid to PricewaterhouseCoopers in respect of the Hong Kong profit tax reporting service for the Company was RMB28,000.

POST BALANCE SHEET EVENTS

Details of the events after the reporting period are set out in note 37 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2016 interim report of the Company.

For and on behalf of the Board
Xing Jiaxing (邢加興)
Chairman

Shanghai, PRC, 16 March 2017

Report of the Supervisory Committee

In 2016, the Supervisory Committee of the Company continued to carry out its duties to safeguard the interests, and the rights of the Company and the shareholders and performed its function by monitoring all aspects of the Company in 2016 in accordance with the relevant provisions of the Company Law and other applicable laws and regulations of the PRC, the Articles of Association, and the Rules of Procedure of the Supervisory Committee. The Supervisory Committee is of the opinion that during the year ended 31 December 2016, all Board members of the Company have performed their duties diligently and implemented fully the resolutions passed at general meetings, and no act prejudicial to the interests of shareholders occurred. The report of the Supervisory Committee for the year ended 31 December 2016 is as follows:

1. WORK PERFORMED BY THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the reporting period, the Company convened two meetings of the Supervisory Committee: namely the seventh meeting of the second session of the Supervisory Committee, and the eighth meeting of the second session of the Supervisory Committee. The convening and voting procedures of the meetings complied with the relevant provisions of the Company Law of the PRC and the Articles of Association. Specific details are as follows:

(I) The seventh meeting of the second session of the Supervisory Committee

On 11 March 2016, the Company convened the seventh meeting of the second session of the Supervisory Committee in Shanghai. All 5 Supervisors who were entitled to attend the meeting were present. The meeting was convened and chaired by the chairman of the Supervisory Committee. Audited Financial Statements prepared in accordance with IFRSs for the year ended 31 December 2015 of the Group proposed by the Board to be tabled at the General Meeting, Audited Financial Statements prepared in accordance with generally accepted accounting standards in the PRC for the years 2013, 2014 and 2015 of the Group proposed by the Board to be tabled at the General Meeting, and the Final Dividends to be declared and the related Record Date and Closure of Register of Members proposed by the Board to be tabled at the General Meeting, were considered and passed at the meeting.

(II) The eighth meeting of the second session of the Supervisory Committee

On 6 September 2016, the Company convened the eighth meeting of the second session of the Supervisory Committee in Shanghai. All 5 Supervisors who were entitled to attend the meeting were present. The meeting was convened and chaired by the chairman of the Supervisory Committee. Resolutions on the Financial Statements and Auditor's Report for the years 2013, 2014 and 2015 and the six months ended 30 June 2016 of Shanghai La Chapelle Fashion Co. Ltd., the Protocol on Effectiveness of Internal Control in relation to the Accounting Statements as at 30 June 2016 of Shanghai La Chapelle Fashion Co. Ltd., and the Interim Dividends to be declared and the related Record Date and Closure of Register of Members proposed by the Board to be tabled at the General Meeting, were considered and passed at the meeting.

During the reporting period, in addition to holding meetings of the Supervisory Committee, members of the Supervisory Committee also observed the Board meetings and attended the general meetings of the Company and became aware of various important proposals and resolutions of the Company. With a better understanding of the decision-making process of the Company regarding important issues and the operating results of the Company, the Supervisory Committee was able to perform its supervision and inspection functions on an informed basis.

2. INDEPENDENT OPINIONS EXPRESSED BY SUPERVISORY COMMITTEE WITH REGARDS TO COMPLIANCE BY THE COMPANY WITH LAWS

In 2016, the Supervisory Committee of the Company carried out its supervisory responsibilities in accordance with the relevant provisions of the Company Law and other applicable laws and regulations of the PRC, and the Articles of Association and expressed the following independent opinions on relevant aspects of the Company during the reporting period:

Pursuant to the relevant provisions of the Company Law and applicable laws and regulations of the PRC and the Articles of Association, the Supervisory Committee of the Company inaugurated the second session of Supervisory Committee on 11 June 2014, after duly considered and approved by the shareholders' general meeting. In accordance with the laws, the Supervisory Committee of the Company conducted supervision on the operations of the Company, observed or attended the Board meetings and general meetings of the Company, conducted supervision on the decision-making process and the performance of duties by members of the Board and the senior management of the Company in 2016. The Supervisory Committee is of the opinion that the general meetings and Board meetings of the Company were convened and held pursuant to relevant provisions of the Company Law, and applicable laws and regulations of the PRC and the Articles of Association; the decision-making process was in compliance with the provisions of the relevant laws and regulations and the Articles of Association, and the content of the resolutions were legitimate and valid. No violation of laws and regulations has been detected by the Supervisory Committee. The Company has established a more comprehensive corporate governance structure and internal control system in accordance with its practical circumstances and the requirements of laws and regulations. Members of the Board and the senior management have performed their duties loyally and diligently in accordance with the relevant provisions of national laws and regulations and the Articles of Association. During the reporting period, members of the Board and the senior management of the Company have not committed any acts that were in breach of laws and regulations or the Articles of Association, nor have they engaged in any act prejudicial to the interests of the Company and shareholders.

3. INDEPENDENT OPINIONS EXPRESSED BY SUPERVISORY COMMITTEE WITH REGARDS TO FINANCIAL POSITION OF THE COMPANY

In 2016, in accordance with the applicable laws and regulation of the PRC and the Articles of Association, the Supervisory Committee conducted supervision on areas including the financial position and financial management of the Company. The Supervisory Committee is of the opinion that the Company has a well-established financial system and sound financial position, and that the Financial Report 2016 gives a true and fair view of the financial position and operating results of the Company. A standard unqualified Auditor's Report has been prepared by PricewaterhouseCoopers.

4. INDEPENDENT OPINIONS EXPRESSED BY SUPERVISORY COMMITTEE WITH REGARDS TO ACQUISITION, DISPOSAL OF ASSETS BY THE GROUP

The Supervisory Committee is of the opinion that related transactions of the Company during the reporting period are on fair terms and of no harm to the interest of the Company.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2016.

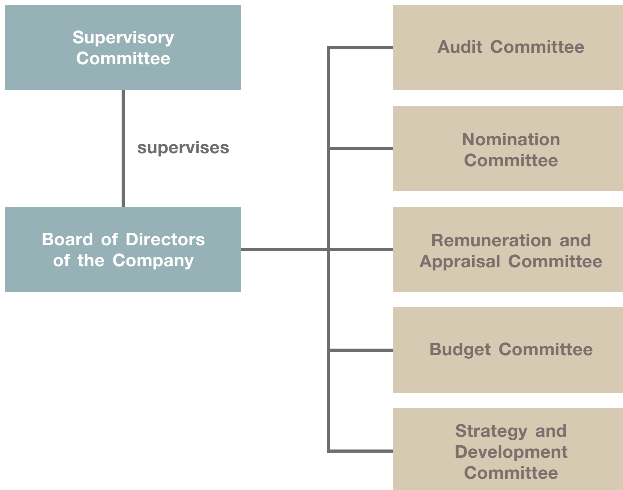
During the year ended 31 December 2016, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below, making corporate governance rules and recommendations with respect to Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Joint Company Secretaries, communication between the Company and Shareholders.

In particular, the Chairman assumes the major responsibility for ensuring sound corporate governance practices and procedures of the Company. The Company has adopted a corporate governance policy, stating terms of reference for the Board to perform, including but not limited to: formulation and review of the corporate governance policy and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and Senior Management; review and monitoring of the policies and practices of the Company in relation to compliance with laws and regulatory requirements; formulation, review and monitoring of compliance by staff and Directors with code of conduct and compliance manual; and review of the compliance of the Company with the CG Code.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. The Group reviewed relevant regulations seriously pursuant to the guidelines as stipulated in the Listing Rules, and introduced corporate governance practices appropriate to the conduct and growth of the business.

As of 31 December 2016, the governance structure of the Company is as follow:



The H shares of the Company were listed on the Stock Exchange with effect from the Listing Date, therefore, the CG Code has been applicable to the Company since the Listing Date.

In the opinion of the Board, the Company has been in compliance with the Code Provisions as set out in the CG Code during the year ended 31 December 2016, save as to the deviation from the Code Provision A.2.1. Code Provision A.2.1 requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Xing Jiaxing is currently the chairman and chief executive officer of the Company, responsible for the overall management of the Group. Mr. Xing Jiaxing is the founder of the Group and has extensive experience in the industry. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of four independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing taking up both roles for continuous effective management and business development of the Group. In addition, the division of responsibilities between the chairman and chief executive officer has been clearly established and set out in writing.

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for overall management and control of the Company. The Board's main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All Directors carry out their duties in good faith and in compliance with the applicable laws and regulations, and acting in the interest of the Company and its shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the Joint Company Secretaries and Senior Management, with a view to ensuring that Board procedures and all applicable laws and regulations are followed.

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Directors have full and timely access to consultation with the Senior Management independently. Any Director and Board professional committee may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the management of the Group. The respective functions of the Board and management of the Company were established and will be reviewed from time to time as appropriate. To oversee particular aspects of the Company's affairs, the Board has established five Board professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, the Budget Committee and the Strategy and Development Committee (altogether the "**Board Professional Committees**"). The Board has delegated to the Board Professional Committees responsibilities as set out in their respective terms of reference.

Board Composition

As at the date of this report, the Directors were as follows:

Executive Directors

Xing Jiaxing *(Chairman and chief executive officer)*
Wang Yong
Wang Wenke

Non-executive Directors

Li Jiaqing
Lu Weiming
Cao Wenhai
Wang Haitong
Luo Bin

Independent Non-executive Directors

Mao Jianong
Chen Wei
Chen Jieping (appointed on 29 April 2016)
Chan, Wing Yuen Hubert (appointed on 25 July 2016)

Biographical details of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

There are no relationships among the Directors, Supervisors and Senior Management, including financial, business, family or other material/relevant relationships.

During the year ended 31 December 2016, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Director has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Professional Committees, all non-executive Directors make various contributions to the effective direction of the Company.

Induction and Continuous Professional Development

Directors confirmed that they have complied with Code Provision A.6.5 relating to the director training. In this year, all Directors have participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to develop and refresh their knowledge and skills. All Directors have provided their training record to the Company.

Name of Directors	Corporate Governance	Rules and Regulations	Financial Management	Business Management
Mr. Xing Jiaxing	√	√	√	√
Mr. Wang Yong	√	√	√	√
Mr. Wang Wenke	√	√		√
Mr. Li Jiaqing	√	√	√	√
Mr. Lu Weiming	√	√	√	
Mr. Cao Wenhai	√	√	√	
Ms. Wang Haitong	√	√	√	√
Mr. Luo Bin	√	√	√	√
Mr. Mao Jianong	√	√	√	√
Mr. Chan, Wing Yuen Hubert	√	√	√	
Mr. Chen Wei	√	√		√
Dr. Chen Jieping	√	√	√	
Mr. Zhou Guoliang (resigned on 29 April 2016)	√	√	√	
Professor Japhet Sebastian Law (resigned on 25 July 2016)	√	√	√	

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Xing Jiaxing is currently the chairman and chief executive officer of the Company, responsible for the overall management of the Group. Mr. Xing Jiaxing is the founder of the Group and has extensive experience in the industry. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of four independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing taking up both roles for continuous effective management and business development of the Group. In addition, the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Save as disclosed below, each of the Directors has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration, which is for a period of three years from May 2014. In compliance with the relevant requirements of the Ministry of Education, Mr. Zhou Guoliang resigned as an independent non-executive Director on 29 April 2016. His resignation took place as the appointment of Dr. Chen Jieping as an independent non-executive Director was approved by the Shareholders at the 2015 annual general meeting held on 29 April 2016. Dr. Chen Jieping has entered into a service contract for a term commencing from his appointment and ending on the expiry of the second session of the Board. Prof. Japhet Sebastian Law resigned as an independent non-executive Director on 25 July 2016 due to his personal commitments. His resignation took place as the appointment of Mr. Chan, Wing Yuen Hubert as an independent non-executive Director was approved by the Shareholders at the 2016 first extraordinary general meeting held on 25 July 2016. Mr. Chan, Wing Yuen Hubert has entered into a service contract for a term commencing from his appointment and ending on the expiry of the second session of the Board. Moreover, Mr. Mao Jianong and Mr. Chen Wei will reach their sixth year of service in May 2017, and their retirement will become effective as each of the appointment of Mr. Zhang Zeping and Mr. Zhang Yi as independent non-executive Directors is approved by the Shareholders at the upcoming 2016 annual general meeting.

Board Professional Committees

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls.

The Audit Committee currently consists of five non-executive Directors, three of whom are independent. The members of the Audit Committee are currently Mr. Luo Bin, Dr. Chen Jieping, Mr. Cao Wenhai, Mr. Mao Jianong and Mr. Chan, Wing Yuen Hubert. It is currently chaired by Dr. Chen Jieping, an independent non-executive Director. Dr. Chen Jieping joined and chaired the Audit Committee upon the approval by the 2015 annual general meeting held on 29 April 2016 and the approval by the Board. Mr. Chan, Wing Yuen Hubert joined the Audit Committee upon the approval by the 2016 first extraordinary general meeting held on 25 July 2016 and the approval by the Board.

During the year ended 31 December 2016, the Audit Committee met three times to review the annual financial results in respect of the year ended 31 December 2015 and the interim financial results in respect of the six months ended 30 June 2016, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors once without the presence of the executive Directors during the year ended 31 December 2016.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence and diversity of the independent non-executive Directors and to make recommendations to the Board on the appointment and removal of Directors. The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, such individuals' skills, experience, professional knowledge and time commitments, the Company's needs and other relevant statutory requirements and regulations.

The Nomination Committee currently consists of one executive Director, four non-executive Directors, three of whom are independent. The members of the Nomination Committee are currently Mr. Mao Jianong, Mr. Lu Weiming, Mr. Chen Wei, Mr. Xing Jiaxing and Mr. Chan, Wing Yuen Hubert. It is currently chaired by Mr. Mao Jianong, an independent non-executive Director. Mr. Chan, Wing Yuen Hubert joined the Nomination Committee upon the approval by the 2016 first extraordinary general meeting held on 25 July 2016 and the approval by the Board.

During the year ended 31 December 2016, the Nomination Committee met two times to nominate Senior Management for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

With a view to achieving sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company is committed to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Remuneration and Appraisal Committee

The Company has established a Remuneration and Appraisal Committee with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration and Appraisal Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration and Appraisal Committee currently consists of three non-executive Directors, two of whom are independent. The members of the Remuneration and Appraisal Committee are currently Mr. Chen Wei, Mr. Li Jiaqing and Dr. Chen Jieping. It is currently chaired by Mr. Chen Wei, an independent non-executive Director. Dr. Chen Jieping joined the Remuneration and Appraisal Committee upon the approval by the 2015 annual general meeting held on 29 April 2016 and the approval by the Board.

During the year ended 31 December 2016, the Remuneration and Appraisal Committee met twice to review and assess the annual job performance of the Senior Management, review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

The Company has established a Budget Committee. The primary duties of the Budget Committee are to make recommendations to the Board on budgeting.

The Budget Committee currently consists of one executive Director, four non-executive Directors and one independent non-executive Director. The members of the Budget Committee are currently Mr. Wang Yong, Ms. Wang Haitong, Mr. Lu Weiming, Mr. Luo Bin, Mr. Li Jiaqing and Dr. Chen Jieping. It is currently chaired by Mr. Wang Yong, an executive Director. Dr. Chen Jieping joined the Budget Committee upon the approval by the 2015 annual general meeting held on 29 April 2016 and the approval by the Board.

During the year ended 31 December 2016, the Budget Committee met once to review and make recommendations to the Board on budgeting for the upcoming financial year.

Strategy and Development Committee

The Company has established a Strategy and Development Committee. The primary duties of the Strategy and Development Committee are to make recommendations to the Board on matters such as the Company's development plans, strategic investments and business innovations.

The Strategy and Development Committee currently consists of two executive Directors, three non-executive Directors and two independent non-executive Directors. The members of the Strategy and Development Committee are currently Mr. Xing Jiaxing, Mr. Wang Yong, Mr. Li Jiaqing, Ms. Wang Haitong, Mr. Luo Bin, Mr. Mao Jianong and Mr. Chen Wei. It is currently chaired by Mr. Xing Jiaxing, an executive Director.

During the year ended 31 December 2016, the Strategy and Development Committee met 2 times to review and make recommendations to the Board on the Group's latest strategy plans and development.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

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

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

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

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

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

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance shareholders' relationship with the Company.

During the year ended 31 December 2016, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board and Board Professional Committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or members of Board Professional Committee at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or members of Board Professional Committee are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the Chairmen of the Committees prior to the meeting.

Minutes of the Board meetings and Board Professional Committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Professional Committee and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Professional Committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

According to the Articles of Association, a Director shall not vote nor be counted in the quorum on any resolution of the Board approving any contract or arrangement in which he or his associates is materially interested.

Directors' Attendance Records at Board Meetings, Board Professional Committees' Meetings and General Meetings

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2016 are set out below:

Name of Director	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Budget Committee meeting	Strategy and Development Committee meeting	General meeting
Mr. Xing Jiaxing	8/9		2/2			2/2	5/7
Mr. Wang Yong	9/9				1/1	2/2	7/7
Mr. Wang Wenke	9/9						7/7
Mr. Li Jiaqing	5/9			2/2	1/1	2/2	7/7
Mr. Lu Weiming	8/9		2/2		1/1		7/7
Mr. Cao Wenhai	9/9	3/3					7/7
Ms. Wang Haitong	9/9				1/1	2/2	4/7
Mr. Luo Bin	7/9	3/3			1/1	2/2	7/7
Mr. Mao Jianong	9/9	3/3	2/2			2/2	7/7
Dr. Chen Jieping (appointed on 29 April 2016)	4/5	2/3		1/2	0/1		4/4
Mr. Chen Wei	7/9		2/2	2/2		1/2	4/7
Mr. Chan, Wing Yuen Hubert (appointed on 25 July 2016)	4/4	2/3	1/2				4/4
Mr. Zhou Guoliang (resigned on 29 April 2016)	4/4	1/3		1/2	1/1		3/3
Professor Japhet Sebastian Law (resigned on 25 July 2016)	5/5	1/3	1/2				3/3

Attendance at the above meetings by an alternate Director has not been counted as attendance by the Director himself.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the controlling shareholders of the Company as defined in the Listing Rules) has confirmed to the Company and declared that he/it has complied with the non-compete undertaking given by them to the Company on 10 September 2014 during the year ended 31 December 2016. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2016.

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remunerations paid to a total of ten[1] Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	4
RMB1,000,001 to RMB2,000,000	4
RMB2,000,001 to RMB3,000,000	1
RMB3,000,001 to RMB4,000,000	1

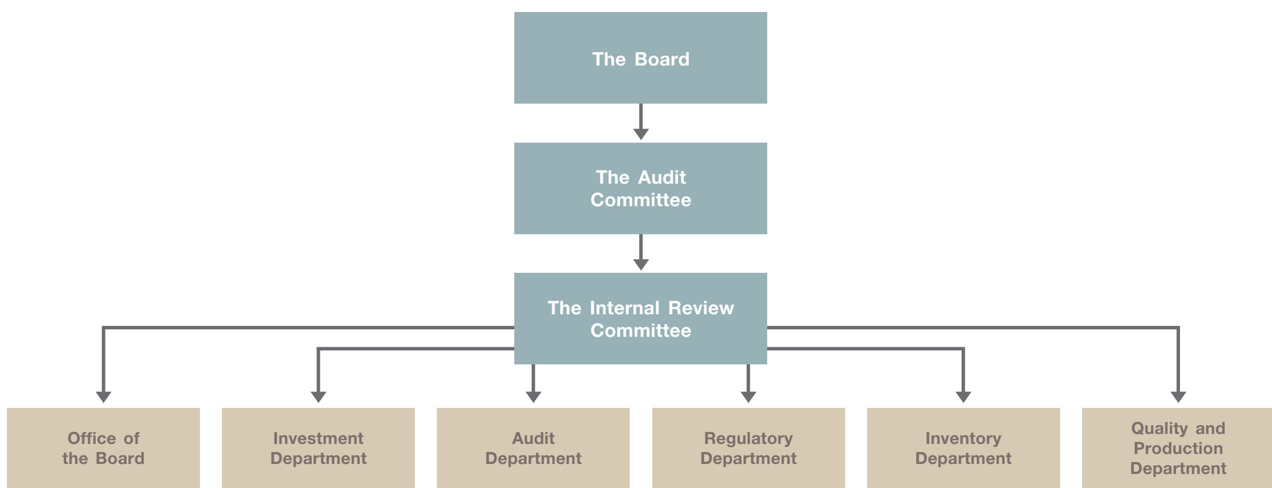
[1] Including Mr. Mao Jian who resigned as the Joint Company Secretary to the Board on 12 December 2016, and Ms. Fang Xian Li who was appointed as the Joint Company Secretary on the same date.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and the Supervisors, and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROLS

In 2016, an appropriate risk management system was established or enhanced for the relevant departments of the Company, namely office of the Board, the audit department, investment department, inventory department, quality and production department, etc., in order to pre-empt and manage risks related to connected transactions, external investment and practical business operation, among other aspects. Moreover, the Company continuously improves the organisational structure for internal risk control by ascertaining clearly defined levels of responsibility and reporting procedures. In particular, the Regulatory Department was established by the Company in December 2015, and amendments to the responsibilities of the Audit Committee were made on 31 December 2015, with a view to further improve the risk management and internal control system of the Company. In April 2016, the Internal Review Committee was established as a step towards a more fully developed internal risk management organisational structure in the Company as illustrated below:



In particular, the Board acknowledges its responsibility for overseeing the risk management and internal control system of the Group and reviewing its effectiveness at least annually through the Audit Committee. The Audit Committee is responsible for conducting reviews on risk management and internal control, and presiding over regulatory initiatives. In addition to reviewing the annual reports prepared by the external auditors, the Audit Committee also assesses the effectiveness of the internal control system and risk management mechanisms by reviewing the internal audit reports on different core businesses of the Company prepared regularly by the audit department, and resolves material inadequacies found in internal control. The Internal Review Committee practically manages and oversees the internal risk management systems of each relevant department of the Company to ensure the implementation and enhancement of the risk management system and measures and the disclosure of relevant insider information. In particular, the Internal Review Committee is supervised by, and reports to, the Audit Committee.

Every relevant department abides by and complies to the relevant rules and regulations by appropriately identifying and managing, on a timely basis, major risks which potentially impact the performance of the Group. An internal risk management and control system is in place and continuously enhanced. The particular systems and measures adopted are set out below:

The office of the Board fine-tuned our risk management approach for investment holding companies against the backdrop of the Company's increasing inputs for investment. Management systems and rules of procedures of the Board were formulated to rationalise the processes of making major decisions on operation and investments of the subsidiaries, requiring such decisions to be arrived at after reporting to the relevant departments of the head company and making relevant disclosures as and if required by the Listing Rules in order to prevent non-disclosures of connected transactions.

The investment department has a complete set of procedures in place for project investment and approval. Projects are initiated only if certain conditions are fulfilled and to the extent that they are in line with the Group's investment strategies. Subsequently, due diligence is conducted on financial and legal matters in details, and after the initial report is prepared, contracts are entered into only upon consideration and approval by poll at the internal decision-making meeting for the investment project attended by all members of the Investment Decision Committee. In cases where insider information is involved, reports shall be made to the Board and announcements shall be published within 24 hours of entering into the contract. Investments exceeding a certain threshold also requires reporting to the Board. Furthermore, trainings and guidance are provided for investees (associates and holding companies, etc.) from time to time to raise the awareness of different risks, confidentiality measures and reporting procedures of such investees. In particular, the investees are advised that transactions involving components of connected transactions shall be notified to the investment department and the office of the Board of the Group in order to prevent early divulgence of insider information and ensure timely disclosure of connected transactions.

The audit department engages in various management-specific and project-specific audits and continuously improves cost-efficiency audits to strengthen the internal audit by exposing problems in governance, practices and systems. The oversight of the internal audit is enhanced, which enables forewarning and promotes the effectiveness of the measures adopted with an aim to reduce the Company's risks and facilitate the improvement of operation management. In particular, management-specific audits include audits on social insurance payments, logistics expenses and transport costs for online stores, and sample costs, among other items. These measures strengthens the management of costs in human resources; the operation of holding companies; procurement, shipping and inventory, and regional operation, among others. Engineer specific audits cover audits on store renovation projects and construction expenses, enhancing management of the settlements of costs in connection to store renovation projects and construction projects.

The audit department reports on a quarterly basis to the Audit Committee on the issues identified during the quarter, reform proposals to remedy the issues and projected timeframe for the remedy, and tracks the implementation of each proposal continuously to further improve the proposal formulated. The audit department shall provide a comprehensive, detailed work report for every half-year period, and a specific internal auditing risk assessment report annually, to be presented to the Board.

The Regulatory Department is established for anti-corruption and targets the prevention and management of issues in professional ethics of the employees. Within a year in which the department was established and the team was built, the Regulatory Department has engaged in 6 aspects including corruption prevention, anti-corruption probes, investigations on major disciplinary breaches, suppliers' background and costs, and improvements on the procedures. Anti-corruption works of the Group were conducted with the main goal of prevention and, only to a lesser extent, enforcement, as the ideas of anti-corruption have been shared widely and upheld by the internal staff and external suppliers of the Company following a year's worth of work and adoption of anti-corruption institutions, forming a culture of anti-corruption.

The quality control division under the inventory department worked with world-renowned third-party international professional testing companies to conduct more intuitive standardized management and specific improvement on the factory management on quality, delivery dates and subsequent returns of defected goods. Meanwhile, through standardising the inspection procedures, better management was achieved for suppliers' production progress, and product quality was enhanced, by virtue of which the rate of returns and the amount of defected products decreased and the passing rate and quality of products increased, alleviating the practical risks in the business and operation of the Company.

Quality and production department formulates product quality standards appropriate to the Group based on national regulations on quality of textile and apparel products, including Production Technology Standards, National General Safety Technical Codes for Textile Products, and Appearance Inspection Specifications, which are promoted and managed. Quality risk evaluations are conducted prior to production, and sampling tests are carried out on the products during the production process and circulation on the market, thereby inspecting on the quality, addressing defected products and ensuring sub-par products are barred from sales.

So far, the Company has adopted a number of systems and measures to assess and prudently enhance the effectiveness of the risk management and internal control system, which the Company believes will enhance our corporate governance and establishment of internal risk control in the future.

During the year ended 31 December 2016, the Directors had carried out annual review on the effectiveness of the Company's risk management systems and procedures and internal control systems, and continuously advised on various means of improvement. The review covers all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. There was no major failure in the risk management and internal control systems that may have had an impact to shareholders' interests, and the risk management and internal control systems were deemed to be effective and sufficient.

The risk management and internal control systems of the Group aims to manage, rather than eliminate, the risks involved with failing to complete the business goals, and can only provide the reasonable, but not absolute, guarantee on the material misrepresentations or losses.

JOINT COMPANY SECRETARIES

Mr. Mao Jian resigned as the Joint Company Secretary of the Company with effect from 12 December 2016 in order to focus on his pursuit of personal career aspirations and development. Ms. Fang Xian Li was assigned as the Joint Company Secretary of the Company with effect from 12 December 2016 as approved by the 23rd meeting of the second session of the Board. For details of the change in Joint Company Secretary, please refer to the announcement headed "CHANGE IN JOINT COMPANY SECRETARY" dated 12 December 2016 published on the Stock Exchange and the Company's website.

Ms. Fang Xian Li will have access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. In addition, Ms. Fang Xian Li will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules from the date of her appointment. The biographical details of the Joint Company Secretaries are set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

Ms. Wong Wai Ling, the other Joint Company Secretary, is the vice president of SW Corporate Services Group Limited and have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. She assists Ms. Fang Xian Li in her performance of duties as the Joint Company Secretary of the Company.

Ms. Fang Xian Li, the Joint Company Secretary, is a staff of the Company and participates in its operational matters. She reports to the Chief Executive Officer and the Joint Company Secretaries play a key role in the formulation of appropriate Board procedures to meet business needs of the Company and the compliance with all applicable laws and rules. The Directors can seek advice and services from the Joint Company Secretaries with regards to any latest update and development on corporate governance, applicable laws and rules.

Having been authorized by the Chairman, the Joint Company Secretaries are responsible for working out meeting agenda, organising Board meeting, and offering relevant documents to the Directors in advance, so as to ensure that Directors have obtained sufficient and accurate information for making effective and well-grounded decisions.

The Joint Company Secretaries assist the Board meetings to be convened and held in accordance with all applicable laws and rules and procedures specified in the Articles of Association. In addition, the Joint Company Secretaries would prepare relevant minutes and circulate them to Directors for their comments.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016 in accordance with statutory requirements and applicable accounting standards.

The Board is accountable to the shareholders for a clear and balanced assessment on the Company's financial position and prospects. The management of the Company provides all relevant information and records to the Board, which enable it to prepare the accounts of the Company and to make the above assessments.

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2016. The Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 61 to 65.

AUDITORS

PricewaterhouseCoopers has been appointed as international auditors of the Company for the year ended 31 December 2016. PricewaterhouseCoopers shall retire in the 2016 AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as international auditors of the Company will be proposed at the 2016 AGM.

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) was appointed as the PRC statutory auditors of the Company for the year ended 31 December 2016. The resolution regarding the re-appointment of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) as the PRC auditor of the Company will be tabled at the 2016 AGM.

The remuneration paid to PricewaterhouseCoopers in respect of the audit services rendered for the year ended 31 December 2016 and remuneration prepaid to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) in respect of A share listing was RMB3,700,000 and RMB2,300,000 respectively. Remuneration paid to PricewaterhouseCoopers in respect of the Hong Kong profit tax reporting service for the Company was RMB28,000.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The shareholders' communication policy of the Company is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors. General meetings of the Company are formal channels for communication between shareholders and the Board. The chairman of the Board and the chairmen of the Board Professional Committees (or, in their absence, other members of the respective committees) will make themselves available at the general meetings to have direct communication with the shareholders.

Shareholders may also send their enquiries and concerns to the Board by sending them to the investor relations department of the Company to the following address:

Address: 6F, CHJ Industrial Building No. 81 Caodongzhi Road, Xuhui District, Shanghai, P.R. China 200235
Email: ir@lachapelle.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting by Shareholders

Pursuant to the Articles of Association, two or more shareholders who hold, in aggregate, 10% or more of the shares carrying the right to vote at the proposed meeting may sign one or several written requisitions of the same format and contents, requesting the Board to convene an extraordinary general meeting or a class meeting. The agenda of the proposed meeting shall be stated therein.

If the Company is to convene a general meeting, it shall deliver written notices in 45 days before the time designated for the meeting, informing shareholders whose names appear on the register of the Company of matters to be considered and the time and venue for the meeting to be convened. Shareholders who intend to make their presence at the general meeting shall return written replies for the meeting in 20 days before the meeting is convened.

Putting Forward Proposals at General Meetings

When the Company decides to convene an annual general meeting, any shareholders that severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company, and may raise interim proposals and submit them in writing to the Board twenty days prior to the general meeting. The Board shall, within two days after receipt of such proposal or fourteen days prior to the original date of the general meeting, issue a circular and a public announcement to all shareholders and submit such interim proposal to the general meeting for discussion and approval.

The contents of the proposals to be raised shall be within the scope of duties of the general meetings. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws, administrative regulations and the Articles of Association.

CONSTITUTIONAL DOCUMENTS

No amendment to the Articles of Association has been made in 2016. The existing Articles of Association are published on the websites of the Stock Exchange and the Company respectively, while the amendments to the Company's Draft Articles of Association (A Shares) will be effective and valid upon listing of the proposed issue of A Shares by the Company on the Shanghai Stock Exchange.

Independent Auditor's Report

To the Shareholders of Shanghai La Chapelle Fashion Co., Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Shanghai La Chapelle Fashion Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 148, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

A key audit matter is identified in our audit as follows.

Valuation of finished goods inventories	
Refer to Note 12 "Inventories" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements. The Group's inventories primarily consisted of finished goods. As at 31 December 2016, after making a provision of approximately RMB269 million, the Group held finished goods inventories of approximately RMB1,691 million. Inventories are carried at the lower of cost and net realisable value ("NRV"). Management categorises the finished goods inventories items to different seasons and different years, and determines the NRV by category. Management exercised significant judgement in determining the NRV of each category of finished goods inventories, taking into consideration of historical experience, current market condition, customer demands and fashion trends. We focused on this area due to the significance of finished goods inventories balance and complexity of the judgements involved in determining the NRV.	Our work on the valuation of finished goods inventories included: — testing appropriateness of finished goods categorisation on a sample basis by checking the specification and ageing information of the related purchase orders and goods receipt notes; — challenging management's methodology of determining NRV for finished goods inventories of different categories by performing independent research of market information and making reference to our industry knowledge; — comparing, on a sample basis, the NRV of finished goods inventories for which provisions were made as of 31 December 2015 with the net value realised in the sale incurred during the year ended 31 December 2016; — comparing, on a sample basis, the NRV of the finished goods inventories as of 31 December 2016, with the net value realised in the sale incurred subsequent to 31 December 2016; and — testing the mathematical accuracy of calculation of inventory provision by re- performance. We found that management's judgements in determining the NRV of finished goods inventories are supportable by available evidences.

OTHER INFORMATION

The directors of the Company are responsible for the other information set out in the Company's 2016 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2017

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,372,635**	875,156
Land use rights	7	**156,007**	155,325
Intangible assets	8	**168,037**	189,019
Investments accounted for using the equity method	9	**130,381**	—
Deferred income tax assets	11	**192,149**	168,987
Available-for-sale financial assets	10	**190,649**	150,000
Deposits and prepayments		**15,069**	—
		2,224,927	1,538,487
Current assets			
Inventories	12	**1,713,576**	1,756,257
Trade receivables	13	**1,052,184**	1,044,456
Deposits, prepayments and other receivables	14	**610,051**	411,118
Prepaid current income tax		**991**	—
Term deposits	15	**120,525**	—
Cash and cash equivalents	15	**581,389**	1,118,410
		4,078,716	4,330,241
Total assets		**6,303,643**	5,868,728
EQUITY AND LIABILITIES			
Equity attributable to owners of the company			
Share capital	16	**492,902**	492,902
Other reserves	17	**1,805,466**	1,746,192
Retained earnings	18	**1,008,917**	887,949
		3,307,285	3,127,043
Non-controlling interests		**202,933**	182,835
Total equity		**3,510,218**	3,309,878

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	22	**54,373**	44,406
Deferred income tax liabilities	11	**14,566**	13,167
		68,939	57,573
Current liabilities			
Borrowings	19	**300,000**	—
Deferred income	22	**34,632**	31,095
Trade and bill payables	20	**1,034,202**	1,228,180
Other payables, accruals and other current liabilities	21	**1,157,672**	1,062,845
Current income tax liabilities		**197,980**	179,157
		2,724,486	2,501,277
Total liabilities		**2,793,425**	2,558,850
Total equity and liabilities		**6,303,643**	5,868,728

The notes on pages 72 to 148 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 148 were approved by the Board of Directors on 16 March 2017 and were signed on its behalf.

Xing Jiaxing **Wang Yong**

Consolidated statement of profit or loss

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Revenue	23	**10,232,593**	9,095,708
Cost of sales	25	**(3,419,984)**	(2,897,278)
Gross profit		**6,812,609**	6,198,430
Selling and marketing expenses	25	**(5,726,992)**	(5,050,540)
Administrative expenses	25	**(414,154)**	(383,779)
Other gains — net	24	**80,889**	64,285
Operating profit		**752,352**	828,396
Finance income		**19,974**	67,146
Finance expenses		**(2,508)**	(16,373)
Finance income — net	27	**17,466**	50,773
Share of loss of investments accounted for using the equity method	9	**(1,099)**	—
Profit before income tax		**768,719**	879,169
Income tax expense	28(a)	**(196,452)**	(220,771)
Profit for the year		**572,267**	658,398
Profit attributable to:			
Owners of the Company		**531,963**	615,251
Non-controlling interests		**40,304**	43,147
Profit for the year		**572,267**	658,398
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic and diluted earnings per share	29	**1.08**	1.23

The notes on pages 72 to 148 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Profit for the year		**572,267**	658,398
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available-for-sales finance assets		**10,949**	—
Currency translation differences		**1,024**	—
		11,973	—
Total comprehensive income for the year		**584,240**	658,398
Total comprehensive income attributable to:			
Owners of the Company		**543,936**	615,251
Non-controlling interests		**40,304**	43,147
Total comprehensive income for the year		**584,240**	658,398

The notes on pages 72 to 148 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to owners of the Company					
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015		503,380	1,805,447	784,481	3,093,308	13,834	3,107,142
Comprehensive income							
Profit for the year		—	—	615,251	615,251	43,147	658,398
Total comprehensive income		—	—	615,251	615,251	43,147	658,398
Transactions with owners in their capacity as owners							
Appropriation to statutory reserve	17(a)	—	47,098	(47,098)	—	—	—
Buy-back of shares	17(b)(v)	(10,478)	(109,568)	—	(120,046)	—	(120,046)
Dividends	30	—	—	(464,685)	(464,685)	—	(464,685)
Business Combination	34	—	—	—	—	125,854	125,854
Contributions from a shareholder by awarding its equity instruments to the employees	17(b)(iv)	—	3,215	—	3,215	—	3,215
Total transactions with owners in their capacity as owners		(10,478)	(59,255)	(511,783)	(581,516)	125,854	(455,662)
As at 31 December 2015		492,902	1,746,192	887,949	3,127,043	182,835	3,309,878
As at 1 January 2016		**492,902**	**1,746,192**	**887,949**	**3,127,043**	**182,835**	**3,309,878**
Comprehensive income							
Profit for the year		**—**	**—**	**531,963**	**531,963**	**40,304**	**572,267**
Other comprehensive income							
Change in fair value of available-for-sale financial assets		**—**	**10,949**	**—**	**10,949**	**—**	**10,949**
Currency translation differences		**—**	**1,024**	**—**	**1,024**	**—**	**1,024**
Total comprehensive income		**—**	**11,973**	**531,963**	**543,936**	**40,304**	**584,240**
Transactions with owners in their capacity as owners							
Appropriation to statutory reserve	17(a)	**—**	**31,461**	**(31,461)**	**—**	**—**	**—**
Dividends	30	**—**	**—**	**(379,534)**	**(379,534)**	**(22,206)**	**(401,740)**
Non-controlling interests' contributions to the Group		**—**	**—**	**—**	**—**	**2,000**	**2,000**
Contributions from a shareholder by awarding its equity instruments to the employees	17(b)(iv)	**—**	**15,840**	**—**	**15,840**	**—**	**15,840**
Transactions with owners in their capacity as owners		**—**	**47,301**	**(410,995)**	**(363,694)**	**(20,206)**	**(383,900)**
As at 31 December 2016		**492,902**	**1,805,466**	**1,008,917**	**3,307,285**	**202,933**	**3,510,218**

The notes on pages 72 to 148 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**909,169**	1,307,660
Interest paid		**(2,127)**	(17,485)
Income tax paid		**(204,033)**	(226,571)
Net cash generated from operating activities		**703,009**	1,063,604
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	31(b)	**684**	270
Decrease in bidding deposit for purchase of land use rights		**—**	17,900
Acquisition of subsidiaries, net of cash acquired	34	**(8,000)**	(140,463)
Interest received from term deposits		**3,630**	22,136
Investment income received		**99**	—
(Placement)/Received of term deposits	15	**(120,525)**	1,393,506
Prepayment made for acquisition of an associate		**(10,000)**	—
Investments in associates	9	**(131,480)**	—
Purchases of available-for-sale financial assets	10	**(25,026)**	(150,000)
Purchases of land use rights	7	**—**	(22,140)
Purchases of property, plant and equipment		**(844,305)**	(436,975)
Purchases of intangible assets	8	**(1,203)**	(9,811)
Net cash generated (used in)/from investing activities		**(1,136,126)**	674,423
Cash flows from financing activities			
Non-controlling interests' contributions to the Group		**2,000**	—
Prepayment for A Share listing expenses	14	**(883)**	(5,612)
Proceeds from borrowings		**780,000**	500,000
Repayments of borrowings		**(480,000)**	(1,145,366)
Buy-back of shares	16(a)	**—**	(120,046)
Dividends paid to the company's shareholders		**(382,815)**	(467,102)
Dividends paid to non-controlling interests		**(22,206)**	—
Net cash used in from financing activities		**(103,904)**	(1,238,126)
Net (decrease)/increase in cash and cash equivalents	15	**(537,021)**	499,901
Exchange gains on cash and cash equivalents		**—**	7,902
Cash and cash equivalents at beginning of the year		**1,118,410**	610,607
Cash and cash equivalents at end of the year		**581,389**	1,118,410

The notes on pages 72 to 148 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1 GENERAL INFORMATION

Shanghai La Chapelle Fashion Co., Ltd. (“the Company”), initially known as Shanghai Xuhui La Chapelle Fashion Limited (上海徐匯拉夏貝爾服飾有限公司), was incorporated in the People’s Republic of China (“PRC”) on 14 March 2001 as a limited liability company. On 26 February 2004, the Company changed its name to Shanghai La Chapelle Fashion Limited (上海拉夏貝爾服飾有限公司). On 23 May 2011, the Company was converted into a joint stock company with limited liabilities under the Company Law of the PRC and changed its name to Shanghai La Chapelle Fashion Co., Ltd. (上海拉夏貝爾服飾股份有限公司).

The Company and its subsidiaries (together the “Group”) are principally engaged in designing, marketing and selling apparel products in the PRC. The address of the Company is Room 3300, Block 1, Level 3, 270 Cao Xi Road, Shanghai, the PRC.

The English names of companies mentioned in this report represented the best effort by directors of the Company in translating their Chinese names as they may not have official English names.

The Company completed its global initial public offering and its shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 9 October 2014 (the “Listing”).

The Company is in the process of its A share offering on the Shanghai Stock Exchange and submitted the application on 19 October 2015, the application documents are still under review by the regulator.

The consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These financial statements have been approved and authorised for issue by the Board of Directors on 16 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- IFRS 14 "Regulatory Deferral Accounts" describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS14. The amendments do not have a significant effect on the consolidated financial statements.

- Amendments to IFRS 11 "Acquisitions of interests in joint operation" require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a "business" (as defined in IFRS 3, Business combinations). The amendments do not have a significant effect on the consolidated financial statements.

- Amendments to IAS 16 and IAS 38 "Clarification of acceptable methods of depreciation and amortization", clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendments do not have a significant effect on the consolidated financial statements.

- Amendments to IAS 27 "Equity method in separate financial statements" allow entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments do not have a significant effect on the consolidated financial statements.

- Amendments from annual improvements to IFRSs 2014 Cycle, on IFRS 5, "Non-current assets held for sale and discontinued operations", IFRS 7, "Financial instruments: Disclosures", IAS 19, "Employee benefits" and IAS 34, "Interim financial reporting". The amendments do not have a significant effect on the consolidated financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment entities: applying the consolidation exception" clarify that the exception from preparing consolidated financial statements, also clarify that an investment entity should consolidate a subsidiary which is not an investment entity, allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture. The amendments do not have a significant effect on the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Group (continued)

- Amendments to IAS 1 "Disclosure initiative" clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments do not have a significant effect on the consolidated financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Group.

(b) New and amended standards issued but are not effective and not yet adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

- Amendments to IAS 12 "Income taxes", effective for the accounting period beginning on or after 1 January 2017.

- Amendments to IAS 7 "Statement of cash flows", effective for the accounting period beginning on or after 1 January 2017.

- IAS 15 "Revenue from contracts with customers", effective for the accounting period beginning on or after 1 January 2018.

- IFRS 9 "Financial Instruments" replace the whole of IAS 39, effective for the accounting period beginning on or after 1 January 2018.

- Amendments to IFRS 10 and IAS 28 "Sale or contribution of assets between an investor and its associate or joint venture", originally effective for the accounting period beginning on or after 1 January 2016, the effective date has now been deferred/removed.

Management anticipates that the adoption of these new standards, amendments to standards and interpretation to standards will not result in a significant impact on the results and financial position of the Group except for the following:

- IFRS 16 "Leases" provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts, effective for the accounting period beginning on or after 1 January 2019. Early application is permitted if IFRS 15 is also applied. The Group is yet to assess full impact of IFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Intra-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

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

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

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

The Group's share of post-acquisition profit or loss is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to "share of loss of investments accounted for using equity method" in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net invest hedges.

Foreign exchange gain and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within "Finance income or expenses". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "Other gains — net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

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

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings and facilities	10 to 20 years
Machinery and equipment	5 to 10 years
Office and electronic equipment	3 to 5 years
Vehicles	5 years
Leasehold improvements	2 to 5 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains — net" in the consolidated statement of profit or loss.

2.7 Land use rights

Land use rights represent upfront prepayments made for the land use rights at historical cost, and are expensed in the consolidated statement of profit or loss on a straight-line basis over 50 years. Whenever there is an impairment, the impairment is recognised in the consolidated statement of profit or loss (Note 2.9).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Acquired trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 8 to 10 years.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

(d) Favourable contracts

Favourable contracts acquired in a business combination are recognised at fair value at the acquisition date. Favourable contracts have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of favourable contracts over their estimated useful lives of 4 to 8 years.

(e) Brands

Brands acquired in a business combination are recognised at fair value at the acquisition date. Brands have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of brands over their estimated useful lives of 8 to 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "deposits, prepayments and other receivables" with exclusion of prepayment, and "cash and cash equivalents" in the consolidated balance sheet (Note 13, 14, 15).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

2.10.2 Recognition and measurement (continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statements of profit or loss as “gains and losses from investment securities”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statements of profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statements of profit or loss as part of other income when the Group’s right to receive payments is established.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, sub-contracting costs that have been incurred in bringing the inventories to their present condition. Net realisable value is based on historical experience, current market condition, customer demands and fashion trends.

2.13 Receivables

Receivables primarily include trade receivables and deposits, prepayments and other receivables.

(a) Trade receivables and other receivables

Trade receivables are amounts due for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.10.2 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Receivables (continued)

(b) Deposits

Deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Allowance for impairment of deposits is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of deposits.

2.14 Cash and cash equivalents

In the consolidated cash flow statements, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Term deposits

Term deposits represent guaranteed deposits placed at designated bank accounts with more than three months to maturity when places. Such term deposits are released when they mature.

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Payables

Payables primarily include trade and bill payables and other payables, accruals and other current liabilities.

(a) Trade and bill payables and other payables

Trade and bill payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bill payable and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and bill payables and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(b) Liabilities linked to operating leases

In negotiating a new or renewed operating lease, certain lessors provide incentives to enter into the agreements. Such incentives are generally in the form of granting rent-free or reduced rent for the initial periods of the lease term. The aggregate benefits of the incentives which are considered as part of the net rental consideration shall be recognised as a reduction of rental expense over the lease term, on a straight-line basis. Accordingly, the accounting periods in which this net rental consideration is recognised may be different with the periods, upon which the payments of rental consideration are settled, which in turn, may result in “liabilities linked to operating leases”.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

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

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

2.19 Borrowings costs

General and specific borrowing costs directly attributable to the 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 added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense only.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Contributions from a shareholder by awarding its equity instruments to the employees

Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司), hereafter referred to as "Shanghai Hexia"), a company which was set up for the benefits of the Group's employees and holds certain equity interests in the Company, adopted a series of share-based compensation plans in exchange for employee services to the Group.

(a) Accounting treatment under Shanghai Hexia

Under each of the share-based compensation plan, an employee has the right to choose settlement either in cash or by Shanghai Hexia's issuing equity instruments, with different length of vesting periods. Accordingly, Shanghai Hexia is considered to have issued compound instruments with debt component (to the extent that the employees have rights to demand cash) and equity component (to the extent that the employees have rights to demand settlement in Shanghai Hexia's issuing equity instruments by giving up their rights to demand cash). The fair value of the debt component at the grant date is determined as the present value of the future cash outflow. The equity component is then measured at the difference between the fair value of compound instrument as a whole and the debt component. The fair value of compound instruments is determined by the discounted cash flow method under the income approach. The discounted cash flow derived by management considered the Group's future business plan, specific business and financial risks, the stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market.

(b) Accounting treatment under the Group

In the Group's consolidated financial statements, the share-based compensation plans are treated as equity-settled share-based payments, as the Group does not have any obligation to settle these awards. An expense for the grant date fair value of each of the equity-settled share-based payments is recognised over the different length of vesting periods with a credit recognised in equity. The credit to equity is treated as a capital contribution from Shanghai Hexia.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate’s undistributed profits is not recognized.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group's contributions to these plans are expensed as incurred.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Bonus entitlements

The expected cost of bonus payments are recognized as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.23 Provision and contingent liabilities

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the Group's consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

For a component of the lease payment which is not fixed but is based on future amount of a factor, other than the passage of time, such as percentage of sales or concessionaire fees, the amount is recognized as "selling and marketing expenses" as it arises.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sales of products is recognized when the risk and reward of the products have been transferred to the customer, which is usually at the time when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Government incentives

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

Government incentives relating to income are deferred and recognized in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government incentives relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Dividend distribution

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

2.28 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not use any derivative financial instruments to hedge risk exposures for the years ended 31 December 2016 and 2015.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from foreign currency exposures, mainly with respect to United States dollar ("USD") and Hong Kong dollar ("HKD"). Foreign exchange risk arises from recognized assets and liabilities in foreign currencies. The Group did not use forward contracts to hedge against its foreign currency risk for the years ended 31 December 2016 and 2015.

As at 31 December 2016, if RMB had strengthened by 5% against USD and HKD with all other variables held constant, the Group's net profit for the year would have been approximately RMB66,000 (2015: RMB16,844,000) higher as a result of foreign exchange gains on translation of USD and HKD denominated cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Since it has no significant interest-bearing assets (other than cash and cash equivalents and term deposits, details of which have been disclosed in Note 15), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variables rates. The interest rates and terms of repayments of borrowings are disclosed in Note 19. The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk for the years ended 31 December 2016 and 2015. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises. There were no borrowings obtained at variable rates at 31 December 2016 and 2015.

Bank borrowings obtained at fixed rates exposed the Group to fair value interest rate risk. The fixed interest rates are based on the market interest rate. Since borrowings obtained in 2016 were with the maturity dates within twelve months, the fair value of the borrowings approximated their carrying amount. There were no borrowings obtained at fixed rates at 31 December 2015.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits, prepayments and other receivables with exclusion of prepayment and cash and cash equivalents included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has policies in place to ensure that appropriate credit terms granted to the department stores with good credit history and the Group performs regular credit evaluations of the department stores. The trade receivables from concessionaire sales through department stores are generally collected within 90 days from the invoice date. Management makes monthly assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial position of the debtors and whether there are any disputes with the debtors. Management is of the opinion that no additional allowance for impairment is required.

The Group also places rental deposits for certain retail outlets with landlords. Management makes monthly assessment on the recoverability of the rental deposits and is of the opinion that no additional allowance for impairment is required.

As at 31 December 2016 and 2015, all the bank balances and the term deports in the bank as detailed in Note 15 are deposited at state-owned banks and other medium or large size commercial banks. Management does not expect any losses arising from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of property, plant and equipment, including leasehold improvements, repayment of borrowings and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal generated funds, bank borrowings and issuing new shares, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has readily available funding through adequate amount of committed credit facilities to meet its working capital requirements.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016					
Borrowings and interest payable	**308,457**	**—**	**—**	**—**	**308,457**
Trade and bill payables	**1,034,202**	**—**	**—**	**—**	**1,034,202**
Financial liabilities as included in other payables, accruals and other current liabilities	**728,133**	**—**	**—**	**—**	**728,133**
	2,070,792	**—**	**—**	**—**	**2,070,792**
As at 31 December 2015					
Trade and bill payables	1,228,180	—	—	—	1,228,180
Financial liabilities as included in other payables, accruals and other current liabilities	604,817	—	—	—	604,817
	1,832,997	—	—	—	1,832,997

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 19)	**300,000**	—
Total equity	**3,510,218**	3,309,878
Gearing ratio (%)	**9%**	0%

The increase in the gearing ratio for the year ended 31 December 2016 was primarily due to the increase in borrowings for operating needs.

3.3 Fair value estimation

(a) The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) (continued)

The following table presents the Group's assets and liabilities that were measured at fair value as at 31 December 2016 and 2015:

	As at 31 December 2016			
	Level	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Available-for-sale financial assets				
Unlisted equity interest (Note 10)	**—**	**—**	**190,649**	**190,649**

	As at 31 December 2015			
	Level	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets				
Unlisted equity interest (Note 10)	—	—	150,000	150,000

The Group did not have any financial liabilities that were measured at fair value as at 31 December 2016 and 2015.

There were no transfers among levels during the years ended 31 December 2016 and 2015.

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) (continued)

(ii) Financial instruments in level 2

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(a) (continued)

(iii) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015:

	As at 31 December	
	2016	2015
	Unlisted equity interest	Unlisted equity interest
	RMB'000	RMB'000
Beginning of year	**150,000**	—
Acquisition of unlisted equity interest (Note 10)	**25,026**	150,000
Revaluation of previously held interest by the Group	**14,599**	—
Currency translation differences	**1,024**	—
End of year	**190,649**	150,000

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at 31 December 2016 and 2015:

- Trade receivables;
- Deposits, prepayments and other receivables (except for prepayments);
- Cash and cash equivalents (including term deposits);
- Trade and bill payables;
- Other payables, accruals and other current liabilities (except for staff salaries and welfare payables and accrued taxes other than income tax);
- Borrowings.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Net realizable value of finished goods inventories

Management categorises the finished goods inventories items to different seasons and different years, and determines the net realizable value by category. Management exercised significant judgement in determining the net realizable value of each category of finished goods inventories, taking into consideration of historical experience, current market condition, customer demands and fashion trends. Management reassesses these estimates at each balance sheet date.

(b) Impairment of non-financial assets

Non-financial assets including property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and the future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Useful lives, residual values and depreciation charges of property, plant and equipment and useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives, residual values and related depreciation or amortization charges for the Group's property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Depreciation with respect to the concessionaire counters is calculated based on an estimated useful life of two years. This assumption is made based on the facts that the Group normally conduct renovation of the concessionaire counters once every two years and that the Group is typically able to renew its concessionaire agreements upon expiry. Depreciation with respect to the standalone retail outlets is calculated based on an estimated useful life of the shorter of five years and the terms of the leases. Management will revise the depreciation and amortization charges where useful lives are different from that of previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in useful lives and residual values and therefore depreciation/amortization expense in future periods.

(d) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(e) Allowance for impairment of receivables

The Group's management determines the allowance for impairment of trade receivables, deposits, prepayments and other receivables based on an assessment of the recoverability of these receivables. This assessment is based on the credit history of department stores and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the allowance for impairment at each balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Impairment of assets-for-sale equity investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(g) Estimated impairment of goodwill

The Group tested annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Notes 2.8 and 2.9. The recoverable amounts of CGU have been determined based on value in-use calculations. These calculations require the use of estimates. In the opinion of the Group's management, the recoverable amount of the CGU will not be lower than the carrying amount even if a reasonably possible change in a key assumption on which management has based its determination of the CGU's recoverable amount occurs.

5 SEGMENT INFORMATION

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

The Group is principally engaged in designing, marketing and selling apparel products and 100% of its revenue are derived in the PRC for the years ended 31 December 2016 and 2015.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue for the years ended 31 December 2016 and 2015.

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015							
Cost	172,635	8,480	68,164	3,329	1,274,739	25,905	1,553,252
Accumulated depreciation	(2,858)	(1,139)	(35,560)	(1,415)	(718,489)	—	(759,461)
Net book amount	169,777	7,341	32,604	1,914	556,250	25,905	793,791
Year ended 31 December 2015							
Opening net book amount	169,777	7,341	32,604	1,914	556,250	25,905	793,791
Acquired from business combination (Note 34)	—	278	2,029	2,406	3,475	—	8,188
Transferred from construction in progress	5,936	12,096	—	—	—	(18,032)	—
Additions	—	6,185	18,916	507	306,750	127,822	460,180
Disposals (Note 31 (b))	—	(119)	(369)	—	—	—	(488)
Depreciation charge (Note 25)	(8,950)	(2,658)	(22,028)	(835)	(352,044)	—	(386,515)
Closing net book amount	166,763	23,123	31,152	3,992	514,431	135,695	875,156
At 31 December 2015							
Cost	178,571	26,885	84,129	6,242	1,586,942	135,695	2,018,464
Accumulated depreciation	(11,808)	(3,762)	(52,977)	(2,250)	(1,072,511)	—	(1,143,308)
Net book amount	166,763	23,123	31,152	3,992	514,431	135,695	875,156
Year ended 31 December 2016							
Opening net book amount	**166,763**	**23,123**	**31,152**	**3,992**	**514,431**	**135,695**	**875,156**
Transferred to land use rights (Note 7)	**—**	**—**	**—**	**—**	**—**	**(3,658)**	**(3,658)**
Additions	**157**	**3,192**	**32,359**	**3,158**	**598,067**	**233,294**	**870,227**
Disposals (Note 31 (b))	**—**	**(2)**	**(510)**	**(553)**	**—**	**—**	**(1,065)**
Depreciation charge (Note 25)	**(9,155)**	**(3,224)**	**(18,491)**	**(1,297)**	**(335,858)**	**—**	**(368,025)**
Closing net book amount	**157,765**	**23,089**	**44,510**	**5,300**	**776,640**	**365,331**	**1,372,635**
At 31 December 2016							
Cost	**178,728**	**30,038**	**108,038**	**8,569**	**2,002,966**	**365,331**	**2,693,670**
Accumulated depreciation	**(20,963)**	**(6,949)**	**(63,528)**	**(3,269)**	**(1,226,326)**	**—**	**(1,321,035)**
Net book amount	**157,765**	**23,089**	**44,510**	**5,300**	**776,640**	**365,331**	**1,372,635**

Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss (Note 25) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Administrative expenses	**11,515**	11,886
Selling and marketing expenses	**356,510**	374,629
	368,025	386,515

In 2016, the Group has capitalised borrowing costs of RMB7,540,000 in construction in progress (Note 27) (2015: Nil). Borrowing costs were capitalised using the weighted average interest rate of 4.32%.

7 LAND USE RIGHTS

Land use rights represent prepaid operating lease payments for land located in the PRC, which are held on leases of 50 years.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening net book value	**155,325**	136,346
Transferred from construction in progress (Note 6)	**3,658**	—
Additions	**—**	22,140
Amortization charges (Note 25)	**(2,976)**	(3,161)
Closing net book value	**156,007**	155,325

The amortization of land use rights has been charged to the consolidated statement of profit or loss (Note 25) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Administrative expenses	**837**	1,180
Selling and marketing expenses	**2,139**	1,981
	2,976	3,161

As at 31 December 2015, the land use right certificate of certain land use rights with a carrying amount of RMB57,818,000 were not obtained.

8 INTANGIBLE ASSETS

	Goodwill	Brands	Favourable Contracts	Acquired trademarks	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015						
Cost	—	—	—	1,776	52,202	53,978
Accumulated amortization	—	—	—	(670)	(20,715)	(21,385)
Net book amount	—	—	—	1,106	31,487	32,593
Year ended 31 December 2015						
Opening net book amount	—	—	—	1,106	31,487	32,593
Acquired from business combination (Note 34)	105,722	48,130	9,203	—	1,070	164,125
Additions	—	—	—	—	9,811	9,811
Amortization charge (Note 25)	—	(3,782)	(882)	(201)	(12,645)	(17,510)
Closing net book amount	105,722	44,348	8,321	905	29,723	189,019
At 31 December 2015						
Cost	105,722	48,130	9,203	1,776	63,083	227,914
Accumulated amortization	—	(3,782)	(882)	(871)	(33,360)	(38,895)
Net book amount	105,722	44,348	8,321	905	29,723	189,019
Year ended 31 December 2016						
Opening net book amount	**105,722**	**44,348**	**8,321**	**905**	**29,723**	**189,019**
Additions	**—**	**—**	**—**	**—**	**1,203**	**1,203**
Disposal (Note 31 (b))	**—**	**—**	**—**	**—**	**(576)**	**(576)**
Amortization charge (Note 25)	**—**	**(5,666)**	**(2,117)**	**(201)**	**(13,625)**	**(21,609)**
Closing net book amount	**105,722**	**38,682**	**6,204**	**704**	**16,725**	**168,037**
At 31 December 2016						
Cost	**105,722**	**48,130**	**9,203**	**1,776**	**63,464**	**228,295**
Accumulated amortization	**—**	**(9,448)**	**(2,999)**	**(1,072)**	**(46,739)**	**(60,258)**
Net book amount	**105,722**	**38,682**	**6,204**	**704**	**16,725**	**168,037**

8 INTANGIBLE ASSETS (CONTINUED)

The amortization of intangible assets has been charged to the consolidated statement of profit or loss (Note 25) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Administrative expenses	**12,731**	12,433
Selling and marketing expenses	**8,878**	5,077
	21,609	17,510

Impairment tests for goodwill

The goodwill arose from the acquisition of equity interests in following entities:

Entity name	**Year**	**Amount**
		RMB'000
Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	2015	92,339
Jack Walk (Shanghai) Fashion Limited ("Jack Walk")	2015	13,383
		105,722

Goodwill is allocated to the Group's CGUs identified according to business strategy.

A CGU level summary of goodwill is presented below:

	2016	2015
	RMB'000	RMB'000
Hangzhou Anshe	**92,339**	92,339
Jack Walk	**13,383**	13,383
	105,722	105,722

The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The Company expected cash flow beyond the five-year period would be similar to that of the fifth year. Cash flows beyond the five-year period were extrapolated using zero growth rates.

8 INTANGIBLE ASSETS (CONTINUED)

The key assumptions used for value-in-use calculations were as follows:

	Hangzhou Anshe	Jack Walk
Average revenue growth during the five-year period	8%	116%
Gross margin	65%	50%–55%
Discount rate	15%	15%

Management determined gross margin based on past performance and its expectations of market development. The discount rates used were pre-tax and reflected specific risks relating to the relevant business. Based on the assessments, no goodwill was impaired as at 31 December 2016 and 2015.

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheets are as follows:

	As at 31 December 2016 RMB'000
Associates	**130,381**

The amounts recognised in the consolidated statement of profit or loss are as follows:

	Year ended 31 December 2016 RMB'000
Associates	**(1,099)**

There was no investment accounted for equity method as at 31 December 2015.

Investments in associate	Year ended 31 December 2016 RMB'000
Beginning of year	**—**
Acquisition of an associate	**131,480**
Share of results of associates	**(1,099)**
End of year	**130,381**

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

The particulars of the associates of the Group, all of which are unlisted, are set out as follows:

Company name	Country/place and date of incorporation	Paid-up capital/ registered capital	Attributable equity interests to the Group As at 31 December 2016	2015	Principle activities
Tibet Baosight equity investment partnership (limited partnership)	Lhasa, PRC 11 November 2015	RMB60,000,000/ RMB256,100,000	**60%**	—	Project investment, investment management and asset management
Niologie China Limited	Shanghai, PRC 2 September 2010	RMB3,000,000/ RMB3,571,429	**16%**	—	Design and sales of apparel products
Hongche Industrial (Shanghai) Co., Ltd.	Shanghai, PRC 17 November 2014	RMB42,857,143/ RMB42,857,143	**30%**	—	Design and sales of apparel products
Hangzhou Kaihui E-Commerce Co., Ltd.	Hangzhou, PRC 30 June 2016	RMB520,000/ RMB2,000,000	**26%**	—	E-Commerce Business
Hangzhou Mixin E-Commerce Co., Ltd	Hangzhou, PRC 25 November 2016	RMB960,000/ RMB3,000,000	**32%**	—	E-Commerce Business
Hangzhou Jianing E-Commerce Co., Ltd.	Hangzhou, PRC 25 November 2016	Nil/ RMB2,000,000	**30%**	—	E-Commerce Business

The Group's aggregated interests in its associates and certain of the key financial information attributable to the Group are as follows:

Name	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Loss RMB'000	Net assets RMB'000
Year ended 31 December 2016	**52,388**	**15,626**	**4,345**	**(1,099)**	**36,762**
Year ended 31 December 2015	—	—	—	—	—

There were no contingent liabilities relating to the Group's interests in its associates, and no contingent liabilities in the associates themselves.

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Non-current		
At 1 January	**150,000**	—
Acquisition of unlisted equity interest	**25,026**	150,000
Revaluation of previous held interests by the Group	**14,599**	—
Currency translation differences	**1,024**	—
At 31 December	**190,649**	150,000

(a) The Group entered into an agreement (the "Agreement") with Beijing Legend Capital Fellow Investment Consultancy Partnership (Limited Partnership) (北京君聯同道投資顧問合夥企業) (有限合夥), "Beijing Legend Fellows") in August 2015. Pursuant to the Agreement, Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) (天津星曠企業管理咨詢合夥企業) (有限合夥), (the "Partnership") was established by both parties with a registered capital of RMB153,000,000, of which the Group contributed RMB150,000,000 as the limited partner and Beijing Legend Fellows contributed RMB3,000,000 as the general partner. The main business scope of the fund is project investment, investment management and asset management. The Group had neither obligation nor intention to provide financial support to the Partnership and therefore the Partnership was out of the scope for consolidation.

(b) The Group entered into an agreement with TNPI HK Co., Limited ("TNPI") in July 2016, pursuant to which, the Group acquired 20.74% interests in TNPI with a total consideration of USD 3,750,000 (equivalent to RMB25,027,000). The business of TNPI is operation of Segafredo Zanetti Expresso Cafe in China and Korea. The Group has no voting power in operational and financial decision, therefore, TNPI was accounted for as an available-for-sale financial asset.

(c) Based on the assessment of management, no available-for-sale financial assets was impaired as at 31 December 2016 and 2015.

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset when the deferred income taxes relate to the same tax jurisdiction. The net deferred income taxes balance after offsetting were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered within 12 months	**132,560**	134,600
— to be recovered after more than 12 months	**59,589**	34,387
	192,149	168,987
Deferred income tax liabilities:		
— to be recovered within 12 months	**1,947**	1,791
— to be recovered after more than 12 months	**12,619**	11,376
	14,566	13,167
Deferred income tax assets — net	**177,583**	155,820

11 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

The movement in deferred tax assets and deferred tax liabilities during the year without taking into consideration the offsetting of balance within the same jurisdiction, is as follows:

Deferred income tax assets	Tax losses carried forward	Inventory write-down	Accruals	Unrealized profit (a)	Allowance for impairment of receivables	Rental incentives recognized on a straight-line basis	Difference in depreciation between tax and accounting	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	3,969	60,824	47,184	22,432	—	37,653	—	172,062
Acquired from business combination (Note 34)	1,949	3,145	3,388	—	—	20	—	8,502
(Debited)/credited to the consolidated statement of profit or loss	(222)	8,292	(42,085)	15,341	8,303	4,077	—	(6,294)
At 31 December 2015	5,696	72,261	8,487	37,773	8,303	41,750	—	174,270
Credited/(debited) to the consolidated statement of profit or loss	31,394	(4,895)	604	(4,448)	849	(3,785)	1,264	20,983
At 31 December 2016	**37,090**	**67,366**	**9,091**	**33,325**	**9,152**	**37,965**	**1,264**	**195,253**

(a) Deferred income tax assets of unrealized profit were mainly attributable to the unrealized profit of intra-group transfer of inventories.

Deferred income tax liabilities	Difference in depreciation between tax and accounting	Fair value adjustments on assets and liabilities upon business combination	Fair value adjustments on available-for-sale financial assets	Capitalised borrowing costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	38,193	—	—	1,038	39,231
Acquired from business combination (Note 34)	—	14,334	—	—	14,334
Credited to the consolidated statement of profit or loss	(33,875)	(1,167)	—	(73)	(35,115)
At 31 December 2015	4,318	13,167	—	965	18,450
(Credited)/debited to the consolidated statement of profit or loss	(4,318)	(1,945)	—	1,833	(4,430)
Tax charged directly to equity	—	—	3,650	—	3,650
At 31 December 2016	**—**	**11,222**	**3,650**	**2,798**	**17,670**

12 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	**8,041**	3,999
Finished goods	**1,690,507**	1,739,188
Low value consumables	**15,028**	13,070
	1,713,576	1,756,257

Inventories are valued at the lower of cost and estimated net realisable value. Inventory write-down is made for obsolete and slow-moving items. The movements of finished goods are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Beginning balance of the year	**289,042**	243,296
— Acquired from business combination	**—**	12,577
— Write down of inventories to net realisable value included in the "cost of sales" (Note 25)	**260,721**	225,369
— Sales of inventories written down in prior years included in the "cost of sales" (Note 25)	**(225,069)**	(175,665)
— Donation of inventories fully written down in prior years	**(55,228)**	(16,535)
Ending balance of the year	**269,466**	289,042

The cost of inventories recognized as "cost of sales" amounted to approximately RMB3,071,301,000 for the year ended 31 December 2016 (2015: RMB2,581,451,000) (Note 25).

13 TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**1,080,280**	1,074,252
Less: allowance for impairment of trade receivables (Note 25)	**(28,096)**	(29,796)
Trade receivables — net	**1,052,184**	1,044,456

As at 31 December 2016 and 2015, the aging analysis of trade receivables based on invoice date was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables, gross		
— Within 30 days	**933,000**	901,768
— Over 30 days and within 60 days	**75,942**	78,319
— Over 60 days and within 90 days	**12,265**	29,154
— Over 90 days and within 180 days	**18,063**	26,845
— Over 180 days and within 360 days	**8,348**	15,025
— Over 360 days	**32,662**	23,141
	1,080,280	1,074,252

As at 31 December 2016 and 2015, the fair value of the trade receivables of the Group approximated their carrying amounts.

As at 31 December 2016 and 2015, the carrying amounts of the Group's trade receivables were denominated in RMB.

The Group's trade receivables are primarily derived from sales through concessionaire stores and are generally collectible within 90 days from the invoice date. As at 31 December 2016, trade receivables of RMB28,096,000 (31 December 2015: RMB29,796,000) were impaired and fully provided for allowance for impairment. Allowance for impairment of trade receivables has been provided for estimated irrecoverable amounts from the sales of goods.

As at 31 December 2016, trade receivables of RMB32,686,000 (31 December 2015: RMB38,926,000) were past due but not impaired. Based on the past experience, management believes that no additional allowance for impairment is necessary in respect of these pass-due trade receivables as there has not been a significant change in their credit position and the balances are considered fully recoverable. These trade receivables relate to a number of independent debtors for whom there are no recent history of defaults. The Group does not hold any collateral as security over these debtors.

13 TRADE RECEIVABLES (CONTINUED)

The aging analysis of these trade receivables past due but not impaired at 31 December 2016 and 2015 is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables, gross		
— Over 90 days and within 180 days	**17,456**	21,517
— Over 180 days and within 360 days	**7,232**	11,884
— Over 360 days	**7,998**	5,525
	32,686	38,926

14 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Prepayments	**324,590**	224,321
Deposits	**277,337**	174,899
Less: allowance for impairment of deposits (Note 25)	**(8,513)**	(3,415)
Deposits — net	**268,824**	171,484
Interest receivable	**2,695**	1,879
Staff advances	**6,957**	6,432
Prepayment of listing expenses	**6,495**	5,612
Receivables from non-controlling interests	**—**	721
Others	**490**	669
	610,051	411,118

As at 31 December 2016 and 2015, the fair value of the deposits, prepayments and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

14 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2016 and 2015, the carrying amounts of the deposits, prepayments and other receivables of the Group are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
— RMB	**610,051**	411,042
— HKD	**—**	76
	610,051	411,118

15 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	**581,389**	1,118,410
Term deposits (a)	**120,525**	—
Cash at bank and in hand	**701,914**	1,118,410
Cash at bank and in hand denominated in:		
— RMB	**700,157**	669,240
— HKD	**632**	449,170
— USD	**1,125**	—
	701,914	1,118,410

(a) Term deposits represent deposits held in separate bank accounts with more than three months to maturity when placed.

16 SHARE CAPITAL

	Number of ordinary shares (thousands)	Nominal value of ordinary shares RMB'000
As at 1 January 2015	503,380	503,380
Buy-back of shares (a)	(10,478)	(10,478)
As at 31 December 2015 and 2016	492,902	492,902

(a) For the year ended 31 December 2015, 10,478,000 shares of a nominal value of RMB10,478,000 were bought back at total consideration of HK$149,794,000 (equivalent to RMB120,046,000) (Note 17(b)(v)).

17 OTHER RESERVES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Statutory reserve (a)	**255,668**	224,207
Capital reserve (b)	**1,537,825**	1,521,985
— Excess of the cash consideration received over the share capital	**1,609,792**	1,609,792
— Buy-back of shares	**(109,568)**	(109,568)
— Contributions from a shareholder by awarding its equity instruments to the employees	**37,601**	21,761
Revaluation of available-for-sale financial assets, netting off deferred tax impact	**10,949**	—
Currency translation differences	**1,024**	—
	1,805,466	1,746,192

17 OTHER RESERVES (CONTINUED)

(a) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the Company and its subsidiaries, it is required to appropriate 10% of the annual statutory net profits of the Company and its subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the Company and its subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital.

For the year ended 31 December 2016, RMB31,461,000 (2015: RMB47,098,000) were appropriated to the statutory reserve from net profits of the Company and its subsidiaries.

(b) Capital reserve

	Excess of the cash consideration received over the share capital	Buy-back of shares (v)	Contributions from a shareholder by awarding its equity instruments to the employees (i)–(iv)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,609,792	—	18,546	1,628,338
Buy-back of shares	—	(109,568)	—	(109,568)
Shanghai Hexia granted its equity instruments to the employees of the Group	—	—	3,215	3,215
At 31 December 2015	1,609,792	(109,568)	21,761	1,521,985
Shanghai Hexia granted its equity instruments to the employees of the Group	—	—	15,840	15,840
At 31 December 2016	**1,609,792**	**(109,568)**	**37,601**	**1,537,825**

17 OTHER RESERVES (CONTINUED)

(b) Capital reserve (continued)

(i) Contributions from a shareholder by awarding its equity instruments to the employees

Shanghai Hexia, a company which was set up for the benefits of the Group's employees and holds certain equity interests in the Company, operates a series of share-based compensation plans in exchange for employee services to the Group. Details of the share-based compensation plans are summarised as follows:

On 30 December 2009, Shanghai Hexia was established in the PRC by Mr. Xing Jiaxing (邢加興) and certain selected employees (the "1st Batch Employees"). The registered capital of Shanghai Hexia at that time was RMB500,000, which was paid up by Mr. Xing Jiaxing and the 1st Batch Employees at the ratio of 32.79% and 67.21%. On 8 April 2010, Shanghai Hexia acquired 8.25% and 7% of the equity interests in the Company from two individuals and two financial investors, respectively. The cash considerations for these acquisitions of RMB17,113,000 were paid by Mr. Xing Jiaxing as a unilateral contribution to the existing equity owners of Shanghai Hexia. The proportion attributable to the 1st Batch Employees was considered as management incentive.

In December 2010, Good Factor Limited ("Good Factor"), a financial investor transferred 5% and 3% of its equity interests in the Company to Mr. Xing Jiaxing and Shanghai Hexia, respectively, at nil consideration for the purpose of rewarding the chief executive and the 1st Batch Employees for their contributions to the Group.

On 22 April 2011, Mr. Xing Jiaxing further transferred 15.49% of his existing equity interests in Shanghai Hexia to several employees (the "2nd Batch Employees") of the Group at nil consideration as management incentive.

On 24 March 2016, Mr. Xing Jiaxing transferred 5.75% of his exiting equity interests in Shanghai Hexia to several employees (the "3rd Batch Employees") of the Group at a consideration of some percentage of the H Shares as management incentive.

For the years ended 31 December 2016 and 2015, certain 1st Batch Employees and 2nd Batch Employees left the Company and settled the equity interests they held in Shanghai Hexia with Mr. Xing Jiaxing.

As at 31 December 2016, the percentage of equity interest in the Company indirectly held by the 1st Batch Employees, 2nd Batch and 3rd Batch Employees through Shanghai Hexia is 5.73% (31 December 2015: 5.20%).

17 OTHER RESERVES (CONTINUED)

(b) Capital reserve (continued)

(ii) Rights conferred to each of the employees who held equity interests in Shanghai Hexia and the vesting condition

Rights conferred to each of the employees who held equity interests in Shanghai Hexia included: (1) right of entitlement to dividends; (2) right to vote and participate in the general meeting; (3) right to appoint and replace members of board of directors; and (4) right to inspect the records relating to financing and investment decisions and arrangements of Shanghai Hexia.

The vesting condition of the 1st Batch Employees and the 2nd Batch Employees of the share-based compensation plans is consistent and summarised as follow:

- If an employee leaves the Company within 24 months after the date of successful listing of the Company's shares on any stock exchange (the "Listing"), he/she will receive cash equal to the capital contribution amount to Shanghai Hexia;

- If an employee leaves the Company after 24 months but within 36 months after the Listing, he/she will receive cash equal to his/her attributable net assets value of the Group at that time;

- If an employee leaves the Company after 36 months but within 60 months after the Listing, 50% of his/her attributable equity interests in Shanghai Hexia will vest; and

- If an employee completes 60 months service period after the Listing, 100% of his/her attributable equity interests in Shanghai Hexia will vest.

The vesting condition of the 3rd Batch Employees of the share-based compensation plans is consistent and summarised as follow:

- If an employee leaves the Company within before the date of successful listing of the Company's shares on Shanghai Stock Exchange (the "New Listing"), he/she will receive cash equal to the higher of 70% his/her attributable equity interests in Shanghai Hexia or the capital contribution amount to Shanghai Hexia;

- If an employee leaves the Company within 36 months after the New Listing, he/she will receive cash equal to the higher of 70% his/her attributable equity interests in Shanghai Hexia or the capital contribution amount to Shanghai Hexia; and

- If an employee completes 36 months service period after the New Listing, he/she will receive cash equal to the higher of 80% his/her attributable equity interests in Shanghai Hexia or the capital contribution amount to Shanghai Hexia.

17 OTHER RESERVES (CONTINUED)

(b) Capital reserve (continued)

(iii) Fair value estimation of share-based compensation plans

The Company needs to estimate the fair value of its equity interests at the relevant grant dates. The discounted cash flow method under the income approach has been applied in the determination of the fair value of the equity interests in the Company. The discounted cash flow derived by management considered the Group's future business plan, specific business and financial risks, the stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market.

The fair value as of the grant dates of each of the share-based compensation plans are summarised as follows:

The fair value of the share based compensation plans at the grant date was valued by an independent qualified valuer using Binomial valuation model as follows:

	RMB'000
Granted to the 1st Batch Employees by Mr. Xing Jiaxing on 2 April 2010	24,226
Granted to Mr. Xing Jiaxing by Good Factor on 19 October 2010	9,354
Granted to the 1st Batch Employees by Good Factor on 19 October 2010	7,526
Granted to the 2nd Batch Employees by Mr. Xing Jiaxing on 22 April 2011	40,754
Granted to the 3rd Batch Employees by Mr. Xing Jiaxing on 24 March 2016	3,889

(iv) Accounting treatment of the share-based compensation plans

The employee may choose the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service period. Accordingly, the share-based compensation plans were accounted for as compound financial instruments in the financial statements of Shanghai Hexia. As the Company received the benefits associated with the services of these employees, the share-based compensation charges were pushed down to the Company during the vesting period and recorded as an expense in the consolidated statement of profit or loss, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Company.

Expenses arising from the share-based compensation plans were charged in the consolidated statement of profit or loss (Note 26) as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Administrative expenses	**9,948**	5,044
Selling and marketing expenses	**5,892**	(1,829)
	15,840	3,215

17 OTHER RESERVES (CONTINUED)

(b) Capital reserve (continued)

(v) Buy-back of shares

According to the resolution of 2014 annual general meeting, the directors of the Company are authorised to approve the buy-back of the Company's H shares through the Stock Exchange of Hong Kong Limited, with an aggregate number not exceeding 13,824,000 shares. For the year ended 31 December 2015, the Company bought back 10,478,000 H shares through the Stock Exchange of Hong Kong Limited at an aggregated consideration of HK$149,794,000 (equivalent to RMB120,046,000). All of the shares bought back during the year were de-registered and the nominal value of such de-registered shares of RMB10,478,000 was debited to share capital (Note 16(a)). The relevant premium of RMB109,568,000 was paid out from the Company's capital reserve.

18 RETAINED EARNINGS

	RMB'000
As at 1 January 2015	784,481
Profit for the year	615,251
Appropriation to statutory reserve (Note 17(a))	(47,098)
Dividends declared (Note 30)	(464,685)
As at 31 December 2015	887,949
Profit for the year	531,963
Appropriation to statutory reserve (Note 17(a))	(31,461)
Dividends declared (Note 30)	(379,534)
As at 31 December 2016	**1,008,917**

19 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Bank borrowings — unsecured	**300,000**	—

The Carrying amount of the Group's borrowings were denominated in RMB.

19 BORROWINGS (CONTINUED)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the year end were as follows:

	6 months or less	Between 6 and 12 months	Between 1 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016	**150,000**	**150,000**	**—**	**300,000**
As at 31 December 2015	—	—	—	—

As at 31 December 2016 and 2015, the Group's borrowing were payable as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
On demand or within 1 year	**300,000**	—

The weighted average effective interest rates at each balance sheet date were as follows:

	As at 31 December	
	2016	2015
Borrowings — current	**4.16%**	n.a.

The fair value of the borrowings approximated their carrying amounts as at 31 December 2016.

The Group had the following undrawn bank borrowing facilities:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Facilities in RMB	**1,177,210**	1,650,000

20 TRADE AND BILL PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bill payables (a)	**395,292**	342,449
Trade payables (b)	**638,910**	885,731
	1,034,202	1,228,180

As at 31 December 2016 and 2015, trade and bill payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to the short maturities.

As at 31 December 2016 and 2015, trade and bill payables were denominated in RMB.

(a) The aging of bill payables was normally 90 days.

(b) As at 31 December 2016 and 2015, the aging analysis of the trade payables, which were trade in nature, based on the date of the receipts notes was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables		
— Within 30 days	**122,764**	270,883
— Over 30 days and within 60 days	**167,190**	224,241
— Over 60 days and within 90 days	**175,805**	290,204
— Over 90 days and within 180 days	**145,009**	81,098
— Over 180 days and within 360 days	**18,311**	9,464
— Over 360 days	**9,831**	9,841
	638,910	885,731

21 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Payables for purchases of property, plant and equipment	**338,659**	312,737
Staff salaries and welfare payables	**281,872**	267,109
Liabilities linked to operating leases (Note 2.17(b))	**220,264**	199,656
Accrued taxes other than income tax	**146,966**	188,167
Logistic expenses	**43,313**	32,249
Customers' deposits	**43,275**	39,424
Suppliers' deposits	**55,945**	5,394
Advances from customers	**320**	2,752
Interest payables	**381**	—
Consideration payables (Note 34(a))	**—**	8,000
Other accrued expenses and payables	**26,677**	7,357
	1,157,672	1,062,845

As at 31 December 2016 and 2015, all other payables, accruals and other current liabilities of the Group were non-interest bearing, and their fair values, except for accrued taxes other than income tax which were not financial liabilities, approximated their carrying amounts due to the short maturities.

As at 31 December 2016 and 2015, other payables, accruals and other current liabilities were denominated in RMB.

22 DEFERRED INCOME

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Government incentives (a)	**37**	6,037
Incentives to compensate the costs for leasehold improvements (b)	**34,595**	25,058
	34,632	31,095
Non-Current		
Government incentives (a)	**6,620**	659
Incentives to compensate the costs for leasehold improvements (b)	**47,753**	43,747
	54,373	44,406
Deferred income	**89,005**	75,501

(a) Government incentives

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**6,696**	605
— Additions	**—**	6,122
— Credited to the consolidated statement of profit or loss (Note 24)	**(39)**	(31)
At end of the year	**6,657**	6,696

The Company received government incentives from local governments as support on expenses relating to certain construction projects. When the required criteria set by the local governments for such incentives are met, the portion of the qualified funds was recognised as "other gains — net" and the remaining balance was recorded as deferred income.

22 DEFERRED INCOME (CONTINUED)

(b) Incentives to compensate the costs for leasehold improvements

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**68,805**	48,625
— Additions	**57,546**	44,738
— Credited to the consolidated statement of profit or loss	**(44,003)**	(24,558)
At end of the year	**82,348**	68,805

Certain lessors provided incentives to the Group to compensate the costs for leasehold improvements. The Group recognised the aggregate benefit of incentives as a reduction of "operating lease rentals" over the lease term on a straight-line basis. The current portion of incentives was estimated based on the expected reduction of "operating lease rentals" to be recognised within the next 12 months from the reporting date. The remaining balance was recorded as non-current portion.

23 REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Retail points	**9,210,445**	8,491,304
Online stores	**1,003,638**	588,939
Wholesale	**18,510**	15,465
	10,232,593	9,095,708

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for products supplied, stated net of discounts, returns and value added taxes. The retail points are operated in the form of concessionaire counters and standalone retail outlets. The concessionaire counters are located within department stores. The online platforms include TMall, JD.com, Dangdang.com and Suning.com platforms. During the year ended 31 December 2016, for the revenue generated from concessionaire counters and certain online platform, value added taxes are calculated on the basis of the revenue earned from the end customers being net of concessionaire fees charged by the department stores and certain online platform, with a total amount of RMB1,681,726,000 (2015: RMB1,656,777,000). The concessionaire fees are recorded as selling and administrative expenses.

24 OTHER GAINS — NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment and intangible assets — net (Note 31 (b))	**(957)**	(218)
Government incentives	**80,225**	62,823
— Relating to income (a)	**80,186**	62,792
— Relating to items with attached conditions (Note 22 (a))	**39**	31
Others	**1,621**	1,680
	80,889	64,285

(a) Government incentives primarily included the financial subsidies received from local finance bureau of RMB77,562,000 during the year ended 31 December 2016 (2015: RMB61,266,000).

25 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Costs of inventories recognized as expenses included in costs of sales (Note 12)	**3,071,301**	2,581,451
— original value	**3,296,370**	2,757,116
— inventories written down in prior years (Note 12)	**(225,069)**	(175,665)
Operating lease rentals	**2,772,348**	2,437,799
— concessionaire fees	**1,681,726**	1,656,777
— rental and store maintenance fee	**1,090,622**	781,022
Employee benefit expenses (Note 26)	**2,156,692**	1,908,186
Depreciation (Note 6)	**368,025**	386,515
Write-down of inventories to net realisable value (Note 12)	**260,721**	225,369
Utilities and electricity	**229,581**	212,767
Marketing and promotion expenses	**184,987**	129,298
Logistic expenses	**116,546**	89,578
Costs of low value materials	**109,821**	65,636
Taxes and levis	**91,307**	97,185
Bank charges and point-of-sale device processing fees	**48,321**	43,748
Travelling and communication expenses	**44,702**	36,471
Consulting expenses	**28,592**	35,751
Sample expenses	**27,620**	21,431
Amortization of intangible assets (Note 8)	**21,609**	17,510
Quality inspection fee	**14,882**	—
Allowance for impairment of deposits (Note 14)	**5,098**	3,415
Auditor's remuneration	**3,728**	3,668
— audit service	**3,700**	3,500
— non-audit service	**28**	168
Amortization of land use rights (Note 7)	**2,976**	3,161
(Reversal of)/impairment provision for trade receivables (Note 13)	**(1,700)**	29,796
Miscellaneous	**3,973**	2,862
Total cost of sales, selling and marketing expenses and administrative expenses	**9,561,130**	8,331,597

26 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,704,392**	1,549,416
Contribution to pension plan (a)	**219,883**	176,525
Housing fund, medical insurance and other social insurance (b)	**216,577**	179,030
Share-based compensation (Note 17(b))	**15,840**	3,215
	2,156,692	1,908,186

(a) Contribution to pension plan

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group contributes 12% to 20% of such relevant income (comprising wages, salaries and bonuses, and subject to maximum caps), subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(b) Housing fund, medical insurance and other social insurance

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 12% to 22% of the relevant income (comprising wages, salaries and bonuses) of the employees, subject to maximum caps. The Group's liability in respect of these funds is limited to the contributions payable in each period.

26 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Housing fund, medical insurance and other social insurance (continued)

Five highest paid individual

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 included two (2015: two) directors whose emoluments were reflected in the analysis shown in Note 39. The emoluments payable to the remaining three (2015: three) during the year were as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**3,214**	3,252
Contribution to pension plan	**127**	121
Housing fund, medical insurance and other social insurance	**123**	121
Share-based compensation (Note 17(b))	**3,323**	2,965
	6,787	6,459

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
Emolument bands:		
HK$1,000,000 to HK$1,500,000 (equivalent to RMB857,000 to RMB1,286,000)	**—**	—
HK$1,500,000 to HK$3,500,000 (equivalent to RMB1,286,000 to RMB3,000,000)	**3**	3
	3	3

No director, supervisor or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

27 FINANCE INCOME — NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Finance income		
— Exchange gains	**8,392**	38,318
— Interest income derived from bank deposits	**11,582**	28,828
	19,974	67,146
Finance expenses		
— Interest expenses on bank borrowings	**(10,048)**	(16,373)
Less: capitalised interest (Note 6)	**7,540**	—
— Interest expenses on bank borrowings	**(2,508)**	(16,373)
Finance income — net	**17,466**	50,773

28 TAXATION

(a) Income tax expense

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	**221,865**	249,592
Deferred income tax (Note 11)	**(25,413)**	(28,821)
Income tax expense	**196,452**	220,771

PRC corporate income tax ("CIT")

The income tax provision of the Company and its subsidiaries in Mainland China was calculated at the tax rate of 25% on the estimated assessable profits for the years ended 31 December 2016 and 2015, based on the existing legislation, interpretations and practices in respect thereof.

Enterprise incorporated in Hong Kong are subject to income tax rates of 16.5% for the years ended 31 December 2016 and 2015.

28 TAXATION (CONTINUED)

(a) Income tax expense (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates applicable to the years ended 31 December 2016 and 2015 as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**768,719**	879,169
Tax calculated at statutory tax rates applicable to each group entity	**192,181**	219,792
Tax effect of:		
Expenses not deductible for tax purpose (i)	**4,271**	979
Tax charge	**196,452**	220,771

(i) Expense not deductible for tax purpose primarily include share-based compensation expenses, expense not qualified for tax deduction purpose and welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law.

(b) Value-added tax ("VAT") and related taxes

The Group's revenues are subject to output VAT generally calculated at 3% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to city construction tax, educational surcharge, local educational surcharge and river management fee based on 7%, 3%, 2% and 1% of the net VAT payable respectively.

29 EARNINGS PER SHARE

Basic

Basic earnings per share was calculated by dividing the profit attributable to the equity owners of the Company by the deemed weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
Profit attributable to equity owners of the Company (RMB'000)	**531,963**	615,251
Weighted average number of ordinary shares in issue (thousands of shares)	**492,902**	498,717
Basic earnings per share (RMB per share)	**1.08**	1.23

Diluted

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has no category of dilutive potential ordinary shares.

30 DIVIDENDS

The interim dividend in respect of the six months ended 30 June 2016 of RMB0.35 per share (tax inclusive), amounting to a total dividend of RMB172,515,000 (tax inclusive) was approved at the 2016 second extraordinary general meeting of the Company on 11 October 2016. It was reflected as an appropriation of retained earnings for the year ended 31 December 2016 and paid out in 2016.

The final dividend in respect of 2015 of RMB0.42 per share (tax inclusive), amounting to a total dividend of RMB207,019,000 (tax inclusive) was approved at the 2015 annual general meeting of the Company on 29 April 2016. It was reflected as an appropriation of retained earnings for the year ended 31 December 2016 and paid out in 2016.

The interim dividend in respect of the six months ended 30 June 2015 of RMB0.33 per share (tax inclusive), amounting to a total dividend of RMB162,657,000 (tax inclusive) was approved at the 2015 third extraordinary general meeting of the Company on 27 October 2015. It was reflected as an appropriation of retained earnings for the year ended 31 December 2015 and paid out in 2015.

The final dividend in respect of 2014 of RMB0.60 per share (tax inclusive), amounting to a total dividend of RMB302,028,000 (tax inclusive) was approved at the 2014 annual general meeting of the Company on 5 May 2015. It was reflected as an appropriation of retained earnings for the year ended 31 December 2015 and paid out in 2015.

31 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year before income tax	**768,719**	879,169
Adjustments for:		
— Depreciation of property, plant and equipment (Note 6)	**368,025**	386,515
— Amortization of land use rights (Note 7)	**2,976**	3,161
— Amortization of intangible assets (Note 8)	**21,609**	17,510
— Write-down of inventories to the net realisable value (Note 12)	**260,721**	225,369
— Allowance for impairment of receivables (Note 13, 14)	**3,398**	33,211
— Finance expenses/(income) (Note 27)	**5,789**	(9,841)
— Other gains	**99**	—
— Share-based compensation (Note 17(b))	**15,840**	3,215
— Losses on disposal of property, plant and equipment (Note 24)	**957**	218
— Share of loss of investments accounted for using the equity method	**1,099**	—
— Interest income from term deposits	**(4,446)**	(21,170)
	1,444,786	1,517,357
Changes in working capital:		
— Increase in trade receivables	**(6,028)**	(20,464)
— Increase in deposits, prepayments and other receivables	**(202,332)**	(60,019)
— Increase in inventories	**(218,040)**	(591,029)
— Increase in other non-current financial assets	**(5,069)**	—
— (Decrease)/increase in trade and bill payables	**(193,978)**	302,780
— Increase in other payables, accruals and other liabilities	**76,524**	132,764
— Increase in deferred income	**13,504**	26,271
Cash generated from operations	**909,367**	1,307,660

31 CASH GENERATED FROM OPERATIONS (CONTINUED)

(b) Proceeds from disposal of property, plant and equipment and intangible assets

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment and intangible assets comprised:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net book amount (Note 6, 8)	**1,641**	488
Net losses on disposal of property, plant and equipment and intangible assets (Note 24)	**(957)**	(218)
Proceeds from disposal of property, plant and equipment and intangible assets	**684**	270

(c) Non-cash transaction

There were no significant non-cash transaction during the years ended 31 December 2016 and 2015.

32 CONTINGENCIES

The Group did not have any significant contingent liabilities.

33 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of year, but not yet incurred was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment (i)	**457,787**	189,192
Investments (ii)	**90,600**	—
Intangible assets	**717**	—
	549,104	189,192

(i) The Group's capital commitments represented the contractual obligations relating to the development of warehouse and logistics centre in Taicang, Chengdu, and Tianjin, and the development of administration centre in Shanghai, and the renovation mainly related to retail points.

(ii) The Group's capital commitment represented the contractual obligations with respect to certain investment contracts which expected to be completed in 2017.

33 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The future aggregate minimum lease payments in respect of lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	**661,640**	604,083
Later than 1 year and no later than 5 year	**2,435,019**	1,682,383
Later than 5 years	**1,182,524**	505,672
	4,279,183	2,792,138

Generally, the Group's operating leases are for terms of 2 to 11 years.

The actual payment in respect of certain operating lease is calculated at a certain percentage of sales of the respective department stores or at the higher of the minimum as noted above and the amounts determined based on a percentage of the sales of the department stores.

34 BUSINESS COMBINATION IN 2015

(a) Acquisition of online retail business

On 13 February 2015, the Company entered into two contractual agreements with Hangzhou Anshe and its existing shareholders, namely, Mr. Shen Qinhua, Ms. Cao Qing and Marix Partners China II Hong Kong Limited for the purpose of obtaining 54.05% equity interest of Hangzhou Anshe. Pursuant to the agreements, the Company acquired 45% equity interest from the existing shareholders of Hangzhou Anshe at the consideration of RMB135,000,000. In addition, after the completion of the above equity interest transfer, the Company injected cash of RMB65,000,000 to Hangzhou Anshe as its additional paid-in capital injection. The Company's equity interest in Hangzhou Anshe therefore increased to 54.05% and obtained the control of Hangzhou Anshe on 1 April 2015. Hangzhou Anshe designs, markets and sells apparel products directly to retail customers through third-party online shopping platform.

With this acquisition, the Group aims to enhance its online sales and marketing capabilities and increase its presence in online market. The goodwill of RMB92,339,000 arising from the acquisition is attributable to the unique opportunity for the Group to capitalize on the talents of Hangzhou Anshe to further strengthen the Group's online sales channels and to improve the Group's online sales capabilities. None of the goodwill recognised is expected to be deductible for income tax purposes.

34 BUSINESS COMBINATION IN 2015 (CONTINUED)

(a) Acquisition of online retail business (continued)

The following table summarises the total consideration paid, the fair value of assets acquired and liabilities assumed from Hangzhou Anshe at the acquisition date:

	RMB'000
Consideration:	
— Cash consideration paid to existing shareholders	135,000
— Cash injection	65,000
— Contingent consideration (Note 21)	8,000
Total consideration	208,000
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 6)	7,326
Intangible assets (Note 8)	35,180
Deferred income tax assets (Note 11)	4,405
Inventories	46,141
Trade receivables	5,303
Deposits, prepayments and other receivables	61,556
Cash and cash equivalents	93,522
Trade and bill payables	(11,788)
Other payables, accruals and other current liabilities	(18,293)
Current income tax liabilities	(836)
Deferred income tax liabilities (Note 11)	(8,528)
Total identifiable net assets	213,988
Non-controlling interests	(98,327)
Goodwill (Note 8)	92,339
	208,000

	RMB'000
Cash outflow to acquire Hangzhou Anshe, net of cash acquired	
— Cash consideration	200,000
— Contingent consideration (Note 21)	8,000
— Cash and cash equivalents of Hangzhou Anshe at acquisition date	(93,522)
Net cash outflow on acquisition	114,478

As at 31 December 2015, the unpaid contingent consideration amounted to RMB8,000,000 (Note 21).

34 BUSINESS COMBINATION IN 2015 (CONTINUED)

(a) Acquisition of online retail business (continued)

The contingent consideration arrangement requires the Group to pay cash of RMB8,000,000 to the non- controlling interests of Hangzhou Anshe if the net profit of Hangzhou Anshe for the year ended 31 December 2015 exceeds RMB20,000,000.

For the period from 1 April 2015 to 31 December 2015, the revenue of Hangzhou Anshe was approximately RMB323,379,000 and net profit approximately RMB85,851,000. For the year ended 31 December 2015, the revenue of Hangzhou Anshe was approximately RMB377,577,000 and net profit approximately RMB88,453,000.

(b) Acquisition of menswear retail business

On 28 May 2015, the Company entered into a contractual agreement with Jack Walk and its existing shareholders, namely, Mr. Liu Changqiao and Shanghai Cheng Mao Investment Consulting Limited for the purpose of obtaining 69.12% equity interest of Jack Walk. Pursuant to the agreement, the Company injected cash of RMB75,000,000 to Jack Walk as its additional paid-in capital and obtained the control of Jack Walk on 1 August 2015. Jack Walk is principally engaged in designing, marketing and sales of male apparel products.

With this acquisition, the Group aims to enhance its menswear sales and marketing capabilities and increase its presence in the menswear market. The goodwill of RMB13,383,000 arising from the acquisition is attributable to the unique opportunity for the Group to leverage on Jack Walk's experienced management team. In addition, the Group can further strengthen its capability in designing and marketing of male apparel products and capture the growth potential of menswear market. None of the goodwill recognised is expected to be deductible for income tax purposes.

34 BUSINESS COMBINATION IN 2015 (CONTINUED)

(b) Acquisition of menswear retail business (continued)

The following table summarises the total consideration paid, the fair value of assets acquired and liabilities assumed from Jack Walk at the acquisition date:

	RMB'000
Consideration:	
— Cash injection	75,000
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 6)	862
Intangible assets (Note 8)	23,223
Deferred income tax assets (Note 11)	4,097
Inventories	17,014
Trade receivables	19,584
Deposits, prepayments and other receivables	10,768
Cash and cash equivalents	41,015
Borrowings	(4,100)
Trade and bill payables	(2,571)
Other payables, accruals and other current liabilities	(14,942)
Deferred income tax liabilities (Note 11)	(5,806)
Total identifiable net assets	89,144
Non-controlling interests	(27,527)
Goodwill (Note 8)	13,383
	75,000

	RMB'000
Cash outflow to acquire Jack Walk, net of cash acquired	
— Cash consideration	75,000
— Cash and cash equivalents of Jack Walk at acquisition date	(41,015)
Net cash outflow on acquisition	33,985

For the period from 1 August 2015 to 31 December 2015, the revenue of Jack Walk was approximately RMB28,655,000 and net loss was approximately RMB3,288,000. For the year ended 31 December 2015, the revenue of Jack Walk was approximately RMB56,062,000 and net loss was approximately RMB13,332,000.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. Xing Jiaxing	*Founder and one of the controlling shareholders*
Hangzhou Kaihui E-Commerce Co., Ltd	*Associate of the Group*

(b) Transactions with related parties

Other than those disclosed in Note 30 or elsewhere in this report, for the years ended 31 December 2016 and 2015, the Group had no other significant transactions with related parties.

(c) Key management compensation

Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages, salaries and bonuses	**18,293**	16,628
Contribution to pension plan	**619**	593
Housing fund, medical insurance and other social insurance	**633**	600
Share-based compensation (Note 17(b))	**4,920**	3,342
	24,465	21,163

(d) Revenue from service rendered

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Hangzhou Kaihui E-Commerce Co., Ltd	**304**	—

36 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at the date of this report and for the years ended 31 December 2016 and 2015 were set out below:

Company name	Country/place and date of incorporation	Paid-in capital/ registered capital	Effective interests held by the Company % 31 December 2016	2015	Direct/ Indirect	Kind of legal entity	Principle activities
Shanghai La Chapelle Casual Fashion Co.,Ltd. (上海拉夏貝爾休閒服飾有限公司)	Shanghai, PRC 9 February 2010	RMB5,000,000/ RMB5,000,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Candie's Shanghai Fashion Co., Ltd. (上海樂歐服飾有限公司)	Shanghai, PRC 18 October 2010	RMB16,000,000/ RMB16,000,000	**65%**	65%	Direct	Domestic	Design and sales of apparel products
Chongqing Lewei Fashion Co., Ltd. (重慶樂微服飾有限公司)	Chongqing, PRC 22 December 2010	RMB500,000/ RMB500,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Beijing La Chapelle Lewei Fashion Co.,Ltd. (北京拉夏樂微服飾有限公司)	Beijing, PRC 28 December 2010	RMB500,000/ RMB500,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Chengdu La Chapelle Fashion Co., Ltd. (成都拉夏貝爾服飾有限公司)	Chengdu, PRC 17 February 2011	RMB500,000/ RMB500,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Shanghai Weile Fashion Co., Ltd. (上海微樂服飾有限公司)	Shanghai, PRC 23 November 2011	RMB50,000,000/ RMB50,000,000	**100%**	100%	Direct	Domestic	Design and sales of apparel products
Shanghai Langhe Fashion Co., Ltd. (上海朗赫服飾有限公司)	Shanghai, PRC 5 December 2011	RMB5,000,000/ RMB5,000,000	**100%**	100%	Direct	Domestic	Design and sales of apparel products
Shanghai Xiawei Fashion Co., Ltd. (上海夏微服飾有限公司)	Shanghai, PRC 21 December 2011	RMB5,000,000/ RMB5,000,000	**100%**	100%	Direct	Domestic	Design and sales of apparel products

36 SUBSIDIARIES (CONTINUED)

Company name	Country/place and date of incorporation	Paid-in capital/ registered capital	Effective interests held by the Company % 31 December 2016	2015	Direct/ Indirect	Kind of legal entity	Principle activities
La Chapelle Fashion (Taicang) Co., Ltd. (拉夏貝爾服飾（太倉）有限公司)	Taicang, PRC 9 August 2012	RMB100,000,000/ RMB100,000,000	**100%**	100%	95% directly held and 5% indirectly held	Domestic	Sales of apparel products
La Chapelle (Tianjin) Co., Ltd. (拉夏貝爾服飾（天津）有限公司)	Tianjin, PRC 15 November 2012	RMB10,000,000/ RMB10,000,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Chengdu Lewei Fashion Co., Ltd. (成都樂微服飾有限公司)	Chengdu, PRC 22 August 2013	RMB10,000,000/ RMB10,000,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Shanghai Chongan Fashion Co., Ltd. (上海崇安服飾有限公司)	Shanghai, PRC 29 June 2015	RMB12,750,000/ RMB15,000,000	**85%**	85%	Direct	Domestic	Sales of apparel products
Shanghai Youshi Fashion Co., Ltd. (上海優飾服飾有限公司)	Shanghai, PRC 20 July 2015	RMB20,000,000/ RMB20,000,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Fujian Lewei Fashion Co., Ltd. (福建樂微服飾有限公司)	Fujian, PRC 27 July 2015	RMB10,000,000/ RMB10,000,000	**100%**	100%	Direct	Domestic	Sales of apparel products
Shanghai La Chapelle Enterprise Management Co., Ltd. (上海拉夏企業管理有限公司)	Shanghai, PRC 5 May 2015	RMB300,000,000/ RMB300,000,000	**100%**	100%	Direct	Domestic	Investment
LaCha Fashion	Hong Kong, PRC 25 June 2015	HKD10,000/ HKD10,000	**100%**	100%	Indirect	N.A	Investment
Hangzhou Anshe E-Commerce Co., Ltd. (杭州黯涉電子商務有限公司)	Hangzhou, PRC 20 January 2010	RMB59,465,000/ RMB59,465,000	**54%**	54%	Direct	Domestic	E-Commerce business
Hangzhou Fushe Fashion Co., Ltd. (杭州復涉服裝有限公司)	Hangzhou, PRC 30 November 2012	RMB1,000,000/ RMB1,000,000	**54%**	54%	Indirect	Domestic	E-Commerce business

36 SUBSIDIARIES (CONTINUED)

Company name	Country/place and date of incorporation	Paid-in capital/ registered capital	Effective interests held by the Company % 31 December 2016	2015	Direct/ Indirect	Kind of legal entity	Principle activities
Zhejiang Qigege Fashion Co., Ltd. (浙江七格格時裝有限公司)	Hangzhou, PRC 28 September 2012	RMB10,000,000/ RMB10,000,000	**54%**	54%	Indirect	Domestic	E-Commerce business
Hangzhou Zhuolv Fashion Co., Ltd. (杭州卓旅時裝有限公司)	Hangzhou, PRC 5 August 2015	Nil/ RMB1,000,000	**54%**	54%	Indirect	Domestic	E-Commerce business
Shanghai Jack Walk Fashion Co., Ltd (上海傑克沃克服飾有限公司)	Shanghai, PRC 20 July 2009	RMB16,194,000/ RMB16,194,000	**69%**	69%	Direct	Domestic	Sales of apparel products
Guangzhou Xichen Fashion Co., Ltd (廣州熙辰服飾有限公司)	Guangzhou, PRC 4 February 2016	RMB18,000,000/ RMB20,000,000	**80%**	—	Indirect	Domestic	Sales of apparel products
Shanghai Nuoxing Fashion Co., Ltd. (諾杏（上海）服飾有限公司)	Shanghai, PRC 20 October 2016	Nil/ RMB10,000,000	**100%**	—	Direct	Domestic	Sales of apparel products
Shanghai Jiatuo Information Technology Co., Ltd. (嘉拓（上海）信息技術有限公司)	Shanghai, PRC 20 October 2016	Nil/ RMB5,000,000	**100%**	—	Direct	Domestic	Information technology service
Xinyugexia E- Commerce Co., Ltd. (新余格夏電子商務有限公司)	Shanghai, PRC 13 July 2016	Nil/ RMB2,000,000	**54%**	—	Indirect	Domestic	E-Commerce business
Hangzhou Chenge Technology Co., Ltd. (杭州晨格科技有限公司)	Shanghai, PRC 20 July 2016	RMB2,000,000/ RMB2,000,000	**54%**	—	Indirect	Domestic	E-Commerce business
Shanghai Xingji Industry Co., Ltd (形際實業（上海）有限公司)	Shanghai, PRC 17 November 2016	RMB12,000,000/ RMB20,000,000	**60%**	—	Indirect	Domestic	Home furnishing

(a) The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

36 SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests

The total non-controlling interest as of 31 December 2016 was RMB202,933,000, of which RMB202,473,000 was attributed to Hangzhou Anshe. The non-controlling interests in respect of other non- controlling interests were not material.

Hangzhou Anshe was acquired by the Group on 1 April 2015 (Note 34) and the revenue growth greatly was mainly attributable to the significant increase in online business. There was no material non- controlling interests for the year ended 31 December 2015.

Set out below are the summarized financial information for Hangzhou Anshe:

Summarized balance sheet

	As at 31 December 2016 RMB'000
Current	
Assets	**427,968**
Liabilities	**(101,389)**
Total current net assets	**326,579**
Non-current	
Assets	**54,686**
Liabilities	**(6,662)**
Total non-current net assets	**48,024**
Net assets	**374,603**

36 SUBSIDIARIES (CONTINUED)

(b) Material non-controlling interests (continued)

Summarized statement of profit or loss

	Year ended 31 December 2016 RMB'000
Revenue	**467,113**
Profit before income tax	**164,294**
Income tax expense	**(41,206)**
Total comprehensive income	**123,088**
Total comprehensive income allocated to non-controlling Interests	**—**
Dividends paid to non-controlling Interests	**—**

Summarized cash flow statement

	Year ended 31 December 2016 RMB'000
Cash flows from operating activities	
Cash generated from operations	**213,637**
Income tax paid	**(33,679)**
Net cash generated from operating activities	**179,958**
Net cash generated used in investing activities	**(122,473)**
Net cash generated used in financing activities	**(50,000)**
Net increase in cash and cash equivalents	**7,485**
Cash and cash equivalents at beginning of the year	**213,694**
Cash and cash equivalents at end of the year	**221,179**

The information above is the amount before inter-company eliminations.

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) Pursuant to a resolution of the Board of Directors on 16 March 2017, a final dividend of RMB0.30 per share (tax inclusive) totalling approximately RMB147,870,000 (tax inclusive) was proposed. Such final dividend will be subject to the approval from the Shareholders at the 2016 AGM.

(b) The Group entered into an agreement with Nine Snails (Shanghai) Education Technology Co., Ltd ("Nine Snails") (九蝸（上海）教育科技有限公司) in November 2016, pursuant to which the Group will acquire 60% of the equity interest in Nine Snails. As at 31 December 2016, the Group made a prepayment of RMB10,000,000 for the acquisition. The second consideration of RMB10,000,000 was paid out in March 2017, and the remaining consideration of RMB7,500,000 to be paid out in 2018 is subject to the business performance of Nine Snails in 2017.

(c) On 17 February 2017, the Group has signed and became a party to a share purchase agreement (the "Share Purchase Agreement"), pursuant to which the Group will subscribe for 2,631,579 Series A preferred shares (1.66% of the total issued shares) in BeCool (Cayman) Limited ("BeCool") with a consideration of USD731,732. In addition, the Group is entitled to a warrant in BeCool, under which the Group has the right to purchase an additional 2,631,579 Series A preferred shares with a consideration of USD731,732. In February 2017, the Group provided a bridge loan of RMB5,000,000 to Chengdu BeCool Technology Co., Ltd (成都必酷科技有限公司), a company to be held by BeCool through a variable interest equity structure pursuant to the Share Purchase Agreement. The bridge loan is for a term of six months.

38 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	Note	As at 31 December	
		2016	2015
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**94,974**	88,946
Intangible assets		**14,345**	26,355
Investments in subsidiaries		**817,650**	588,650
Deferred income tax assets		**31,846**	41,454
Other non-current financial assets		**10,000**	—
		968,815	745,405
Current assets			
Inventories		**413,816**	480,984
Trade receivables		**897,791**	962,072
Deposits, prepayments and other receivables		**1,675,034**	2,181,531
Cash and cash equivalents		**388,337**	858,987
		3,374,978	4,483,574
Total assets		**4,343,793**	5,228,979
EQUITY			
Equity attributable to owners of the Company			
Share capital		**492,902**	492,902
Other reserves	(a)	**1,686,593**	1,650,355
Retained earnings	(a)	**150,451**	346,403
Total equity		**2,329,946**	2,489,660
LIABILITIES			
Non-current liabilities			
Deferred income		**2,387**	1,591
Current liabilities			
Deferred income		**3,721**	3,335
Trade and bill payables		**642,887**	976,686
Other payables, accruals and other current liabilities		**1,008,965**	1,728,635
Current income tax liabilities		**55,887**	29,072
Borrowings		**300,000**	—
		2,011,460	2,737,728
Total liabilities		**2,013,847**	2,739,319
Total equity and liabilities		**4,343,793**	5,228,979

The balance sheet of the Company was approved by the Board of Directors on 16 March 2017 and was signed on its behalf.

Xing Jiaxing **Wang Yong**

38 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY (CONTINUED)

(a) Reserves movements of the Company

	Retained earnings RMB'000	Other reserves RMB'000
As at 1 January 2015	405,070	1,711,594
Profit for the year	451,132	—
Appropriation to statutory reserve	(45,114)	45,114
Dividends declared	(464,685)	—
Buy-back of shares	—	(109,568)
Shanghai Hexia granted its equity instruments to the employees of the Company	—	3,215
As at 31 December 2015	346,403	1,650,355
Profit for the year	203,980	—
Appropriation to statutory reserve	(20,398)	20,398
Dividends declared	(379,534)	—
Shanghai Hexia granted its equity instruments to the employees of the Company	—	15,840
As at 31 December 2016	**150,451**	**1,686,593**

39 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

	Fees	Salaries	Discretionary bonuses	Allowance and benefits in kind	Employer's contribution to retirement plan	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016								
Executive Directors								
Xing Jiaxing (邢加興)	—	1,347	108	14	42	—	284	1,795
Wang Yong (王勇)	—	1,279	240	14	42	—	524	2,099
Wang Wenke (王文克) (iii)	—	1,278	220	14	42	—	524	2,078

	Fees	Salaries	Discretionary bonuses	Allowance and benefits in kind	Employer's contribution to retirement plan	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-executive Directors								
Li Jiaqing (李家慶)	—	—	—	—	—	—	—	—
Lu Weiming (陸衛明)	—	—	—	—	—	—	—	—
Cao Wenhai (曹文海)	—	—	—	—	—	—	—	—
Wang Haitong (王海桐)	—	—	—	—	—	—	—	—
Luo Bin (羅斌) (ii)	—	—	—	—	—	—	—	—
Independent Non-executive Directors								
Mao Jianong (毛嘉農)	—	120	—	—	—	—	—	120
Chen Wei (陳巍)	—	120	—	—	—	—	—	120
Zhou Guoliang (周國良) (iv)	—	40	—	—	—	—	—	40
Law Japhet Sebastian (羅文鈺) (vi)	—	70	—	—	—	—	—	70
Chen Jieping (陳杰平) (v)	—	80	—	—	—	—	—	80
Chen Yongyuan (陳永源) (vii)	—	50	—	—	—	—	—	50
	—	4,384	568	42	126	—	1,332	6,452

39 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors and chief executive's emoluments (continued)

The remuneration of every director and the chief executive is set out below:

	Fees	Salaries	Discretionary bonuses	Allowance and benefits in kind	Employer's contribution to retirement plan	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015								
Executive Directors								
Xing Jiaxing (邢加興)	—	1,292	288	13	40	—	310	1,943
Wang Yong (王勇)	—	1,152	288	13	40	—	—	1,493
Hu Gang (胡剛) (i)	—	480	378	5	16	—	—	879
Wang Wenke (王文克) (iii)	—	1,056	—	12	35	—	—	1,103
Non-executive Directors								
Li Jiaqing (李家慶)	—	—	—	—	—	—	—	—
Lu Weiming (陸衛明)	—	—	—	—	—	—	—	—
Cao Wenhai (曹文海)	—	—	—	—	—	—	—	—
Wang Haitong (王海桐)	—	—	—	—	—	—	—	—
Luo Bin (羅斌) (ii)	—	—	—	—	—	—	—	—
Independent Non-executive Directors								
Mao Jianong (毛嘉農)	—	120	—	—	—	—	—	120
Chen Wei (陳巍)	—	120	—	—	—	—	—	120
Zhou Guoliang (周國良) (iv)	—	120	—	—	—	—	—	120
Law Japhet Sebastian (羅文鈺) (vi)	—	120	—	—	—	—	—	120
	—	4,460	954	43	131	—	310	5,898

39 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors and chief executive's emoluments (continued)

(i) Mr. Hu Gang (胡剛) was appointed as an executive director since June 2014 and resigned as an executive director in May 2015.

(ii) Mr. Luo Bin (羅斌) was appointed as a non-executive director since May 2015.

(iii) Mr. Wang Wenke (王文克) was appointed as an executive director since July 2015.

(iv) Mr. Zhou Guoliang (周國良) was appointed as an independent non-executive director since May 2013 and resigned as an independent non-executive director in April 2016.

(v) Mr. Chen Jieping (陳杰平) was appointed as an independent non-executive director since April 2016.

(vi) Prof. Japhet Sebastian Law (羅文鈺) was appointed as an independent non-executive director since August 2013 and resigned as an independent non-executive director in July 2016.

(vii) Mr. Chen Yongyuan (陳永源) was appointed as an independent non-executive director since July 2016.

(viii) The directors were also employees of the Group and the Group paid employee emoluments to them in their capacity as employees before or after their respective appointments as directors for the years ended 31 December 2016 and 2015.

(b) Directors' retirement benefits

There is no retirement benefits by a defined benefit pension plan operated by the Group. The Group contributes to state-sponsored retirement schemes for its directors in the PRC only (Note 26 (a)).

(c) Directors' termination benefits

There is no directors' termination benefits operated by the Group.

(d) Consideration provided to third parties for making available directors' services

For the years ended 31 December 2016 and 2015, no consideration was provided to third parties for making available directors' services.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

For the years ended 31 December 2016 and 2015, there were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.