都市丽人
COSMO LADY

Cosmo Lady (China) Holdings Company Limited
都市麗人（中國）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2298

2016 Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. ZHENG Yaonan
(Chairman and Chief Executive Officer)
Mr. ZHANG Shengfeng *(Deputy Chairman)*
Mr. LIN Zonghong *(Deputy Chairman)*
Mr. CHENG Zuming
Ms. WU Xiaoli

Non-executive Director

Mr. WEN Baoma

Independent Non-executive Directors

Mr. YAU Chi Ming
Dr. DAI Yiyi
Mr. CHEN Zhigang

COMPANY SECRETARY

Mr. Loo Hong Shing Vincent *FCCA, AHKSA*

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China Limited
Dongguan Rural Commercial Bank
China Construction Bank Corporation

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS

Porda Havas International Finance
Communications Group
Website: cosmo-lady@pordahavas.com

AUTHORIZED REPRESENTATIVES

Mr. ZHENG Yaonan
Mr. LOO Hong Shing Vincent

REGISTERED OFFICE

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

HEAD OFFICE

Shi Shi Xia Shan Tang Wei
Fengdeling Village
Fenggang Town Dongguan City
Guangdong Province
People's Republic of China

PLACE OF BUSINESS IN HONG KONG

Suite 2012, 20/F., Tower 1
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISORS

Hong Kong
Cleary Gottlieb Steen & Hamilton
ReedSmith Richards Butler

PRC
Jingtian Gongcheng

Financial Highlights

		Year ended 31 December		
		2016	2015	Change
Revenue	*RMB'000*	**4,512,385**	4,953,415	-8.9%
Operating profit	*RMB'000*	**305,449**	688,803	-55.7%
Profit attributable to equity holders of the Company	*RMB'000*	**241,961**	540,008	-55.2%
Gross profit margin	*%*	**44.4%**	42.7%	
Operating profit margin	*%*	**6.8%**	13.9%	
Margin of profit attributable to equity holders of the Company	*%*	**5.4%**	10.9%	
Earnings per share – basic and diluted	*RMB cents*	**12.70**	28.33	
Final dividend per share	*HK cents*	**6.21**	11.00	

		As at 31 December	
		2016	2015
Current ratio	*times*	**3.4**	3.2
Average inventory turnover period	*days*	**141.8**	92.5
Average trade receivables turnover period	*days*	**39.2**	29.4
Average trade payables turnover period	*days*	**76.3**	49.2

Statement from Chairman and CEO

Dear Shareholders,

In 2016, economic recovery in the US remained slow and Britain's vote to leave the European Union increased uncertainties over the Eurozone economy. Meanwhile, China's economic growth continued to decelerate. According to the National Bureau of Statistics of China, the country's gross domestic product growth decreased from 6.9% in 2015 to 6.7% in 2016. Nevertheless, consumers' wealth available for spending is still observing an increasing trend even under the current economic situation. The national per capita disposable income of China increased by 6.3% in 2016.

In view of the more cautious consuming sentiment as a result of the slowdown in mainland China's economic development, retail business was in general adversely affected.

More importantly, the commencement of the structural adjustments in the mainland China intimate wear industry also negatively impacted the operating result of the Group. The key structural adjustments included, but not limited to, the following:

Statement from Chairman and CEO

1. FURTHER DIVERSIFICATION OF SALES AND DISTRIBUTION CHANNELS

(a) Weaker sales performance for outlets located in department stores and street, some of which were even loss-making;

(b) Generally better sales performance for outlets located in shopping malls; and

(c) Strong sales growth momentum for e-commerce channel.

2. CHANGES IN THE MIX OF PRODUCTS SOLD IN THE MARKET

In view of the structural and cyclical adjustments in the mainland China intimate wear industry, some customers have higher requirements for quality products and opt for more comfortable products (such as seamless and wireless products) and also products with health concepts and serving specific purposes (such as sport bras).

Facing the above challenges, the revenue of the Group decreased by about 8.9% to approximately RMB4,512,385,000 (2015: RMB4,953,415,000).

On the other hand, more operating expenses, such as employee benefit expenses, operating lease rentals and marketing and promotion expenses, have been incurred in 2016 for business development. When we noticed the adverse factors mentioned above and the fact that our sales performance was not satisfactory, we have adopted a series of measures in the second half of 2016 to control the operating expenses of the Group. Nevertheless, it took time for these measures to implement and operate effectively, hence the operating expenses still increased substantially in 2016, affecting the profitability of the Group. As such, profit attributable to equity holders of the Company decreased by about 55.2% during the year to approximately RMB241,961,000 (2015: RMB540,008,000). Earnings per share amounted to about RMB12.70 cents in 2016 (2015: RMB28.33 cents), representing a year-on-year decrease of approximately 55.2%.

With a view to improving the operating results of the Group in the future, the Group has formulated various measures and initiatives to revitalize the Group's business, including but not limited to the following:

1 Changes in the top management

Several capable senior officers have been recruited during the year and in the first quarter of 2017 to enhance the management of the Group.

2 Reforms in the sales and distribution channels

(a) Closure of loss making outlets (mainly those located in department stores and street), and opening of new outlets in selected shopping malls, social communities and third-and fourth-tier markets;

(b) Stepping up effort in the development of e-commerce channels;

(c) Accelerating the upgrade of outlets image to the 5th generation and renovation of existing outlets to stimulate consumers' demand;

(d) Negotiation to form strategic alliances with potential business partners to develop Southeast Asian markets; and

(e) Opening of discount outlets in third- and fourth-tier areas in mainland China for grasping market opportunities in these areas and clearing aged stocks.

3 Product innovations

The Group will enhance efforts on market research and development so that the Group is able to launch new products, such as new seamless and soft wire bras, upright cotton mold cups, tai chi stone cups, baby skin cups, 360° high elastic cups, etc., to promptly react to market changes and consumers' new requirements.

4 Tightening cost controls

The Group will implement further initiatives to tighten cost controls and improve profit by closing loss marking outlets, negotiating for lower outlet rentals, reducing expenditure on less-effective marketing and promotion activities and reducing unnecessary expenses.

5 Reforms in supply chain management

(a) Strengthening the coordination and communication between sales department and supply chain department, enhancing procurement flexibility and increasing procurement frequency to timely respond to sales demand and optimize inventory control;

(b) Integration and consolidation of procurement, monitoring of product supply, inventory usage, raw material specification, quality control and resources allocation to optimize efficiency and reduce wastage of resources; and

(c) Procurement of some raw materials for use by OEM suppliers for further monitoring of raw materials, enhancing quality of final products and enjoying benefits from bulk purchases.

After the implementation of the above measures, the Board is prudently optimistic that the revenue of the Group in 2017 will at least be comparable with that for 2016, and the operating profit of the Group will gradually improve.

ZHENG Yaonan
Chairman and CEO

Hong Kong, 27 March 2017

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's revenue is derived from sales of products, either to the franchisees or to the consumers through self-managed outlets and online sales platforms. The reasons for the decline in revenue and the measures taken by management have been mentioned in the Statement from Chairman and CEO section. Management expects that the revenue in 2017 will be at least comparable with that for 2016.

Revenue by sales channel

The products of the Group were sold to consumers through an extensive network of outlets in more than 330 prefecture-level cities across China and via online sales platforms. The breakdown of the total revenue by sales channel is as follows:

	Year ended 31 December			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Sales to franchisees	**2,520,238**	**55.9**	3,155,892	63.7
Retail sales	**1,679,518**	**37.2**	1,622,952	32.8
E-commerce	**312,629**	**6.9**	174,571	3.5
Total revenue	**4,512,385**	**100.0**	4,953,415	100.0

Although the sales performance of the Group was not satisfactory, the sales through e-commerce channel continued its high growth momentum in 2016.

Management Discussion and Analysis

Revenue by type of product

The Group's revenue was generated from five major lines of intimate wear products: bras, underpants, sleepwear and loungewear, thermal clothes and others. The breakdown of the total revenue by product is as follows:

	Year ended 31 December			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Bras	**2,041,221**	**45.2**	2,269,562	45.8
Underpants	**712,260**	**15.8**	795,833	16.1
Sleepwear and lounge wear	**652,748**	**14.5**	715,422	14.4
Thermal clothes	**582,943**	**12.9**	600,198	12.1
Others *(Note1)*	**523,213**	**11.6**	572,400	11.6
Total revenue	**4,512,385**	**100.0**	4,953,415	100.0

Note:

(1) Includes leggings and tights, vests, hosiery and accessories.

Gross profit and gross profit margin

The improvement in gross profit margin of the Group to around 44.4% (2015: 42.7%) was mainly due to the continuous changes in sales channels and product portfolio, and the further integration of the supply chain. Nevertheless, the gross profit figure still declined to approximately RMB2,002,037,000 (2015: RMB2,114,794,000) as a result of drop in sales during the year.

Operating expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals in respect of land and buildings, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization, and others. The increase in selling and marketing expenses by around 9.8% to approximately RMB1,434,758,000 (2015: RMB1,306,751,000) was mainly attributable to the net increase in the number of the self-managed outlets during the year leading to the significant increase in employee benefit expenses and operating lease rentals, the significant increase in commission as a result of the surge in e-commerce business, and the full year impact on the selling and marketing expenses arising from the acquisition of Ordifen brand and its sub-brands in June 2015.

General and administrative expenses primarily consist of employee benefit expenses, depreciation and amortization, other operating rental expenses, travelling expenses and others. The increase in general and administrative expenses by about 58.3% to approximately RMB312,619,000 (2015: RMB197,495,000) was primarily attributable to an increase in employee benefit expenses, other operating rental expenses, depreciation and amortization, and the full year impact on the general and administrative expenses arising from the acquisition of Ordifen brand and its sub-brands in June 2015.

Management expects that after taking the tightening cost control measures mentioned in the Statement from Chairman and CEO section, the operating expenses of the Group in 2017 will drop when compared with that for 2016.

Other income

Other income consists of government grants, software usage fee income, franchise fee income, service fee income and others. The decline of other income by 34.7% to approximately RMB50,087,000 (2015: RMB76,735,000) during the year was mainly attributable to the decrease in government grants and service fee income by about RMB19,826,000 and RMB5,138,000, respectively.

Finance income – net

Net finance income represents interest income on available-for-sale financial assets, loan to a third party and short-term bank deposits, less finance expenses on bank borrowings. The net finance income of approximately RMB18,295,000 (2015: RMB21,766,000) declined as a result of the increase in interest expenses on bank borrowings during the year.

Income tax expense

Income tax expense primarily represents income tax payable by the Group under relevant income tax rules and regulations of the PRC. The effective tax rate of the Group for the year was around 25.3% (2015: 24.0%) which remained fairly stable and was comparable with the prevailing standard tax rate of 25% in mainland China. As of 31 December 2016, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	2016	2015
Average inventory turnover days	**141.8 days**	92.5 days
Average trade receivables turnover days	**39.2 days**	29.4 days
Average trade payables turnover days	**76.3 days**	49.2 days

The increase in average inventory turnover days was primarily due to the increase in inventory balance from approximately RMB800,377,000 as of 31 December 2015 to approximately RMB1,150,679,000 as of 31 December 2016, as the sales performance in 2016 was lower than expectation. Management expects that after taking the measures mentioned in the Statement from Chairman and CEO section, the inventory level and hence the average inventory turnover days at the end of 2017 will become lower than those at the end of 2016.

Average trade receivables turnover days increased from about 29.4 days for 2015 to about 39.2 days for 2016 because of the increased credit sales made to franchisees during the year. Nevertheless, management gradually tightened controls over this area in the second half of 2016 and hence the accounts receivable balance of approximately RMB451,230,000 as at 31 December 2016 was lower than the balances as at 30 June 2016 (RMB586,811,000) and 31 December 2015 (RMB517,705,000).

Average trade payables turnover days increased from around 49.2 days for 2015 to around 76.3 days for the 2016 because of increased bargaining power against the OEM suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid financial position. As at 31 December 2016, the Group's bank balances and cash amounted to approximately RMB809,178,000 (31 December 2015: RMB960,074,000) and bank borrowings amounted to RMB200,000,000 (31 December 2015: Nil).

As at 31 December 2016, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 7.4% (2015: Nil). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less bank balances and cash as a percentage of the total shareholders' equity, was approximately negative 22.6% (2015: Nil) as the Group was at a net cash position.

There was a negative cash flow of about RMB6,930,000 (2015: positive cash flow RMB402,704,000) generated from operating activities. It was mainly because part of the cash has been tied up as inventories which were not sold during the year. Management expects that after taking the measures mentioned in the Statement from Chairman and CEO section, the net cash position and operating cash flow of the Group will be improved in 2017.

CAPITAL EXPENDITURE

During the year, capital expenditure of approximately RMB190,081,000 (2015: RMB346,954,000) was mainly incurred for the construction of the Tianjin logistics centre. The amount of capital expenditure declined as the construction work for the Dongguan logistics centre had been completed in 2015.

PLEDGE OF ASSETS

At 31 December 2016, no property, plant and equipment, and land use rights were pledged as securities for banking facilities available to the Group.

CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any material contingent liabilities.

Management Discussion and Analysis

DISTRIBUTION NETWORK ACROSS CHINA AND MARKET SHARE

The Group has an extensive distribution network across China. Nevertheless, in response to the structural adjustments in the mainland China intimate wear industry, a lot of loss making outlets have been closed and the total net number of outlets has declined by 958 during the year. As at 31 December 2016, the Group's distribution network comprised 7,651 outlets, out of which 1,523 were self-managed outlets and 6,128 were franchised outlets. With the support of this extensive distribution network, the Group, according to Frost & Sullivan, continued to have the highest market share of around 3.2% in this industry.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2016, the Group employed approximately 7,800 (2015: 8,800) staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieve environmental sustainability through its daily operations and is in compliance with regulations including the newly revised "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001 Environment Management Systems. A corporate social responsibility report for the Group issued in accordance with the Environmental, Social and Governance reporting guide of the Stock Exchange has been included in page 31 to 40 of this annual report.

SUBSEQUENT EVENTS

There were no significant events affecting the Group that took place subsequent to 31 December 2016 till the date of this report.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of the Stock Exchange on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 31 December 2016, utilized approximately RMB234,138,000 (equivalent to approximately HK$270,319,000) to expand its retail network by increasing the number of its self-managed outlets, approximately RMB134,213,000 (equivalent to approximately HK$154,953,000) to establish the regional logistics centre in Tianjin and approximately RMB24,894,000 (equivalent to approximately HK$28,741,000) to upgrade information technology infrastructure. As at 31 December 2016, the net proceeds not yet utilized were deposited with licensed banks in Hong Kong and China.

Management Discussion and Analysis

OUTLOOK AND STRATEGY

Looking ahead to 2017, the Group will continue to face various challenges. Nonetheless, we will adopt various measures and initiatives to revitalize the Group's business. Apart from the measures mentioned in the Statement from Chairman and CEO section, the Group will proactively seek suitable merger, acquisition, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses with synergy effect. The Group will also strengthen our relationship with selected suppliers by forming strategic alliance with them with a view to further improve our supply chain and research and development management in the future.

After the implementation of the measures mentioned in the Statement from Chairman and CEO section, the Board is cautiously optimistic that the operating result of the Group will gradually improve.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHENG Yaonan (鄭耀南), aged 41, is the chairman of the Board, an executive Director, the chief executive officer and the chairman of the Nomination Committee of the Company. He also holds positions as the executive directors and concurrently as the general manager of a number of the Company's subsidiaries. He is also one of the founders of the Group. With approximately 18 years of experience in the intimate wear manufacturing and sales industry, Mr. Zheng has been the key driver of the business strategies and achievements to date of the Group. He is primarily responsible for the strategic planning, business development, corporate management and overall performance of the Group. Mr. Zheng has been serving the Group since September 2009.

Mr. Zheng is currently a committee member of Guangdong Provincial Committee of Chinese People's Political Consultative Conference (政協廣東省委員會), a vice chairman of China Youth Entrepreneur Association (中國青年企業家協會), a vice chairman of Guangdong Youth Association (廣東省青年聯合會), an executive vice chairman of World Dongguan Entrepreneurs (世界莞商聯合會) and the chairman of the supervisory committee of Fujian Chamber of Commerce in Shenzhen (深圳福建商會).

Mr. Zheng completed the China CEO Program and obtained an executive education program certificate from Cheung Kong Graduate School of Business (長江商學院), Beijing in December 2013. He is studying an EMBA course at the School of Management of Xiamen University (廈門大學), Xiamen, Fujian Province, an EMBA course in Shanghai Advanced Institute of Finance (SAIF) of Shanghai Jiao Tong University (上海交通大學), and a DBA course at Tsinghua University (清華大學DBA課程).

Mr. Zheng is the husband of Ms. Wu Xiaoli, the executive Director and vice president of the Company.

Mr. ZHANG Shengfeng (張盛鋒), aged 48, is the deputy chairman of the Board, an executive Director, a vice president and a member of the Remuneration Committee of the Company. He also holds positions as the executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Zhang is also one of the founders of the Group, and he is primarily responsible for the design, research and development and procurement of the Group. Mr. Zhang has been serving the Group since September 2009.

Mr. Zhang has been a deputy chairman of Dongguan Fenggang Association of Enterprises with Foreign Investment (東莞市鳳崗外商投資協會) and an executive deputy chairman of Shenzhen Underwear Association (深圳市內衣協會) since September 2011 and August 2012, respectively.

Mr. Zhang is currently studying for an executive master of business administration degree at the School of Management of Xiamen University, Xiamen, Fujian Province and is also a participant of the EMBA Program at Cheung Kong Graduate School of Business, Beijing branch. Mr. Zhang obtained a college degree in industrial electric automation from Guangdong University of Technology (廣東工業大學) in July 1990.

Biographies of Directors and Senior Management

Mr. LIN Zonghong (林宗宏), aged 48, is the deputy chairman of the Board, an executive Director, and a vice president of the Company. He also holds positions as the executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Lin is also one of the founders of the Group, and he is primarily responsible for the production and logistics of the Group. Mr. Lin has been serving the Group since September 2009.

Mr. Lin is currently studying for an EMBA course at the School of Management of Xiamen University, Xiamen, Fujian Province, and graduated from China Europe International Business School (中歐國際工商學院), Shanghai, upon finishing the study of the Advanced Management Program in June 2013.

Mr. CHENG Zuming (程祖明), aged 40, is an executive Director and vice president of the Company. He also holds positions as the executive director and concurrently as the general manager in a number of the Company's subsidiaries. Mr. Cheng is also one of the founders of the Group. He is primarily responsible for the marketing and customer relations of the Group. Mr. Cheng has been serving the Group since September 2009.

Mr. Cheng is currently studying for an EMBA course in Shanghai Advanced Institute of Finance (SAIF) of Shanghai Jiao Tong University, Shanghai and an EMBA course at the School of Management of Xiamen University, Xiamen, Fujian Province.

Ms. WU Xiaoli (吳小麗), aged 43, is the executive Director and vice president of the Company. Ms. Wu is primarily responsible for the human resources and administration management of the Group. Ms. Wu has been serving the Group since September 2009.

Ms. Wu graduated from the Executive Development Program for Backbones of Private Enterprises of Guangdong Province at the School of Business Administration of South China University of Technology (華南理工大學), Guangzhou, Guangdong Province and the Program for Elites of Leading Cantonese Enterprises at Cheung Kong Graduate School of Business, Guangdong Province.

Ms. Wu is the wife of Mr. Zheng Yaonan.

Biographies of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. WEN Baoma (溫保馬), aged 55, is the non-executive Director of the Company. Mr. Wen is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Wen has been serving the Group since October 2010. Mr. Wen has been a partner of Capital Today China Growth (HK) Limited ("Capital Today") since 2005, and currently serves on the board of directors of a number of Capital Today investee companies, including Wisdom Alliance Limited and Yuanmeng Household Products Co., Ltd. (遠夢家居用品股份有限公司). Mr. Wen had held a number of senior positions in various investment companies and an investment bank set forth below:

Company and its Principal Business	Duration of Tenure	Last Position Held
Actis Capital LLP (Beijing)	from 2004 to 2005	Principal
Intel Capital (Hong Kong)	from 2000 to 2004	Investment Manager
AIG Investment Corporation (Asia) Ltd.	from 1998 to 2000	Investment Manager
Jardine Fleming Holdings Limited	from 1995 to 1997	Executive

Mr. Wen obtained a bachelor's degree and a master's degree in engineering from Tsinghua University (清華大學), Beijing, in July 1984 and June 1988, respectively, and a master of business administration degree from London Business School of the University of London, London, the United Kingdom, in August 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YAU Chi Ming (丘志明), aged 49, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee of the Company. He was also appointed as a member of the Risk Management Committee of the Company on 31 December 2015. Mr. Yau is mainly responsible for supervising the activities and decisions of the Audit Committee, giving strategic advice and making recommendations on the operations and management of the Group.

Mr. Yau has over 20 years of experience in finance and accounting. He has been an independent non-executive director of Common Splendor International Health Industry Group Limited, a company listed on the Stock Exchange, since February 2013; served as an independent non-executive director of CircuTech International Holdings Limited (formerly known as TeleEye Holdings Limited), a company listed on the Stock Exchange, from April 2015 to June 2016 and has been the joint company secretary of Consun Pharmaceutical Group Limited, a company listed on the Stock Exchange, since March 2013. Prior to that, Mr. Yau worked at KPMG from August 1992 to November 1994 and from May 1995 to October 2012, and was promoted to a partner in July 2007.

Mr. Yau is a certified public accountant in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yau graduated from The University of Hong Kong in December 1992 with a bachelor's degree in Social Sciences. He also obtained a diploma in Business Studies from Hang Seng School in July 1986.

Biographies of Directors and Senior Management

Dr. DAI Yiyi (戴亦一), aged 49, has been an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee of the Company since June 2014. He was also appointed as a member of the Risk Management Committee of the Company on 31 December 2015. Dr. Dai is mainly responsible for supervising the activities and decisions of the Remuneration Committee, giving strategic advice and making recommendations on the operations and management of the Group.

Dr. Dai obtained his bachelor's degree and doctorate degree in economics in 1989 and 1999, respectively, from Xiamen University, Xiamen, Fujian Province, and also graduated from the Sixth Ford Class of the Sino-American Economics Training Centre of Renmin University of China (中國人民大學), Beijing. In 2006, Dr. Dai completed a short term study program named Program on Case Method and Participant-Centered Learning in Harvard Business School, Massachusetts, the United States of America. Dr. Dai has been a full-time professor and a Ph.D. supervisor of the School of Management of Xiamen University since 2004 and 2009, respectively. Dr. Dai was a senior visiting scholar at the Kellogg School of Management of Northwestern University, Illinois, the United States of America from 2007 to 2008 and the School of Management of McGill University, Montreal, Quebec, Canada in 2002.

Dr. Dai holds the position of independent director in the following company listed on the Shanghai Stock Exchange and independent non-executive director in the companies listed on the Stock Exchange:

Company and its Principal Business	Duration of Tenure	Stock Exchange	Stock Code
Mingfa Group (International) Company Limited	from October 2009 to present	The Stock Exchange	0846
China SCE Property Holdings Limited	from February 2010 to present	The Stock Exchange	1966
New Hua Du Supercenter Co. Ltd. (新華都購物廣場股份有限公司)	from May 2013 to present	Shenzhen Stock Exchange	002264
Fujian Septwolves Industry Co., Ltd. (福建七匹狼實業股份有限公司)	from July 2016 to present	Shenzhen Stock Exchange	002029
Xiamen C&D Inc. (廈門建發股份有限公司)	from July 2016 to present	Shanghai Stock Exchange	600153

Dr. Dai had previously been an independent director of the following companies set forth below:

Company and its Principal Business	Duration of Tenure	Stock Exchange	Stock Code
Xiamen ITG Group Co., Ltd. (廈門國貿集團股份有限公司)	from April 2009 to May 2014	Shanghai Stock Exchange	600755
Xiamen Dazhou Xingye Resources Holdings Limited (廈門大洲興業能源控股股份有限公司)	from March 2010 to October 2016	Shanghai Stock Exchange	600603
GuangDong Shirongzhaoye Co., Ltd. (廣東世榮兆業股份有限公司)	from December 2008 to January 2013	Shenzhen Stock Exchange	002016

Dr. Dai was awarded as the "Top-notch Personnel in Xiamen" (廈門市拔尖人才) in August 2010.

Mr. CHEN Zhigang (陳志剛), aged 44, has been the independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company since June 2014. He was also appointed as the chairman of the Risk Management Committee of the Company in December 2015. Mr. Chen is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group.

Mr. Chen has been a partner and the department head of the Vocation International Certified Public Accountants Co., Ltd. (天職國際會計師事務所) since 2004. He is also a Chinese Certified Public Accountant (中國註冊會計師), certified by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 2000 and a Certified Public Accountant with Securities and Futures Practice Qualification (持證券期貨相關業務資格的註冊會計師), certified by the China Securities Regulatory Commission (中國證券監督管理委員會) in January 2004.

Mr. Chen has been an independent non-executive director of SZ Reach Tech Co., Ltd. (深圳銳取信息技術股份有限公司), a company listed on the National Equities Exchange and Quotations (New Third Board), since November 2011, and served as an independent non-executive director from September 2010 to October 2011 at Guangdong Chaohua Technology Co., Ltd. (廣東超華科技股份有限公司), a company listed on the Shenzhen Stock Exchange.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

Mr. GUO Rongming (郭榮明), aged 38, joined the Group in June 2016. He is a vice president of the Company and is mainly responsible for the management of the sales and operation of the Group.

From June 2014 to May 2016, Mr. Guo was appointed as the general manager of China region of EXR (Shanghai) Trading Co., Ltd. Before that, Mr. Guo joined ANTA Sports Products Limited in 2000 and acted as its head of sales, chief operating officer, the vice president of FILA, its Italian brand and its deputy general manager of its children business department. Mr. Guo graduated from Liming Vocational University (黎明大學) in Quanzhou in 2000.

Mr. SHA Shuang (沙爽), aged 44, joined the Group in April 2012. He is the vice president and the chief information officer of the Company, and is mainly responsible for the management of the information systems, strategy formulation and channels of e-commerce of the Group.

Mr. Sha was appointed as the general manager of the information systems at Li Ning (China) Sports Goods Co., Ltd. (李寧(中國)體育用品有限公司) and a senior manager of integrated service at the information systems integration and service operation department of Lenovo (Beijing) Co., Ltd. (聯想(北京)有限公司). Mr. Sha obtained a bachelor's degree in economics of technology from the School of Economics of Jilin University (吉林大學), Changchun, Jilin Province in 1998 and a finance master of business administration degree jointly offered by The Chinese University of Hong Kong (香港中文大學) in collaboration with Tsinghua University (清華大學) in Beijing in 2009. Mr. Sha is an assistant engineer qualified by Chinese Academy of Sciences (中國科學院) in 2000.

Mr. SHEN Jianjun (沈建軍), aged 43, joined the Group in October 2016. He is a vice president of the Company and is mainly responsible for the design, research and development of the commodities of the Group.

Mr. Shen worked in Wacoal Holdings Corp. and was appointed as a designer of its wholly-owned subsidiary, Studio Five, a designer of international division of its Kyoto headquarter, and its top designer in China region. He was also appointed as the chief creative officer of Shenzhen HuiJie Group Co., Ltd. (深圳匯潔集團股份有限公司) and the general manager of its commodities planning center (Shanghai);the vice president and the chief art officer of Maoren Group (貓人集團) and the general manager of its Shanghai research and development center as well as the chief creative officer of Zhejiang Bonny Co., Ltd. (浙江博尼股份有限公司) and the general manager of its research and development and design center. Mr. Shen graduated from Bunka Fashion College in Tokyo, Japan in 1996.

Biographies of Directors and Senior Management

Mr. DAI Bin (戴斌), aged 38, joined the Group in June 2016. He is a vice president of the Company and the president of Ordifen (Hong Kong) Holdings Company Limited, a wholly-owned subsidiary of the Company, and is principally responsible for the operation and management of Ordifen brand.

Mr. Dai was the president of Hangzhou Xingmo Apparel Co., Ltd. (杭州行墨服飾有限公司); the director vice president of Zhejiang Ihappy Apparel Co., Ltd. (浙江海貝服飾有限公司); the general manager of sports life business department of ANTA Sports Products Limited and the national marketing manager of COFCO (Shenzhen) Co.,Ltd. (中糧集團(深圳)食品有限公司). Mr. Dai obtained a bachelor's degree of science in education from Suzhou University (蘇州大學) in 2002.

Mr. LOO Hong Shing Vincent (盧康成), aged 50, has been appointed as vice president, chief financial officer, company secretary and authorized representative of the Company since December 2016. Before joining the Group, Mr. Loo, was an executive director, chief financial officer, company secretary and authorized representative of Hengan International Group Company Limited, a company listed on the Main Board of the Stock Exchange. Mr. Loo has been appointed as an independent non-executive director of Goldenmars Technology Holdings Limited, a company listed on the Main Board of the Stock Exchange, since 26 June 2012.

Mr. Loo worked previously in an international firm of accountants in Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Corporate Governance Report

The Board of Directors of the Company (the "Board") is committed to maintaining a high standard of corporate governance practices which emphasize management of high quality, transparency and accountability to all shareholders.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company has complied with all the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2016 and up to the date of publication of annual report for 2016, with the exception of Code Provision A.2.1.

According to Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Zheng Yaonan ("Mr. Zheng") performs both the roles of the chairman of the Board and the chief executive officer of the Company. Mr. Zheng, with the established market reputation in the intimate wear industry in China, is the founder of the Group and has extensive experience in its business operations and management in general. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies which is in the best interests of the Company. Under the leadership of Mr. Zheng, the Board works effectively and performs its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions are made in consultation with members of the Board and relevant Board committees, and there are three independent non-executive directors on the Board offering advice in independent perspectives, the Board is of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board shall nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

THE BOARD

The Board currently comprises nine Directors of which five are executive Directors, one is non-executive Director and three are independent non-executive Directors.

The members of the Board as at the date of this report are as follows:

Executive Directors

Mr. Zheng Yaonan *(Chairman and Chief Executive Officer)*
Mr. Zhang Shengfeng *(Deputy Chairman)*
Mr. Lin Zonghong *(Deputy Chairman)*
Mr. Cheng Zuming
Ms. Wu Xiaoli

Non-executive Director

Mr. Wen Baoma

Independent Non-executive Directors

Mr. Yau Chi Ming
Dr. Dai Yiyi
Mr. Chen Zhigang

All Directors have signed service contracts or letters of appointment with the Company which set out the key terms and conditions of their appointment. Biographical details of the Directors and relevant relationships among them together with their respective roles in the Board and its committees are set out in the Biographies of the Directors and Senior Management on pages 13 to 19.

The Board has adopted a board diversity policy recognizing and embracing the benefits of having a diverse Board to enhance the quality of its performance. A diverse Board is crucial to the Board's performance and development of the Company. Accordingly, in designing the Board's composition, the Company has considered Board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, qualification, ethnicity, skills, knowledge and length of service, having due regards to the Company's own business model and specific needs from time to time. With the Board members coming from a variety of business and/or industry bodies and/or professional and/or academic institutions, the Company considers that the Board possesses a diverse mix of skills, experience and expertise appropriate to the requirements of the Company's business and development.

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors which represent at least one-third of the Board, and complied with the requirement that at least one of them has appropriate professional qualifications of accounting or related financial management expertise. The Company has received written confirmation for the year 2016 from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

The Board meetings are held regularly and are also held on an ad hoc basis as required by business needs. All Directors are consulted as to whether to include any matters in the agenda. Notice of at least 14 days are given to all Directors before the date of regular Board meeting. Agenda and accompanying board papers are given to all Directors in a timely manner before the date of each regular Board meeting. During the year 2016, four regular meetings were held by the Board. Besides, the Chairman of the Board had an annual interchange in 2016 with all non-executive Director (including independent non-executive Directors) of the Company without the other executive Directors present.

The Board's primary responsibilities are to formulate the Group's overall long-term strategy, to supervise the performance of the management, to review and monitor the Group's systems of financial controls and risk management, and to assess the results and achievement of the Group on an on-going basis. The Board confines itself to making decisions on major operational and financial matters as well as investments. The Board commits itself to acting in the best interests of the Group and shareholders. It is accountable to the shareholders for the long-term performance of the Group, while taking into consideration the interests of the other stakeholders. The independent non-executive Directors have contributed valuable independent views and proposals for the Board's deliberation and decisions. The Board has established an audit committee, a nomination committee, a remuneration committee and a risk management committee (collectively the "Committees") with clear written terms of reference to oversee particular aspects of the Company's affairs and to assist in sharing the Board's responsibilities. The Committees have to report regularly to the Board on their decisions and recommendations.

The management is responsible for the day-to-day management, administration and operation of the Group, implementing the strategies and plans adopted by the Board and the Committees and assumes full accountabilities to the Board for the operation of the Group. The Board has agreed on procedures to enable the Directors to seek independent professional advice whenever deemed necessary, at the Company's expense, to assist them to perform their duties.

The Company has arranged appropriate directors' and offices' liabilities insurance in respect of legal action against the Directors and officers of the Company. The insurance coverage is reviewed on an annual basis.

Audit Committee

The audit committee (the "Audit Committee") was established by the Board in June 2014 with specific written terms of reference. The Audit Committee is composed of all the independent non-executive Directors of the Company, namely Mr. Yau Chi Ming, Dr. Dai Yiyi and Mr. Chen Zhigang. Mr. Yau Chi Ming who possesses appropriate professional qualifications as required by the Listing Rules is the chairman of the Audit Committee.

Under its terms of reference, the Audit Committee is required to review the Company's financial information, to oversee the Group's financial reporting system, internal control procedures and risk management system, and to oversee the relationship with the Company's auditor. The terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Audit Committee held two meetings. The Audit Committee reviewed the accounting policies and practices adopted by the Group and discussed auditing and financial reporting matters, evaluated the overall effectiveness of the internal control system of the Group and the significant risks faced by the Group. It also reviewed the Company's financial statements, annual and interim reports, the management letter from the auditor of the Company, the continuing connected transactions entered into by the Group, corporate governance practices and the audit scope and fees for the year ended 31 December 2016.

The Audit Committee held a meeting in March 2017 to review the consolidated financial statements of the Group for 2016 and to consider the re-appointment of the auditor. The Audit Committee recommended the Board to approve the Group's consolidated financial statement for 2016 and propose the re-appointment of the auditor at annual general meeting of the Company for 2017.

Nomination Committee

A nomination committee (the "Nomination Committee") was established by the Board in June 2014 with specific written terms of reference. The Nomination Committee comprises three members, including Mr. Zheng Yaonan, Chairman of the Board, together with two independent non-executive Directors, namely Mr. Yau Chi Ming and Mr. Chen Zhigang. Mr. Zheng Yaonan is the chairman of the Nomination Committee.

Under its terms of reference, the primary responsibilities of the Nomination Committee include recommending to the Board on the appointment and re-appointment of Directors and succession plans for Directors, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors. The terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Nomination Committee held one meeting. The Nomination Committee reviewed the Board structure, size and composition, the Board diversity and the appointment or re-appointment of directors of the Company.

Remuneration Committee

A remuneration committee (the "Remuneration Committee") was established by the Board in June 2014 with specific written terms of reference. The Remuneration Committee comprises three members including an executive Director, Mr. Zhang Shengfeng, and two independent non-executive Directors, namely Dr. Dai Yiyi and Mr. Chen Zhigang. Dr. Dai Yiyi is the chairman of the Remuneration Committee.

Under its terms of reference, the primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors and senior management's remuneration, to determine the policy for the remuneration of executive Directors, to assess performance of executive Directors and approve the terms of executive Directors' service contract, to make recommendations to the Board on the remuneration of non-executive Directors of the Company. The remuneration of any member of the Remuneration Committee shall be determined by the Board. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

A Remuneration Committee's meeting was held during 2016 for an annual review of the remuneration policy and packages for all the Directors and senior management of the Company. Details of emoluments paid to the Directors and senior management of the Company for the year ended 31 December 2016 are set out in Note 11 to the consolidated financial statements on pages 95 to 98.

Risk Management Committee

A risk management committee (the "Risk Management Committee") was established by the Board in December 2015 with specific written terms of reference. The Risk Management Committee comprises three members, all of whom are independent non-executive Directors, namely Mr. Chen Zhigang, Mr. Yau Chi Ming and Dr. Dai Yiyi. The chairman of the Risk Management Committee is Mr. Chen Zhigang.

Under its terms of reference, the Risk Management Committee is responsible for overseeing the design, implementation and monitoring of the Company's risk management systems, reviewing Group strategy and making recommendations to the Board for consideration and approval. The terms of reference of the Risk Management Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Risk Management Committee held one meeting. It reviewed the new risk management framework, the key risks faced by the Group, risk management policy and practice.

Corporate Governance Report

Attendance Records at Meetings

The attendance of individual Directors at general meeting, regular meetings of the Board and meetings of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee held during the year ended 31 December 2016 is set out below:

	Number of meetings attended/held					
Name of Directors	Annual General Meeting	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Executive Directors						
Mr. Zheng Yaonan	1/1	4/4	N/A	1/1	N/A	N/A
Mr. Zhang Shengfeng	1/1	4/4	N/A	N/A	1/1	N/A
Mr. Lin Zonghong	1/1	4/4	N/A	N/A	N/A	N/A
Mr. Cheng Zuming	1/1	4/4	N/A	N/A	N/A	N/A
Ms. Wu Xiaoli	1/1	4/4	N/A	N/A	N/A	N/A
Non-executive Director						
Mr. Wen Baoma	1/1	4/4	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Yau Chi Ming	1/1	4/4	2/2	1/1	N/A	1/1
Dr. Dai Yiyi	1/1	4/4	2/2	N/A	1/1	1/1
Mr. Chen Zhigang	1/1	4/4	2/2	1/1	1/1	1/1

Appointment and Re-election of Directors

Pursuant to the Memorandum and Articles of Association of the Company, at each annual general meeting of the Company, one-third of the current Directors, or if there are not three or a multiple of three, then the number nearest to but not less than one-third, should retire from office by rotation at least once every three years. A retiring Director shall be eligible for re-election. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the first general meeting of the Company after his appointment and shall be subject to re-election at such meeting.

No new Board members was appointed during the year under review. Ms. Wu Xiaoli, Dr. Dai Yiyi and Mr. Chen Zhigang retired by rotation and were re-elected at the Company's annual general meeting for 2016. An annual review of the Board structure and composition was made by the Board during the year under review and the Board resolved to keep the structure and composition of the Board unchanged.

In addition, Mr. Zheng Yaonan, Mr. Cheng Zuming and Mr. Yau Chi Ming will retire by rotation at the Company's annual general meeting for 2017 and will be subject to re-election at that general meeting.

DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director of the Company is given a comprehensive orientation on their legal and responsibilities as a listed company director and the role of the Board. They also receive a comprehensive induction package covering the latest information of the Group, the statutory and regulatory obligations of a director, terms of reference of the relevant committees and other related regulatory requirements. All Directors are encouraged to participate in continuous professional development and refresh their knowledge and skills.

All Directors have participated in continuous professional development by attending seminars and/or conferences and/or forums to develop and refresh their knowledge and skills. In addition, giving talks at seminars and/or conference and/or forums and provision of reading material on the relevant topics contributed toward continuous professional training. All Directors provided a record of training to the Company.

A summary of the continuous professional development in which Directors participated during the year ended 31 December 2016 is as follows:

Name of Directors	Types*(Notes)*
Executive Directors	
Mr. Zheng Yaonan	A, B, C
Mr. Zhang Shengfeng	C
Mr. Lin Zonghong	A, C
Mr. Cheng Zuming	A, C
Ms. Wu Xiaoli	A, C
Non-executive Director	
Mr. Wen Baoma	C
Independent Non-executive Directors	
Mr. Yau Chi Ming	A, C
Dr. Dai Yiyi	A, B, C
Mr. Chen Zhigang	A, C

Notes:

A: Attending seminars and/or conferences and/or forums

B: Giving talks at seminars and/or conferences and/or forums

C: Reading newspapers, journals and updates in relation to the economy, general business, retails or director's duties and responsibilities, etc.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2016.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors of the Company acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2016 as disclosed in this annual report. The Directors have selected suitable accounting policies and applied them consistently; have made judgements and estimates that were prudent and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The statement of the Company's auditor regarding its responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on page 60 to page 61 of this annual report.

Internal Control and Risk Management

The Company has carried out the risk management of the Group by reference to the corporate risk management framework of The Committee of Sponsoring Organizations of the Treadway Commission, and shall identify, evaluate and manage various risks of the Group by eight factors as follows: internal environment, objectives formulation, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. The risk management framework of the Company has 'three lines of defence': the first is the Company's business units; the second is the audit committee and the risk management department under the Board and the third is the Board of Directors. Through these three lines of defence, the Company has rendered the risk management throughout the Group. The Company's business units shall list out the risks that the Company is currently exposed to one by one through a variety of risk identification techniques. The business units and the risk management department shall analyze and evaluate those risks in different ways so as to develop risk response plans, and then the risk management department shall track and evaluate those risk response plans to ensure the effectiveness of risk control activities. In addition, the Company has established a database for risk management and shall keep optimizing it to offer support to the risk management of the Company. The relevant concepts and procedures of such framework are set out in the Risk Management Manual of the Company, and the Manual has been assigned to the various business units on real-time basis in a bid to build a comprehensive risk management environment for the Company.

The Company has developed a standard and improved procedure management system and authorisation to prevent or detect unauthorized expenses and payments in a bid to protect the Company's assets so as to ensure the accuracy and completeness of the Company's accounting accounts, and ensure financial statements are prepared reliably and timely. Through reviewing by the internal audit department, the Group will achieve the following three major objectives:

I. The Company shall supervise and improve the operational and management principles and policies of the Company and its financial management system and financial disciplines shall be implemented thoroughly in the Company and its subsidiaries. Besides, the Company shall keep improving its operation and management through examining the effectiveness of the operation of the risk management and internal control system of the Company, so as to ensure the achievement of the organization goals;

II. The Company shall correct errors and take preventive actions against weakness, investigate into and deal with irregularities to protect the safety and integrity of the Company's funds and property; and

III. The Company shall put forward proposals to rationalize its operation and management policies, principles and financial management system, so as to strengthen the management standard of the Company and avoid operational risks, improve economic efficiency in an effort to serve the Company to achieve its strategic objectives.

The Board is responsible for exercising continuous supervision over the risk management and internal control system of Company, and is responsible to review its effectiveness. The Board considers that the purpose of establishing an internal control system is to manage the risks rather than to eliminate the same, and is to minimize risks reasonably rather than to ensure absolutely no fatal errors, losses or fraud will occur. The Board, with the assistance from the internal audit department under the risk management centre, shall regularly review the routines, procedures, expenses and internal controls (including financial monitoring, operational monitoring and compliance monitoring and risk management functions) for all business units and its subsidiaries. The Board or senior management may also request the internal audit department to review the specific scope of concern.

The Group's risk management centre is responsible for reviewing the effectiveness of the risk management and internal control system of the Group. Based on the risk assessment, the internal audit department under the Group's risk management centre shall develop an annual review plan to review the various areas of the Company, including the financial system, daily operation, compliance control and risk management functions. The internal audit department shall, in accordance with the Company's system and guidelines on internal audit, conduct an initial check on soundness and a preliminary evaluation on the units under auditing, followed by compliance testing, substantive testing and comprehensive evaluation. The internal audit department shall conduct a return visit to the risks identified in the internal control, and conduct subsequent check on the audit proposal adopted. It also examines its written explanations and replies on corrective measures not adopted for the account of cost saving or other factors so as to prevent any omission.

Base on the framework of risk management and internal control of the Company, the internal audit department makes annual review to the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2016 and reports the results of the review to the Board every half year and puts forward rectification proposals thereof. The review confirms the adequacy of the Company's resources, staff qualifications and experience in the accounting, internal audit and financial reporting functions, as well as the adequacy of training courses received by employees and of the relevant budget.

The Board is of the view that the Group currently has sufficient and effective risk management and internal control review systems, however, it shall conduct regular review to enhance and protect the operation of risk management and internal control system.

Continuous disclosure responsibility in respect of inside information

The Company has established a system for handling and issuing inside information, which includes:

- identify, classify, grade and register important and sensitive information timely according to the criterion on important and sensitive information of the Company
- establish inter-department information extraction mechanism, the information shall be available upon approval by the relevant leaders

- timely submission of registration sheet for the important and sensitive information to the investor relation department for filing
- timely handover of important and sensitive information to the files management unit for unified management
- sign confidentiality agreements with employees
- consult the media department in advance on the contents to be interviewed
- encrypt the important and sensitive information before transmission or transmit the same by dedicated persons through private network
- take security and isolation strategy for important and sensitive information
- sign agreements with business partners to define their responsibilities in respect of safety and confidentiality
- implement backup strategy for important and sensitive information

Auditor's Remuneration

The Company engages PricewaterhouseCoopers as external auditor and has received a written confirmation from PricewaterhouseCoopers confirming that they are independent and that there are no relationships between PricewaterhouseCoopers and the Company that are likely to impair its independence. The roles and responsibilities of our external auditor are stated in the Independent Auditor's Report on pages 55 to 61. During the year ended 31 December 2016, PricewaterhouseCoopers provided the following services to the Group:

Service rendered	*RMB*
Audit services	
Annual audit and interim review	3,380,000
Non-audit services	
Environmental, social and governance service	286,000
Total	3,666,000

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company endeavours to develop and maintain continuing relationship and effective communication with its shareholders and investors. In order to facilitate and enhance the relationships and communication, the Company has adopted a shareholders communication policy, which is available on the Company's website. The principles of the shareholder communication policy are:

Shareholders' Enquiries

- shareholders should direct their questions about their shareholdings to the Company's share registrar;
- shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available; and
- shareholders and the investment community shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

Corporate Communication

- corporate communication will be provided to shareholders in plain language and in both English and Chinese versions to facilitate shareholders' understanding; and
- shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Corporate Website

- a dedicated Investor Relations section is available on the Company's website (http://www.cosmo-lady.com.hk). Information on the Company's website is updated on a regular basis;
- information released by the Company to the Stock Exchange is also posted on the HKEx's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.; and
- all presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website as soon as practicable after their release.

Shareholders' Meetings

- shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings;
- the process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that shareholders' needs are best served; and
- board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer shareholders' questions.

Investment Market Communications

Investor/analysts briefings and one-on-one meetings, roadshows (both domestic and international), media interviews and marketing activities for investors etc will be available on a regular basis in order to facilitate communication between the Company, shareholders and the investment community.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and Put Forward Proposals

(a) Any shareholder(s) holding, at the date of deposit of the requisition, not less than 10% of the paid up capital of the Company may request the Board to convene an extraordinary general meeting. The requisition of the shareholder(s) concerned must clearly state the purposes and transaction of business of the meeting and must be deposited at the Hong Kong office of the Company at Suite 2012, Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong for the attention of the Board or the company secretary. Such meeting shall be held within 2 months after the deposit of such requisition.

    If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Article 64 of the Articles of Association once a valid requisition is received.

(b) The procedures for nomination of Directors by the shareholders of the Company are available on the Company's website at www.cosmo-lady.com.hk.

Procedures for Putting Forward Enquiries to the Board

Shareholders' questions in relation to their shareholdings should be directed to the Company's share registrar of the Company in Hong Kong at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Shareholders may at any time put forward enquiries to the Board through Company Secretary in writing by mail to the office of the Company in Hong Kong at Suite 2012, Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents of the Company during the year ended 31 December 2016 and up to the date of publication of the annual report for 2016.

Corporate Social Responsibility

To align with the Group's strategy to drive sustainable growth, we recognise that environmental and social sustainability is important to us. We are dedicated to better serve our customers and at the same time, create added value for shareholders and contribute to the communities in which we operate.

VISION, MISSION AND VALUE IDENTIFICATION

Our vision is to become a global mass market intimate wear brand, providing care and creating healthy lifestyles for our consumers. We have embedded core values into our culture and everything that we do as we strive towards our goals:

VISION	*MISSION*	*VALUE*
To become a global mass market intimate wear brand	**To provide care and create healthy lifestyle options for consumers**	**Act responsibly, Encourage innovation, Win-win, Create happiness**

ABOUT THIS REPORT

This is the first corporate social responsibility ("CSR") report of the Company issued in accordance with the Appendix 27 of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") Environmental, Social and Governance ("ESG") reporting guide. The report gives an overview of the CSR challenges and achievements, management systems as well as initiatives planned and implemented for the year ended 31 December 2016.

Our CSR report focuses on the Group's businesses, describing the overall ESG performance and initiatives of our head office and retail stores in China. Environmental data presented only covers our production as we consider this has the most significant environmental and social impact and influence to our business and various stakeholders. The Group has engaged with a number of stakeholders including employees, customers, suppliers and industry associations, through the use of a survey to better understand material CSR matters that stakeholders believe to have impact on the business and its stakeholders. The results of this survey will help us to realign our sustainability strategy, helping us to gain clarity in our existing sustainable performance and set future measurable goals to further enhance our business. The following areas were noted by stakeholders to be of key importance to the Group:

Corporate Social Responsibility

Topics	Material aspects
Employment and labour practices	Employee engagement, diversity and inclusion Employee health and safety Employee development and training Anti-corruption
Sustainable business	Supply chain management Product responsibilities
Environmental management	Water management Carbon footprint & energy management Packaging and waste management
Community investment	Community investment

EMPLOYMENT AND LABOUR PRACTICES

The Group believes that having a strong team is a key success factor in building a successful business. Investing in human resources management, anchored with mutual trust and respect, forms the core of its strategy to create an inclusive, open, healthy and happy working environment.

The Group has invested in a number of human resources initiatives for its employees, including:

- Employee engagement, diversity and inclusion
- Employee health and safety
- Employee development and training
- Anti-corruption

Corporate Social Responsibility

Employee Engagement, Diversity and Inclusion

To support on-going growth, attracting new and retaining existing talent is foremost in the Group's strategy. The Group acquires new talents through experience hire, campus recruitment, internal recommendations and company initiated competitions. Staff members experience on-the-job training through a one-on-one tutorial system that has been proven to help new employees adapt quickly to the Group's environment, and to progressively upskill staff to provide opportunities to broaden their career. The total workforce of the Group has reached around 7,800 permanent staff.

Given the nature of its business, the Group has embraced the natural attraction of a larger population of female and younger team members to join their workforce.

To continue to maintain a strong diverse workforce, the Group continues to nurture its employees with a five-fold retention policy:

1. Excellent culture: The Group advocates an open and trusting working relationship amongst its employees, placing emphasis on fair and equal treatment as well as encouragement for diversity.

2. Broad development path: The Group provides multiple promotion paths for employee career progression, tailored on-the-job training is put in place to upskill the team.

3. Competitive package: The Group offers above average remuneration packages as compared to other local competitors.

4. Communication: The Group promotes transparency in sharing information through informal gatherings, newsletters and online social networking groups.

5. Emotional care: The Group understands the importance of family values and culture and encourage celebration of international and national holidays and events such as Chinese New Year and Christmas, and complement these festivities with promotional initiatives such as information about local activities, and encourage sharing and learning of different cultural aspects with and from each other.

Corporate Social Responsibility

Employee Health and Safety

Underpinning the Group's success in rapid retail network growth is the importance it places on health and safety of its employees. There were no occurrences of workplace injuries or fatalities recorded in 2016. Correspondingly, there were no lost days due to work accidents in 2016. The Group attributes this achievement to setting up and adopting its own special requirements for OHSAS 18001: "Occupational Health and Safety Management System" wherein, the Group conducts comprehensive identification, evaluation and prevention of the hazards within company's scope of liability.

Employee Development and Training

The Group believes a strong learning culture allows its employees to adapt to the future development of the Group and the market and has developed strong core competencies, to which employees are appraised on, to help them identify areas of growth. The Group's commitment to this can be demonstrated by a number of areas:

- To align with our corporate strategy and dynamic business needs, we are committed to providing development opportunities to motivate and upskill our existing talent. The Group offers on-the-job learning and various training programmes to enhance employees' abilities and specialised skills, which are tailored to addressing their knowledge and skills gaps.

- Regular training is provided to the Group's employees. In addition to training designed in line with the required core competencies, the Group also took into account results from staff survey to identify staff training needs in relation to business development, performance management, talent development, career development and other special training needs. Training includes both classroom as well as video base, outdoor team building, as well as sharing of stores and marketing updates.

- External business schools have been set up, including Xiamen University (厦門大學), Wuhan Polytechnic (武漢職業技術學院) and Hunan Network Engineering Vocational College (湖南網絡工程學院) to our staff.

A clear career development path is targeted for different employee needs to ensure progression into management roles. A working group is established between Human Resources Department and different business units to develop and communicate career development plans. The Group takes great pride in identifying potential candidates for promotion to ensure their future succession plan is in place. This includes team building activities, project management training, cross-functional rotation/transfer, leadership training as well as a pre-promotion 360-degree evaluation process and post-promotion counselling.

During the year ended 31 December 2016, the average training hours per employee by categories was summarised below:

Average hours trained per employee per category

Senior management	51.1 hours
Middle management	96 hours
Non-management office employees	96 hours

Anti-Corruption

A core value for the Group is its promotion of ethical behaviours. The Group has established clearly defined ethical standards that employees at all levels must follow. The Group has developed the following:

- Employee handbook
- Employee award management system
- Anti-fraud management system
- Tendering and bidding management system

Policies and training are regularly reviewed, adapted and communicated wherever necessary. In the year ended 31 December 2016, there were no allegations of corruption made against the Group.

SUSTAINABLE BUSINESS

The Group realises to maintain its brand reputation and quality of its products requires optimising its internal work flows, product research and design, as well as engaging with its supply chain. Aligning these factors is an on-going challenge for the business.

Corporate Social Responsibility

Product Responsibility – Consumer's Health and Safety

The Group strongly believes in its responsibility to provide consumers with products of high quality and safety. Of the total products sold and shipped in 2016, there was no products were subjected to recalls for major health and safety reasons. Even with this positive result, the Group continues to improve its quality management systems. Through formally documented policies and procedures, the Group clearly defines the duties, control methods and requirements of the various levels and functions of the companies in the Group in terms of quality and safety management. This consists of protocols relating to:

- Quality and safety of product/service
- Research and development and design
- Product transport and packaging
- Supply chain management
- Customers

Strict measures are implemented to ensure product quality and safety and the Group puts special emphasis on its services relating to quality and safety. These consist of three stages, which are pre-sale, sales and after-sales. These aspects cover company advertising, store shopping guide, service hotline (i.e. telephone and network) amongst other service sectors. Said services also encompass product information, product selection and use of recommendations, accidental injury and privacy protection.

To ensure our quality and product safety standards are met. We conduct chemical and mechanical tests of our garments in our own internal laboratory. These mechanical and chemical tests are in accordance with national standards and norms. This process is supported by external, independent laboratories in the countries of origin to ensure comprehensive testing and reporting.

Within the company headquarters, our internal laboratory bases totalling 1,000 square meters has been established with more than 20 qualified staff and 40 testing equipment. In November 2016, our in-house laboratory has been accredited by China National Accreditation Service for Conformity Assessment, making us the first in the intimate wear industry.

Supply Chain Management – sourcing and relationship management

Responsible supply chain management is a high priority for the Group as it is a critical part of our business model, an expectation that is shared amongst its stakeholders.

The Group strives to operate according to the highest ethical, social and environmental standards, and we are aware of our responsibility towards our suppliers, the people making our products and society in general. As a leading intimate wear brand, we seek to ensure that our products are made under conditions that treat workers fairly and with respect, and in factories that operate in accordance with local law and regulations regarding working hours, wages, health, safety and overall treatment of workers, as well as environmental standards.

Corporate Social Responsibility

With more than 200 key suppliers engaged, the supply chain of the Group reflects the broad reach of our sourcing needs. The main sourcing regions for finished garments are Guangdong province, East China region and other parts of the China region.

Geographic regions	Suppliers
Guangdong	163
Jiang, Zhe and Hu districts	25
Other areas	39

Our sourcing strategy is an important first step to achieving a more sustainable supply chain. We focus on creating strong partnerships with selected suppliers, as we believe we are only able to create great products with resilient and stable relationships and a clear understanding of our business partners' operations, expectations and needs.

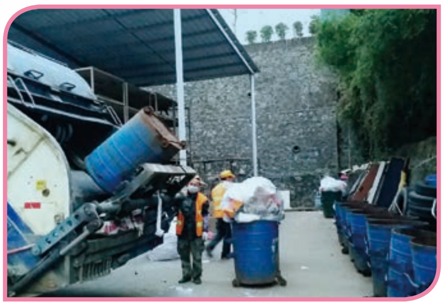
Communication with franchisees. To make sure that we understand the franchisees' business needs, the Group conducts special meetings, satisfaction surveys and management visits in addition to providing basic cooperation agreement and related management documents. This is in addition to new product release conferences; annual ordering; online ordering platforms and monthly, quarterly, and annual operation analysis meetings. The Group also regularly conducts checks, provides guides and seeks for evaluations and feedback from its franchisees.

Communication with suppliers. To monitor compliance with all statutory provisions and necessary standards of quality, we are meeting our suppliers periodically to provide corporate social responsibilities related training and professional support in quality control. In addition to cooperation agreement and related management documents, the Group specifies quality standards with suppliers. Feedbacks from customers and franchisee satisfaction surveys are also relayed to suppliers in order to evaluate performance against quality standards and direct the supply management plan. The Group further conducts regular meetings and training with suppliers in order to improve product and service quality. Currently, the Group has suppliers in Guangdong, Jiang, Zhe and Hu districts as well as other areas.

ENVIRONMENTAL MANAGEMENT

The Group is aware of the potential environmental impact our business operations has. In times of climate change, heavy pollution and water scarcity, we all have to rethink our operations and find solution to preserve our planet. Our materiality assessment and operational insights have identified the following environmental issues as critical to manage: energy and water management, carbon emission and packaging and waste management.

Corporate Social Responsibility



Being a socially and environmentally responsible enterprise, the Group is dedicated to achieve environmental sustainability through its daily operations and is in compliance with regulations including the newly revised "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001 Environment Management Systems.

Water Management

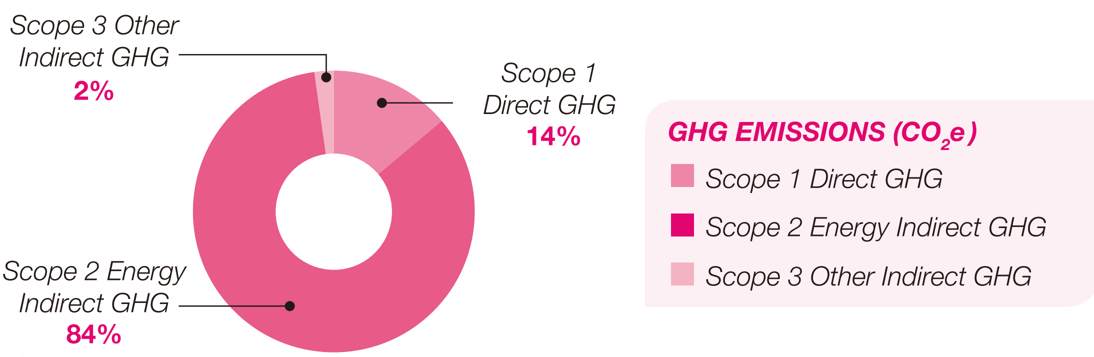
Water pollution is a prime concern for the Group, strict policies and procedures are in place.

In this reporting period, our water consumption resulting from manufacturing process reached 126,862 m^3. Aiming to reduce this, the Group changed the faucets and employed water dispenser devices that prevent water wastage. Water-saving behaviours were also promoted in the Group where supervision was strengthened to further prevent water wastage.

Carbon Footprint and Energy Management

Climate Change is a topic that affects us all. The Company cares about this crucial issue, and is committed to acting responsibly to reduce our energy consumption and greenhouse gas (GHG) emissions.

The total GHG emission for the year ended 31 December 2016 amounted to 3,809 tonnes of carbon dioxide equivalent (CO_2e) of which consumption from purchased electricity had the highest contribution, as illustrated below.



Scope 1 GHG emissions	508 tonnes
Scope 2 GHG emissions	3,235 tonnes
Scope 3 GHG emissions	66 tonnes

To reduce emissions, especially those brought about by energy-related factors, the Group first measured electricity consumption by region in the headquarters (i.e. plant, office, canteen, dormitory, etc.). Following this comprehensive evaluation, an energy conservation plan was developed in order to strategically plan public lighting, air conditioning and air supply systems, as well as progressively use energy-saving lamps and control air-conditioning temperature setting at 26 °C. The Group also encouraged energy-saving behaviours such as turning on lights and air-conditioning only when needed and immediately shutting them down upon leaving an area. The Group’s store plan is also designed to maximise natural lighting.

In addition, the Group advocates all staff members to minimise air pollution through Company provided public transportation, such as buses or environment friendly green vehicles, monitoring of in-company official vehicles and logistics transport vehicles (including outsourced vehicles), installation of air quality processing device to monitor the quality of air emitted from staff cafeteria exhaust pipes.

Packaging and Waste Management

Given the nature of our business, we have significant potential to reduce plastic packaging materials. We recognize that our e-commerce business involves an environmental impact related to waste. A few simple changes have been made in order to improve processes and waste consumption.

The Group seeks to reduce waste that goes to landfill by utilising biodegradable material not only within its production process but also through the Group’s and staff member’s day to day activities. For example:

- replaced the use of disposable cups with stainless steel tableware in the staff canteen;
- migration from paper based documentation to electronic records to minimise paper usage;
- limit waste material from textile production processes by optimising fabric cutting processes;
- improve product packaging design to prevent over-packaging of finished products;
- allow recycling of product cartons; and
- repair and reuse damaged cargo pads to reduce wood consumption and waste.

COMMUNITY INVESTMENT

The Group understands that the value of giving back to communities is just as important as progressing in business. As such, it has maintained a high regard for social and environmental responsibility over the years. The Group not only encourages its employees to volunteer but also actively takes part in offering donations and scholarships.

As part of the Group’s initiatives in supporting the community, a public welfare support budget was allocated to ensure the dedication of financial resources to such causes. In addition, the Group advocates and promotes public awareness as a vital component of corporate culture. As such, the management team actively participates in social welfare events whilst leading the involvement of all employees.

Corporate Social Responsibility

In 2016, charitable and other donations made by the Group amounted to approximately RMB8,656,000.

As evidenced by its efforts and active participation in community events, the Group is committed to nurturing a steadfast relationship with local government units, universities and social organisations. With its valuable contributions to society, the Group has been recognised with the following awards:

- Top Ten Charity People in Dongguan City
- 2015 Tax Outstanding Contribution Award

Report of the Directors

The Board of Directors of the Company (the "Board") is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year is an investment holding company. The Group is the largest branded intimate wear enterprise in the People's Republic of China ("PRC") in terms of total retail sales in 2016, according to Frost & Sullivan. It is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others, which include leggings and tights, vests, hosiery and accessories) in the PRC.

BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Statement from Chairman and CEO and Management Discussion and Analysis sections, respectively on pages 4 to 6 and on pages 7 to 12 of this annual report.

A description of the possible risks and uncertainties that the Company may be facing can be found in the Statement from Chairman and CEO on pages 4 to 6 of this annual report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to this annual report.

The future development of the Group's business is discussed throughout this annual report including in the Statement from Chairman and CEO, and the paragraph headed Outlook and Strategy in the Management Discussion and Analysis sections, respectively on pages 4 to 6 and on pages 7 to 12 of this annual report.

In addition, discussions on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in respective paragraphs in the Corporate Social Responsibility section on pages 31 to 40.

These discussions form part of the Report of the Directors.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements on page 62.

The Board of the Company has recommended the payment of final dividend of RMB5.50 cents (payable in Hong Kong dollars, equivalent to HK$6.21 cents per share, using the exchange rate quoted by the People's Bank of China on 24 March 2017) for the year ended 31 December 2016 (2015: HK$11.00 cents per share). The final dividend would be payable to shareholders whose names appear on the register of members of the Company on Monday, 29 May 2017 at 4:30 p.m., subject to the approval of shareholders at the annual general meeting to be held on Friday, 19 May 2017 (the "2017 AGM"). Dividend warrants are expected to be despatched on Thursday, 8 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the 2017 AGM, the register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017, both days inclusive, during which period no transfer of shares of the company will be effected.

In order to be eligible to attend and vote at the 2017 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 15 May 2017 for registration.

The record date and time for entitlement to the proposed finial dividend for 2016 is Monday, 29 May 2017 at 4:30 p.m.. The register of members of the Company will be closed from Thursday, 25 May 2017 to Monday, 29 May 2017, both days inclusive. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 24 May 2017 for registration.

BORROWINGS

Details of borrowings of the Group as at 31 December 2016 are set out in Note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 26 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2016, charitable and other donations made by the Group amounted to approximately RMB8,656,000 (2015: RMB1,712,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Memorandum and Articles of Association of the Company or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

The distributable reserves of the Company as at 31 December 2016 amounted to approximately RMB1,263,454,000 (2015: RMB1,352,253,000).

Movements in reserves of the Group and of the Company during the year are shown in the Consolidated Statement of Changes in Equity on page 65, and Note 27 and Note 34 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the preceding five financial years is set out on page 128.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the percentage of the Group's turnover attributable to the Group's largest customer and the five largest customers in aggregate were approximately 2.0% and 4.7% (2015: 1.3% and 4.6% respectively) respectively.

During the year ended 31 December 2016, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were approximately 3.3% and 13.6% (2015: 3.2% and 13.3% respectively) respectively.

During the year ended 31 December 2016, none of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of five largest customers or suppliers of the Group.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2016 are set out in Note 37 to the consolidated financial statements.

Report of the Directors

DIRECTORS

The Directors of the Company as at the date of this report and those who were in office during the year under review and up to the date of this report are:

Executive Directors

Mr. ZHENG Yaonan
Mr. ZHANG Shengfeng
Mr. LIN Zonghong
Mr. CHENG Zuming
Ms. WU Xiaoli

Non-executive Director

Mr. WEN Baoma

Independent Non-executive Directors

Mr. YAU Chi Ming
Dr. DAI Yiyi
Mr. CHEN Zhigang

A profile of the existing Directors of the Company is shown on pages 13 to 19.

Information relating to emoluments paid to the Company's Directors during the year is set out in Note 11 to the consolidated financial statements.

The emoluments of the executive Directors of the Company were determined by the remuneration committee of the Board (the "Committee") and the fees of the non-executive Directors of the Company (whether independent or not) were fixed by the Board under the authorization of the shareholders of the Company and on the recommendation of the Committee.

All Directors of the Company are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Memorandum of Article of Association. Article 108 provides that at every annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. In this connection, Mr. Zheng Yaonan, Mr. Cheng Zuming and Mr. Yau Chi Ming will retire by rotation at the 2017 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company who are proposed for re-election at 2017 AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Memorandum and Articles of Association of the Company and subject to the provisions of the Companies Ordinance, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain in or about the execution of their duty in their respective offices, except such as (if any) they incur or sustain through their own fraud or dishonesty. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year under review.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and the chief executive officers of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interest and short positions in the Company

Name of Director	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest
Mr. ZHENG Yaonan	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2][3]	61.57% (L)

Name of Director	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest
Mr. ZHANG Shengfeng	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Mr. LIN Zonghong	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Mr. CHENG Zuming	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Ms. WU Xiaoli	Interest of spouse	1,173,887,678 (L)[2][3]	61.57% (L)
Mr. WEN Baoma	Personal Interests	5,000,000 (L)	0.26% (L)

Notes:

(1) The letter "L" denotes the person's long position in the shares.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled 61.57% of the total issued share capital in the Company. As such, each of them was deemed to be interested in such 61.57% interest in the total issued share capital of the Company.

(3) Ms. Wu Xiaoli is the spouse of Mr. Zheng Yaonan. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zheng Yaonan is interested.

(ii) Interest in associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Mr. ZHENG Yaonan	Harmonious Composition Investment Holdings Limited	Interest of controlled company	615,840	64.59%

Name of Director	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Mr. ZHANG Shengfeng	Harmonious Composition Investment Holdings Limited	Interest of controlled company	177,125	18.58%
Mr. LIN Zonghong	Harmonious Composition Investment Holdings Limited	Interest of controlled company	128,743	13.50%
Mr. CHENG Zuming	Harmonious Composition Investment Holdings Limited	Interest of controlled company	31,707	3.33%

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive officers of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at 31 December 2016, the following shareholders (other than the Directors and chief executive officers) were interested, directly or indirectly, in 5% or more of the number of issued shares and the underlying shares of the Company and those interests were required to be recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interest	Number of shares held(1)	Approximate percentage of shareholding interest
Great Brilliant Investment Holdings Limited	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)(2)	61.57% (L)

Name	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest
Forever Flourish International Holdings Limited	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Ms. CAI Shaoru[3]	Interest of spouse	1,173,887,678 (L)	61.57% (L)
Forever Shine Holdings Limited	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Ms. CAI Jingqin[4]	Interest of spouse	1,173,887,678 (L)	61.57% (L)
Mountain Dragon Investment Limited	Interests held jointly with another person; interest of controlled company	1,173,887,678 (L)[2]	61.57% (L)
Harmonious Composition Investment Holdings Limited	Interests held jointly with another person; beneficial interest	1,173,887,678 (L)[2]	61.57% (L)
Capital Today Investment XVIII (HK) Limited	Beneficial owner	133,156,000 (L)	6.98% (L)
Capital Today Investment XVIII Limited[5]	Interest of controlled company	133,156,000 (L)	6.98% (L)
Capital Today China Growth Fund, LP[5]	Interest of controlled company	133,156,000 (L)	6.98% (L)
Capital Today China Growth GenPar, LTD[5]	Interest of controlled company	133,156,000 (L)	6.98% (L)
Capital Today Partners Limited[5]	Interest of controlled company	133,156,000 (L)	6.98% (L)

Name	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest
Ms. XU Xin[5]	Interest of controlled company	133,156,000 (L)	6.98% (L)
Morgan Stanley[6]	Interest of controlled company; interests held jointly with another person	142,732,258 (L) 128,064,859 (S)	7.48% (L) 6.71% (S)

Notes:

(1) The letter "L" denotes the person's long position in the shares and the letter "S" denotes the person's short position in the shares.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled 61.57% of the total issued share capital in the Company. As such, each of them was deemed to be interested in such 61.57% interest in the total issued share capital of the Company.

(3) Ms. CAI Shaoru is the spouse of Mr. Zhang Shengfeng. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zhang Shengfeng was interested.

(4) Ms. CAI Jingqin is the spouse of Mr. Lin Zonghong. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Lin Zonghong was interested.

(5) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing 6.98% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, LP, an exempted limited partnership registered in the Cayman Islands, holds 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, LP is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. XU Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, LP, Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. XU Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing 6.98% of the total issued share capital of the Company.

(6) Morgan Stanley was deemed to have a long position in 142,732,258 shares and a short position in 128,064,859 shares in total by virtue of its control over the following corporations:

  (a) Morgan Stanley & Co. International plc (Morgan Stanley's indirect subsidiary) had a long position in 136,390,098 shares and a short position in 127,640,026 shares.

  (b) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 5,665,160 shares and a short position in 417,833 shares.

  (c) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a long position in 677,000 shares and a short position in 7,000 shares.

  In addition, the long position in 20,055,000 shares and short position in 57,583,867 shares involved cash settled derivatives (off exchange).

Save as disclosed above, as at 31 December 2016, the Directors of the Company were not aware of any person (other than the Directors and chief executive officers) who had, directly or indirectly, interest or short positions in shares and underlying shares of the Company and those interests or short positions were required to be recorded in the register kept under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 9 June 2014. Under the Share Option Scheme, no options had been granted or agreed to be granted, exercised, cancelled or lapsed during the year ended 31 December 2016, nor was there any option outstanding at the beginning or at the end of the year.

The principal terms of the Share Option Scheme are as follows:

(a) Purpose

The purpose of the Share Option Scheme is to provide incentives and/or rewards to any director or employee of the Group who in the sole discretion of the Board has contributed or will contribute to the Group for their contribution to, and continuing efforts to promote the interests of the Group.

(b) Participants

The Board shall be entitled at any time within the period of 10 years after the adoption date to grant options to any directors or employees of the Group who in the sole discretion of the Board has contributed or will contribute to the Group as the Board in its absolute discretion selects to subscribe for such number of shares as the Board may determine at the subscription price.

(c) Maximum number of shares available for issue

The maximum number of shares in respect of which options may be granted under the Share Option Scheme are 190,645,700 shares, which are not more than 10% of the total number of issued shares of the Company as at the date of the approval of the Share Option Scheme.

(d) Maximum entitlement of each participants

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to any participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12 month period shall not at the time of grant exceed 1% of the shares in issue. If any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders in general meeting with such participant and his associates abstaining from voting.

(e) Acceptance of an offer of options

An offer of the grant of an option under the Share Option Scheme shall remain open for a period of 28 days from the date on which such offer is made to a participant, provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date of the Share Option Scheme or after the termination of the Share Option Scheme. Participants are required to pay HK$1.00 as consideration for the acceptance of an option granted to them.

(f) Performance target and minimum holding period

Subject to such terms and conditions as the Board may determine, there is no minimum period for which an option must be held before it can be exercised and no performance target needs to be achieved by the grantee before the options can be exercised.

(g) Basis of determining the exercise price

The exercise price shall be a price determined by the Board at the time of grant of the relevant option and shall be at least the higher of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day;

(ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

(h) The remaining life of the Share Option Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective till 8 June 2024.

SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 17 August 2016. The purposes and objectives of the Share Award Scheme are to recognize and motivate the contribution of the employees of the Group and help the Group in retaining its existing members of management. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on 17 August 2016.

As at 31 December 2016, a total of 5,577,000 shares have been purchased from the open market and no shares have been granted to the selected participants of the Group under the Share Award Scheme. For details, please refer to the Company's announcement dated 17 August 2016.

DEED OF NON-COMPETITION

Pursuant to a deed of non-competition dated 9 June 2014 (the "Deed of Non-competition") entered into among Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited (collectively the "Controlling Shareholders") and the Company, the Controlling Shareholders have given certain non-competition undertakings in favor of the Company. Please refer to the Prospectus of the Company dated 16 June 2014 (the "Prospectus") for details of the terms of the Deed of Non-competition. The independent non-executive Directors have reviewed matters relating to the compliance with the Deed of Non-competition in 2016. The Controlling Shareholders have provided the Company with an annual confirmation of compliance with the provisions of the Deed of Non-competition.

During 2016, the Controlling Shareholders provided the Company with all information necessary for the enforcement of the Company's rights under the Deed of Non-competition, all information reasonably requested by the Company from time to time relating to the Excluded Businesses (as defined in the Deed of Non-competition) and such other business opportunities or activities related to any business of the Group as the Company reasonably believed was available to the Controlling Shareholders or that the Controlling Shareholders may be planning to participate in, as well as access to appropriate staff members of the Controlling Shareholders to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the Deed of Non-competition.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the Continuing Connected Transactions and Note 36 Related Party Transactions to the consolidated financial statements, there had been no transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity connected with the Director (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, were entered into during the year ended 31 December 2016 or subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into the following continuing connected transactions:

1. **Framework purchase agreement with Shantou City Shengqiang Knitting Industrial Co., Ltd. (汕頭市盛強針織實業有限公司) ("Shantou Shengqiang")**

Agreement date	Name of counterparty	Term of agreement	2016 Annual cap (RMB'000)	Amount for the year (RMB'000)
9 June 2014	Shantou Shengqiang (as supplier); and the Group (as purchaser)	26 June 2014 to 25 June 2017	32,000	10,901

Mr. Cai Shaoqiang (a brother of one of the executive Directors, Mr. Zhang Shengfeng's spouse), together with his wife, in aggregate, own the entire equity interest in Shantou Shengqiang and hence Shantou Shengqiang is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Zhang Shengfeng and a connected person of the Group. Details of the terms of the framework purchase agreement with Shantou Shengqiang and the transactions contemplated thereunder were set out in the Prospectus.

2. **Framework purchase agreement with Shantou City Maosheng Knitting Underwear Co., Ltd. (汕頭市茂盛針織內衣有限公司) ("Shantou Maosheng")**

Agreement date	Name of counterparty	Term of agreement	2016 Annual cap (RMB'000)	Amount for the year (RMB'000)
9 June 2014	Shantou Maosheng (as supplier); and the Group (as purchaser)	26 June 2014 to 25 June 2017	27,000	9,592

Mr. Lin Zonglie, a brother of Mr. Lin Zonghong (an executive Director), owns 60% of the equity interest in Shantou Maosheng and hence Shantou Maosheng is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Lin Zonghong and a connected person of the Group. Details of the terms of the framework purchase agreement with Shantou Maosheng and the transactions contemplated thereunder were set out in the Prospectus.

ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

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

(b) on normal commercial terms or better; and

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

Report of the Directors

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to perform certain procedures in respect of the continuing connected transactions set out above in accordance with Hong Kong Standard on Assurance Engagements 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 Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the normal course of business are set out in Note 36 to the consolidated financial statements. Those related party transactions also constituted continuing connected transactions under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group commits to comply with the relevant laws and regulations including, inter alia, the Companies Ordinance, the Listing Rules, and other applicable local laws and regulations in various jurisdictions in which it operates. During the year ended 31 December 2016 and up to the date of this report, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RETIREMENT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the PRC and Hong Kong. Particulars of the retirement benefit schemes are set out in Note 2.20 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2016 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board
Zheng Yaonan
Chairman and Chief Executive Officer

Hong Kong, 27 March 2017

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Cosmo Lady (China) Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 127, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows 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.

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

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

Key audit matters identified in our audit are summarised as follows:

- Assessment on carrying value of inventories
- Assessment of provision for trade receivables

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on carrying value of inventories Refer to Note 4(a) (Critical accounting estimates and judgements) and Note 23 (inventories) to the consolidated financial statements. As at 31 December 2016, the Group's gross inventories and provision for impairment of inventories amounted to RMB1,214 million and RMB64 million, respectively. As described in the Accounting Policies in Note 2.11 to the consolidated financial statements, inventories are carried at lower of cost and net realisable value. As a result, the directors consistently apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of off-season inventories, net realisable value below cost based upon plans for clearance sales and inventories loss based upon turnover rate. The estimations used in applying this methodology are subject to uncertainty and judgement by directors as a result of changes in economic condition and customer needs.	We assess the appropriateness of management's assumptions applied in calculating the value of the inventories provisions by, amongst others: • evaluated the outcome of management's estimations in prior years, level of inventories write-off during the year in relation to stock loss, analysis and assessment made by management with respect to off-season and slow-moving inventories. • tested the accuracy of the season-by-season inventories and slow moving inventories analysis and performed analytics on stock holding and movement data to identify product lines with indicators of low turnover or slow moving. • met with marketing team of the Group to validate the assumptions applied by management in the underlying sales forecasts by category to assess the completeness of provisions for obsolescence. • compared the net realisable value, obtained through the sales subsequent to the year-end, to the cost of inventories to check for completeness of the associated provision. • recalculated the inventories provisions as at 31 December 2016. We found that management's assessment of the provision for obsolete or slow moving inventory was supported by the available audit evidence.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of provision for trade receivables Refer to Note 4(b) (Critical accounting estimates and judgements) and Note 24 (Trade receivables) to the consolidated financial statements. As at 31 December 2016, the Group's gross trade receivables and provision for impairment of trade receivables amounted to RMB454 million and RMB3 million, respectively. Certain customers of the Group may have a slower settlement pattern and may settle after the contractual credit period. Management performed periodic credit monitoring, which included the assessment of customers' credit worthiness, status of collection of outstanding balances and individual credit terms. If there is indicator that the receivables are impaired, management would make specific provision against individual balances with reference to the recoverable amount.	We assess the appropriateness of management's assumptions applied in calculating the provision for impairment of trade receivables by, amongst others: • understood and validated the credit control procedures performed by management, including its procedures on periodic review on aged receivables and assessment on recoverability of these receivables. • tested the accuracy of the ageing profile of trade receivables. • assessed the ageing profile on trade receivables, focusing on the aged receivables for which no provision had been made. • tested the subsequent settlement of the balance of trade receivables. • enquired management in respect of the unsettled balance on the reasons for the delay in collection of these receivables, if actions had been taken in recovering the long outstanding receivables, and assessed if additional provision should be made. We found that management's assessment of the provision for trade receivables was supported by the available audit evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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 judgement 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- 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 Chung Kit Yi, Kitty.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	6	**4,512,385**	4,953,415
Cost of sales	9	**(2,510,348)**	(2,838,621)
Gross profit		**2,002,037**	2,114,794
Selling and marketing expenses	9	**(1,434,758)**	(1,306,751)
General and administrative expenses	9	**(312,619)**	(197,495)
Other income	7	**50,087**	76,735
Other gains – net	8	**702**	1,520
Operating profit		**305,449**	688,803
Finance income	12	**22,707**	21,766
Finance expenses	12	**(4,412)**	–
Finance income – net	12	**18,295**	21,766
Profit before income tax		**323,744**	710,569
Income tax expense	13	**(81,783)**	(170,561)
Profit for the year		**241,961**	540,008
Other comprehensive income for the year *(Items that may be reclassified subsequently to profit or loss)*			
Exchange differences		**1,925**	5,478
Total comprehensive income for the year		**243,886**	545,486
Profit attributable to equity holders of the Company		**241,961**	540,008
Total comprehensive income attributable to equity holders of the Company		**243,886**	545,486
Earnings per share		***RMB cents***	*RMB cents*
Basic and diluted	14	**12.70**	28.33

The notes on pages 67 to 127 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	*16*	**545,646**	448,999
Land use rights	*17*	**89,391**	91,471
Intangible assets	*18*	**39,449**	40,110
Investment in a joint venture		**1,990**	1,990
Available-for-sale financial assets	*19*	**18,600**	15,600
Loan to a third party	*20*	**–**	105,000
Deposits, prepayments and other receivables	*21*	**25,815**	32,780
Deferred income tax assets	*22*	**39,209**	30,318
		760,100	766,268
Current assets			
Inventories	*23*	**1,150,679**	800,377
Trade receivables	*24*	**451,230**	517,705
Loan to a third party	*20*	**105,000**	–
Deposits, prepayments and other receivables	*21*	**503,199**	438,343
Bank balances and cash	*25*	**809,178**	960,074
		3,019,286	2,716,499
Total assets		**3,779,386**	3,482,767

Consolidated Balance Sheet

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	26	117,320	117,320
Share premium	26	1,254,574	1,431,994
Other reserves	27	260,929	244,196
Retained earnings		1,061,006	845,352
Total equity		2,693,829	2,638,862
Liabilities			
Current liabilities			
Trade payables	29	554,254	495,411
Accruals and other payables	30	305,614	283,556
Current income tax liabilities		24,088	63,160
		883,956	842,127
Non-current liabilities			
Borrowings	31	200,000	–
Deferred income tax liabilities	22	1,601	1,778
		201,601	1,778
Total liabilities		1,085,557	843,905
Total equity and liabilities		3,779,386	3,482,767

The notes on pages 67 to 127 are integral parts of these consolidated financial statements.

ZHENG Yaonan
Director

ZHANG Shengfeng
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 26)	Other reserves RMB'000 (Note 27)	Retained earnings RMB'000	Total equity RMB'000
As at 1 January 2016	**117,320**	**1,431,994**	**244,196**	**845,352**	**2,638,862**
Comprehensive income					
Profit for the year	**–**	**–**	**–**	**241,961**	**241,961**
Other comprehensive income					
Exchange differences	**–**	**–**	**1,925**	**–**	**1,925**
Total comprehensive income for the year	**–**	**–**	**1,925**	**241,961**	**243,886**
Transaction with equity holders					
Equity-settled share-based compensation	**–**	**–**	**3,373**	**–**	**3,373**
Shares purchased for share award scheme *(Note 27(d))*	**–**	**–**	**(14,872)**	**–**	**(14,872)**
Dividends	**–**	**(177,420)**	**–**	**–**	**(177,420)**
Total transaction with equity holders	**–**	**(177,420)**	**(11,499)**	**–**	**(188,919)**
Appropriation to statutory reserves	**–**	**–**	**26,307**	**(26,307)**	**–**
As at 31 December 2016	**117,320**	**1,254,574**	**260,929**	**1,061,006**	**2,693,829**
As at 1 January 2015	117,320	1,431,994	231,699	456,519	2,237,532
Comprehensive income					
Profit for the year	–	–	–	540,008	540,008
Other comprehensive income					
Exchange differences	–	–	5,478	–	5,478
Total comprehensive income for the year	–	–	5,478	540,008	545,486
Transaction with equity holders					
Equity-settled share-based compensation	–	–	7,019	–	7,019
Dividends	–	–	–	(151,175)	(151,175)
Total transaction with equity holders	–	–	7,019	(151,175)	(144,156)
As at 31 December 2015	117,320	1,431,994	244,196	845,352	2,638,862

The notes on pages 67 to 127 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	122,993	568,442
Income tax paid		(129,923)	(165,738)
Net cash (used in)/generated from operating activities		(6,930)	402,704
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*32(b)*	4,564	4,681
Interest received		18,044	18,711
Purchases of property, plant and equipment		(162,379)	(192,945)
Purchases of intangible assets		(5,518)	(12,166)
Purchases of available-for-sale financial assets		–	(15,600)
Capital contribution to a joint venture		–	(1,990)
Term deposits with initial term of over three months		(210)	149,790
Loan to a third party		–	(105,000)
Payments of business combination		(5,000)	(74,800)
Net cash used in investing activities		(150,499)	(229,319)
Cash flows from financing activities			
Payments for purchase of the Company's shares for share award scheme		(14,872)	–
Proceeds from borrowings		200,000	–
Interest paid for borrowings		(4,412)	–
Dividends paid		(177,420)	(151,175)
Net cash generated from/(used in) financing activities		3,296	(151,175)
Net (decrease)/increase in cash and cash equivalents		(154,133)	22,210
Cash and cash equivalents at beginning of the year	*25*	950,639	921,337
Effect of foreign exchange rate changes		3,027	7,092
Cash and cash equivalents at end of the year	*25*	799,533	950,639

The notes on pages 67 to 127 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 28 January 2014 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company's registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in the designing, marketing and selling of intimate wear products in the People's Republic of China (the "PRC"). The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014.

The Directors of the Company regarded Great Brilliant Investment Holdings Limited, a company incorporated in the British Virgin Islands (the "BVI") with limited liability and controlled by Mr. ZHENG Yaonan, as being the ultimate holding company of the Company.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Company's board of directors (the "Board") on 27 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") and 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 the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its 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 financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) *Effect of adopting amendments to standards*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning 1 January 2016. The adoption of these amendments to standards does not have any significant impact to the results or financial position of the Group.

IFRS 14	Regulatory Deferral Accounts
IFRS 10, IFRS 12 and IAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operation
IAS 1 (Amendment)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16 and IAS 41 (Amendments)	Agriculture: Bearer Plants
IAS 27 (Amendment)	Equity Method in Separate Financial Statements
Annual improvements 2014	2012-2014 Cycle of the Annual Improvements

(b) *New standards and interpretations that have been issued but are not effective*

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. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, equity instruments currently classified as available-for-sale financial assets would appear to satisfy the conditions for classification as fair value through other comprehensive income and hence there will be no change to the accounting for these assets. There is no other financial assets held by the Group that measured at fair value.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) *New standards and interpretations that have been issued but are not effective* (Continued)

IFRS 9, 'Financial instruments' (Continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any such hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, and it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) *New standards and interpretations that have been issued but are not effective* (Continued)

IFRS 15, 'Revenue from contracts with customers' (Continued)

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. In 2016, this is a clarification to IFRS 15 issued in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and currently does not anticipate that the application of IFRS 15 in the future will have a material effect on the Group's consolidated financial statements.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group does not intend to adopt the standard before its effective date.

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. While the accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB612,671,000 (Note 35(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (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 de-consolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

(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 IFRS.

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 recognized in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

Any contingent consideration to be transferred by the Group is recognized 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 recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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 recognized 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 recognized directly in the profit or loss.

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

Transactions with non-controlling interests that do not result in a 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 recognized 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 recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements (Continued)

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

2.3 Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investment in a joint venture includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

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 executive directors of the Company that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 function currency of the Company is Hong Kong dollar ("HK$"). The Company's subsidiaries incorporated and operated in the PRC consider their functional currency to be RMB. As the major operations of the Group are within the PRC, the Group determined to present its financial statements in RMB, unless otherwise stated.

(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 recognized in the profit or loss.

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized 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 loss, 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 profit or loss during the financial year in which they are incurred.

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

Buildings	20 years
Leasehold improvements	Shorter of remaining lease terms of 2 – 3 years or useful life
Machinery and equipment	5 – 10 years
Furniture, fittings and equipment	3 – 5 years
Vehicles	5 – 10 years

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

Construction in progress represents buildings under construction and is stated at cost less provision for impairment loss, if any. Cost includes the costs of construction and acquisition. 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.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/losses – net" in the 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 profit or loss on a straight-line basis over the terms of the leases. Whenever there is impairment, the impairment is recognized in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) *Acquired trademark*

Separately acquired trademark is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization of trademark that has definite useful life is calculated using the straight-line method to allocate the costs of acquired trademark over its estimated useful life of 10 years.

(b) *Computer software*

Acquired computer software license is capitalized on the basis of the costs incurred to acquire the specific software. These costs are amortized over a period ranging from 3 to 10 years.

(c) *Goodwill*

Goodwill arising from 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.

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 amortization 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 to sell 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 (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets

Classification

The Group classifies its financial assets in the following categories: 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 and other receivables", "cash and cash equivalents" and "restricted bank deposits", in the balance sheet.

(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.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 amortized cost using the effective interest method.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit or loss as "other gains/losses – net".

Interest on available-for-sale financial assets is recognized in the profit or loss as part of finance income. Dividends on available-for-sale equity instruments are recognized in the profit or loss as part of "other income" when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Impairment of financial assets

(a) Assets carried at amortized 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 reorganization, 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 recognized in the 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 year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

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 recognized in profit or loss – is removed 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 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 removed from equity and recognised in profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises costs of merchandise, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for products sold 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Cash and cash equivalents

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

2.14 Restricted bank deposits

Restricted bank deposits represent guaranteed deposits placed at designated bank accounts as cash collateral for construction of certain property, plant and equipment. Such restricted bank deposits are released after full settlement of the construction contract.

2.15 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.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade 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 other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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 recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Borrowing 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 capitalisation.

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

Borrowing costs include interest expense.

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in the 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 Group entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is 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 recognized 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 utilized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint ventures, 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 joint venture's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and a joint venture 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 utilized.

(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 tax 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.

2.20 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 organized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(a) Pension obligations (Continued)

The Group also participates in a retirement benefit scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all eligible employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of the lower of 5% of eligible employees' relevant aggregate income and HK$1,500, as appropriate. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS37 and involves the payment of termination benefits.

(c) 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 year.

(d) Bonus entitlements

The expected cost of bonus payments is 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.

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plan, (including a share award for equity instruments of the Company contributed by certain equity holders of the Company ("Pre-IPO Share Award Scheme") and a share award scheme established by the Company in 2016 ("2016 Share Award Scheme") under which the Group receives services from employees as consideration for equity instruments of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the awards, and:

- Including any market performance conditions (for example, an entity's share price);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Share-based payments (Continued)

(a) Equity-settled share-based payment transactions (Continued)

- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holders shares for a special period of time).

Non-market performance and service conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognized over the different length vesting periods of each grant which is the period over which all of the specified vesting conditions are to be satisfied, with a credit recognized in equity as "equity-settled share-based compensation" reserve.

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

When the equity instruments transferred to employees of the Group upon vested, the related amount in "equity-settled share-based compensation" reserve is transferred to "contribution reserve" within equity.

(b) Shares held for the 2016 Share Award Scheme

The consideration paid by the Company through a share award scheme trustee, a structured entity (the "Share Scheme Trustee") established by the Company for the purpose of administering and holding the Company's shares acquired for the 2016 Share Award Scheme, which is set up for the benefits of eligible persons of the 2016 Share Award Scheme, for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity. When the Share Scheme Trustee transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme".

(c) Share-based payment transactions among group entities

The grant by the Company over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Provisions

Provisions for restructuring costs and legal claims are recognized 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. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized 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 recognized 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 recognized 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 financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

2.23 Operating leases – as lessee

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 profit or loss on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition

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 Group recognizes 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 – sales to franchisees

Sales of goods are recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the franchisees and title has been passed. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) Sales of goods – retail sales and e-commerce transaction

Revenue from the sales of goods is recognized when the risk and reward of the products have been transferred to the retail 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.

(c) Franchise fee and software usage fee income

Franchise fee and software usage fee income is recognized when the services are rendered to franchisees.

(d) Other services income

Other services income is recognized when the services are rendered.

(e) Interest income

Interest income is recognized using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Government grants

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

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Dividend distribution

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

2.27 Comparatives

Comparatives have been reclassified to conform with the presentation adopted in the current year.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures during the year.

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities of a group entity are denominated in a currency that is not the entity's functional currency. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and tries to minimise these exposures through natural hedges, wherever possible.

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's recognized assets and liabilities in the consolidated balance sheet as at 31 December 2016 are denominated in the respective group companies' functional currencies.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (other than loan to a third party, bank balances and cash, details of which have been disclosed in Notes 20 and 25), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. The Group's borrowings were carried at fixed rates and does not expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure against interest-rate risks.

(c) Price risk

Except for the investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets of RMB18,600,000 (2015: RMB15,600,000), the Group is not exposed to any equity securities price risk.

(d) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of loan to a third party, trade receivables, deposits and other receivables, bank balances and cash included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

For wholesale to customers, the Group has policies in place to ensure credit terms are only granted to franchise customers with good credit histories and credit evaluations were conducted on them periodically, taking into account their financial position, past experience and other factors. For other customers without credit terms granted, deposits and advances are received in most cases before delivery is made. The Group in general does not require collaterals from trade debtors. Provisions are made for past due balances when management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash or using credit cards issued by major banks.

The Group also makes deposits for rental of certain of its retail outlets with the relevant landlords. Management does not expect any loss arising from non-performance by these counterparties.

In respect of loan to a third party, which is secured by a joint guarantee provided by two shareholders of Shanghai Ordifen and a charge over parcel of land and the related building in Shanghai, management does not expect any loss arising from non-performance by this third party.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) *Credit risk* (Continued)

The Group also has policies in place to ensure that bank balances, term deposits and restricted bank deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions. As at 31 December 2016, the bank balances, term deposits and restricted bank deposits with banks as detailed in Note 25 are held in the following banks in the PRC and Hong Kong:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Top-four major state-owned banks in the PRC/ Hong Kong	**463,079**	168,291
Listed state-owned banks in the PRC/Hong Kong	**168,771**	448,803
Other regional banks in the PRC	**177,091**	342,255
	808,941	959,349

Management does not expect any loss arising from non-performance by these counterparties.

(e) *Liquidity risk*

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

The Group's primary cash requirements have been for payment for capital expenditures, purchases and operating expenses. The Group finances its working capital requirements through a combination of internal generated funds and bank borrowings, as necessary.

As at 31 December 2016 and 2015, all of the Group's financial liabilities are either due for settlement contractually within 12 months or on demand, and the contractual undiscounted cash outflow of the Group's financial liabilities approximates their carrying amounts included in the consolidated balance sheet.

3.2 Capital risk 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

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

The Group monitors capital on basis of the net gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debts.

As at 31 December 2016, the Group has a net cash position and the aggregate balances of bank deposits and cash and cash equivalents exceeded the balance of bank loans by approximately RMB609,178,000 (2015: RMB960,074,000).

3.3 Fair value estimation

Financial instruments carried at fair value are disclosed by levels of the following fair value measurement hierarchy:

- 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); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2016, except for the available-for-sale financial assets of RMB18,600,000 (2015: RMB15,600,000) were measured at level 3 fair value, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Movements of level 3 financial instruments for the year ended 31 December 2016 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**15,600**	–
Acquisition	**3,000**	15,600
At 31 December	**18,600**	15,600

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market 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.

The fair value of the Group's available-for-sale financial assets was developed through the application of the income approach technique, the discounted cash flow method. The income approach is the conversion of expected periodic benefits of ownership into an indication of value.

The discounted cash flow method under the income approach has been applied in the determination of the fair value of the Group's available-for-sale financial assets. The discounted cash flow considered the future business plan, specific business and financial risks.

The following significant unobservable inputs have been applied in the discounted cash flow calculations in determining the fair value of the Group's available-for-sale financial assets as at 31 December 2016:

Six entities engaging in the manufacturing in the PRC	
Discount rate	15%
Long term revenue growth rates	3%
Long term profit margins	6%-19%
Discount for lack of marketability	30%

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 inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each statement of financial position date.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables in accordance with the accounting policy stated in Note 2.12. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Certain customers of the Group may have a slower settlement pattern and may settle after the contractual credit period. Management performed periodic credit monitoring, which included the assessment of customers' credit worthiness, status of collection of outstanding balances and individual credit terms. If there is indication that the receivables are impaired, management would make specific provision against individual balances with reference to the recoverable amount. Management reviews the debtor settlement status periodically and reassesses the sufficiency of provision accordingly.

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 of intimate wear products. All of its revenue are derived in the PRC.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2015: None).

6 REVENUE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales to franchisees	**2,520,238**	3,155,892
Retail sales	**1,679,518**	1,622,952
E-commerce	**312,629**	174,571
	4,512,385	4,953,415

7 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Franchise fee income	**984**	2,440
Software usage fee income	**2,248**	4,283
Government grants *(Note a)*	**31,083**	50,909
Service fee income *(Note b)*	**2,011**	7,149
Others	**13,761**	11,954
	50,087	76,735

Notes:

(a) These mainly represented grants received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

(b) Service fee income mainly comprised store interior design services provided for franchised outlets.

8 OTHER GAINS – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment – net	**(391)**	(94)
Net foreign exchange gains	**1,093**	1,614
	702	1,520

9 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Costs of inventories recognized in cost of sales	**2,407,080**	2,758,818
Employee benefit expenses (including Directors' emoluments) *(Note 10)*	**557,974**	476,242
Operating lease rentals in respect of land and buildings (including variable rentals of RMB465,263,000 (2015: RMB327,549,000) *(Note (a))*	**527,687**	404,657
Other operating rental expenses	**45,883**	39,976
Concessionaire fee in respect of outlets under cooperative arrangements *(Note (b))*	**–**	106,496
Marketing and promotion expenses	**117,459**	108,740
Depreciation and amortization *(Notes 16, 17 and 18)*	**88,220**	70,358
E-commerce platforms commission expenses	**53,376**	34,283
Logistic warehousing and delivery expenses	**49,936**	37,908
Write-down of inventories *(Note 23)*	**46,877**	20,699
Government charges and levies	**39,096**	44,952
Utilities expenses	**34,858**	34,289
Travelling expenses	**32,929**	27,714
Consumables recognized in expenses	**29,206**	35,945
Consulting service expenses	**9,009**	10,570
Auditor's remuneration		
– Audit services	**3,380**	3,080
– Non-audit services	**286**	380
Provision for impairment of other receivable *(Note 21)*	**2,829**	–
Provision for/(write-back of) impairment of trade receivables *(Note 24)*	**1,628**	(146)
Miscellaneous	**210,012**	127,906
Total cost of sales, selling and marketing expenses and general and administrative expenses	**4,257,725**	4,342,867

Notes:

(a) Revenue in respect of the retail outlets under variable rentals arrangement with minimum commitment amounted to RMB1,534,358,000 for the year ended 31 December 2016 (2015: RMB1,231,480,000).

(b) Revenue in respect of the outlets under cooperative arrangements amounted to RMB154,729,000 for the year ended 31 December 2015.

10 EMPLOYEE BENEFIT EXPENSES

The employee benefit expenses, including directors' and senior management's emoluments, are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**493,498**	424,932
Pension costs – defined contribution plans	**47,169**	32,070
Welfare and allowance	**13,934**	12,221
Equity-settled share-based compensation *(Note 28)*	**3,373**	7,019
	557,974	476,242

11 DIRECTORS AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Benefits and interests of directors

Directors' and chief executives' emoluments for the year ended 31 December 2016 are set out below:

	Fees	**Wages, salaries and bonuses**	**Employer's contributions to retirement schemes**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Executive Directors				
Mr. ZHENG Yaonan*(note)*	**–**	**982**	**45**	**1,027**
Mr. ZHANG Shengfeng	**–**	**667**	**45**	**712**
Mr. LIN Zonghong	**–**	**667**	**45**	**712**
Mr. CHENG Zuming	**–**	**667**	**43**	**710**
Ms. WU Xiaoli	**–**	**629**	**45**	**674**
Non-executive Director				
Mr. WEN Baoma	**–**	**50**	**–**	**50**
Independent Non-executive Directors				
Dr. DAI Yiyi	**150**	**–**	**–**	**150**
Mr. CHEN Zhigang	**120**	**–**	**–**	**120**
Mr. YAU Chi Ming	**179**	**–**	**–**	**179**
	449	**3,662**	**223**	**4,334**

11 DIRECTORS AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Benefits and interests of directors (Continued)

Directors' and chief executives' emoluments for the year ended 31 December 2015 are set out below:

	Fees	Wages, salaries and bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors				
Mr. ZHENG Yaonan*(note)*	–	936	40	976
Mr. ZHANG Shengfeng	–	608	40	648
Mr. LIN Zonghong	–	608	40	648
Mr. CHENG Zuming	–	608	38	646
Ms. WU Xiaoli	–	501	40	541
Non-executive Director				
Mr. WEN Baoma	–	50	–	50
Independent Non-executive Directors				
Dr. DAI Yiyi	150	–	–	150
Mr. CHEN Zhigang	120	–	–	120
Mr. YAU Chi Ming	168	–	–	168
	438	3,311	198	3,947

Note:

Mr. ZHENG Yaonan is also the chief executive officer of the Group.

11 DIRECTORS AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Benefits and interests of directors (Continued)

No Directors or chief executive of the Company waived any emoluments and no emoluments were paid by the Group to any of the Directors of the Company as an inducement to join or upon joining the Group or as a compensation for loss of office as Director.

No retirement benefits were paid to or receivable by any Directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2015: Nil).

No payment was made to Directors as compensation for the early termination of the appointment during the year (2015: Nil).

No payment was made to the former employer of Directors for making available the services of them as a Director of the Company (2015: Nil).

There are no loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors during the year (2015: Nil).

Except for disclosed in Note 36, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 3 Directors (2015: 1), whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 2 (2015: 4) during the year are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**2,641**	4,001
Pension costs – defined contribution plans	**141**	191
Equity-settled share-based compensation	**832**	2,303
	3,614	6,495

11 DIRECTORS AND CHIEF EXECUTIVES' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
	Number of individual	*Number of individual*
Emolument bands:		
HK$500,001 to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	1

During the year, no Director or none of 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 (2015: Nil).

(c) Senior management remuneration by band

The remuneration of the senior management of the Group fell within the following bands:

	Year ended 31 December	
	2016	2015
	Number of individual	*Number of individual*
Emolument bands:		
HK$0 to HK$500,000	**2**	–
HK$500,000 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,000 to HK$3,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1

12 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
Interest income on available-for-sale financial assets *(Note 19)*	**11,387**	8,170
Interest income on loan to a third party *(Note 20)*	**9,300**	7,861
Interest income on short-term bank deposits	**2,020**	5,735
	22,707	21,766
Finance expenses		
Interest expense on bank borrowings	**(4,412)**	–
	18,295	21,766

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**90,851**	177,269
	90,851	177,269
Deferred income tax *(Note 22)*	**(9,068)**	(6,708)
Income tax expense	**81,783**	170,561

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2016 (2015: 16.5%).

13 INCOME TAX EXPENSE (Continued)

(b) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2016 (2015: 25%), based on the existing legislation, interpretations and practices in respect thereof.

(c) Overseas income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**323,744**	710,569
Tax calculated at statutory tax rates applicable to each group entity *(Note)*	**78,284**	164,065
Tax losses for which no deferred income tax asset was recognised	**4,137**	1,182
Income not subject to taxation	**(8,734)**	(301)
Expenses not deductible for tax purposes	**8,096**	5,615
Income tax expense	**81,783**	170,561

Note: The weighted average applicable tax rate for the year is 25.3% (2015: 24.0%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

14 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue(Note) during the year.

	Year ended 31 December	
	2016	2015
Profit for the year attributable to equity holders of the Company *(RMB'000)*	**241,961**	540,008
Weighted average number of ordinary shares for the purposes of basic earnings per share *(thousands of shares)*	**1,904,482**	1,906,457
Basic earnings per share *(RMB cents per share)*	**12.70**	28.33

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2016 has been adjusted for the effects of purchase and withholding of the ordinary shares of the Company for the share award scheme which took place on 17 August 2016.

Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year (2015: Nil).

15 DIVIDENDS

At a meeting held on 27 March 2017, the Directors recommended a final dividend of RMB5.50 cents (equivalent to approximately HK$6.21 cents) per ordinary share of the Company, totalling approximately RMB104,855,000 (equivalent to approximately HK$118,391,000) for the year ended 31 December 2016. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements for the year ended 31 December 2016, but will be reflected as an appropriation for the year ending 31 December 2017.

At a meeting held on 29 March 2016, the Directors recommended a final dividend of HK$11.0 cents (equivalent to approximately RMB9.31 cents) per ordinary share of the Company, totalling approximately HK$209,710,000 (equivalent to approximately RMB177,420,000) for the year ended 31 December 2015, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2016.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture, fittings and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015							
Cost	157,813	44,259	25,625	49,632	3,697	66,389	347,415
Accumulated depreciation	(23,049)	(20,976)	(9,669)	(19,259)	(3,123)	–	(76,076)
Net book amount	134,764	23,283	15,956	30,373	574	66,389	271,339
Year ended 31 December 2015							
Opening net book amount	134,764	23,283	15,956	30,373	574	66,389	271,339
Additions	279	41,535	16,632	45,026	978	132,674	237,124
Transfer	147,506	–	5,846	–	–	(153,352)	–
Business combination	–	3,312	1,479	1,022	52	–	5,865
Disposals	–	–	(62)	(4,713)	–	–	(4,775)
Depreciation *(Note 9)*	(10,911)	(30,527)	(4,700)	(13,956)	(460)	–	(60,554)
Closing net book amount	271,638	37,603	35,151	57,752	1,144	45,711	448,999
At 31 December 2015							
Cost	305,598	89,106	49,520	90,967	4,727	45,711	585,629
Accumulated depreciation	(33,960)	(51,503)	(14,369)	(33,215)	(3,583)	–	(136,630)
Net book amount	271,638	37,603	35,151	57,752	1,144	45,711	448,999
Year ended 31 December 2016							
Opening net book amount	**271,638**	**37,603**	**35,151**	**57,752**	**1,144**	**45,711**	**448,999**
Additions	**154**	**44,242**	**1,758**	**19,315**	**696**	**113,819**	**179,984**
Disposals	**(7)**	**–**	**(998)**	**(3,942)**	**(8)**	**–**	**(4,955)**
Depreciation *(Note 9)*	**(14,538)**	**(34,965)**	**(6,714)**	**(21,756)**	**(409)**	**–**	**(78,382)**
Closing net book amount	**257,247**	**46,880**	**29,197**	**51,369**	**1,423**	**159,530**	**545,646**
At 31 December 2016							
Cost	**305,745**	**133,348**	**50,280**	**106,340**	**5,415**	**159,530**	**760,658**
Accumulated depreciation	**(48,498)**	**(86,468)**	**(21,083)**	**(54,971)**	**(3,992)**	**–**	**(215,012)**
Net book amount	**257,247**	**46,880**	**29,197**	**51,369**	**1,423**	**159,530**	**545,646**

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**1,427**	1,414
Selling and marketing expenses	**11,469**	6,706
General and administrative expenses	**65,486**	52,434
	78,382	60,554

17 LAND USE RIGHTS

The Group's land use rights relate to land situated in the PRC and held on leases of between 10 and 50 years. The land use rights are amortized over their unexpired lease terms on a straight-line basis, the net book value of which are analyzed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**91,471**	93,551
Amortization charge *(Note 9)*	**(2,080)**	(2,080)
At 31 December	**89,391**	91,471

Amortization of land use right has been charged to the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Selling and marketing expenses	**866**	866
General and administrative expenses	**1,214**	1,214
	2,080	2,080

18 INTANGIBLE ASSETS

	Goodwill RMB'000	Acquired trademark RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2015				
Cost	–	3,090	34,384	37,474
Accumulated amortization	–	(866)	(11,201)	(12,067)
Net book amount	–	2,224	23,183	25,407
Year ended 31 December 2015				
Opening net book amount	–	2,224	23,183	25,407
Additions	–	–	12,440	12,440
Business combination	2,887	7,100	–	9,987
Amortization charge *(Note 9)*	–	(724)	(7,000)	(7,724)
Closing net book amount	2,887	8,600	28,623	40,110
At 31 December 2015				
Cost	2,887	10,190	46,824	59,901
Accumulated amortization	–	(1,590)	(18,201)	(19,791)
Net book amount	2,887	8,600	28,623	40,110
Year ended 31 December 2016				
Opening net book amount	**2,887**	**8,600**	**28,623**	**40,110**
Additions	**–**	**–**	**7,097**	**7,097**
Amortization charge *(Note 9)*	**–**	**(1,020)**	**(6,738)**	**(7,758)**
Closing net book amount	**2,887**	**7,580**	**28,982**	**39,449**
At 31 December 2016				
Cost	**2,887**	**10,190**	**53,921**	**66,998**
Accumulated amortization	**–**	**(2,610)**	**(24,939)**	**(27,549)**
Net book amount	**2,887**	**7,580**	**28,982**	**39,449**

18 INTANGIBLE ASSETS (Continued)

Amortization of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income within selling and marketing expenses and general and administrative expenses of RMB3,677,000 (2015: RMB4,816,000) and RMB4,081,000 (2015: RMB2,908,000), respectively.

Impairment review on goodwill of the Group has been conducted by management as at 31 December 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 3%. The growth rates used do not exceed the industry growth forecast for the market in which the Group operates. The discount rate used of 19% is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unlisted equity investments	**18,600**	15,600

During the year ended 31 December 2016, the Group acquired equity interests in one entity engaged in the manufacturing of apparel and intimate wear products in the PRC.

20 LOAN TO A THIRD PARTY

Loan to a third party of RMB105,000,000 represents an entrusted loan advanced to Shanghai Ordifen Company Limited ("Shanghai Ordifen"), a third party, through Shenzhen branch of China Merchants Bank Co., Ltd. ("CMB"), as lending agent, pursuant to an entrusted loan entrustment agreement, entered into between a subsidiary of the Group and CMB, and an entrusted loan agreement, entered into between CMB and Shanghai Ordifen, as part of the acquisition of the business of Shanghai Ordifen in 2015.

The loan is interest bearing at 9% per annum, repayable in 2017 and secured by a joint guarantee provided by two shareholders of Shanghai Ordifen and a charge over a parcel of land and the building thereon situated in Shanghai owned by Shanghai Ordifen.

The loan has been settled in March 2017.

21 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Prepayments for acquisition of property, plant and equipment and intangible assets	**12,038**	15,267
Value added tax recoverable	**169,678**	92,464
Prepayments and deposits	**21,203**	38,691
Prepaid rental expenses	**271,635**	256,755
Prepayments for purchase of goods	**32**	10,243
Others	**54,428**	57,703
	529,014	471,123
Less: non-current portion	**(25,815)**	(32,780)
Current portion	**503,199**	438,343

As at 31 December 2016, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

As at 31 December 2016, the Group's deposits and other receivables are fully performing under normal business terms except that certain other receivables of RMB2,829,000 (2015: Nil) have been fully impaired.

22 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

22 DEFERRED INCOME TAX (Continued)

Movements in the deferred income tax assets of the Group are as follows:

	Write-down of inventories RMB'000	Provision for trade receivables RMB'000	Provision for sales return RMB'000	Unrealized profit RMB'000	Tax losses carried forward RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	9,174	403	798	5,641	2,893	4,701	23,610
Credited/(charged) to the profit or loss *(Note 13)*	322	(37)	140	(5,641)	(76)	12,000	6,708
At 31 December 2015	9,496	366	938	–	2,817	16,701	30,318
Credited/(charged) to the profit or loss *(Note 13)*	6,437	407	(106)	–	12,240	(10,087)	8,891
At 31 December 2016	**15,933**	**773**	**832**	**–**	**15,057**	**6,614**	**39,209**

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**13,217**	–
Deferred tax assets to be recovered within 12 months	**25,992**	30,318
	39,209	30,318

Movements in the deferred income tax liabilities of the Group are as follows:

	Intangible assets	
	2016 RMB'000	2015 RMB'000
At 1 January	**1,778**	–
Business combination	**–**	1,778
Credited to the statement of profit or loss	**(177)**	–
At 31 December	**1,601**	1,778

22 DEFERRED INCOME TAX (Continued)

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of related tax benefits through future taxable profits is probable.

As at 31 December 2016, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,130,998,000 (2015: RMB852,989,000). Deferred tax liabilities of RMB113,099,000 (2015: RMB85,299,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

23 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**15,954**	16,706
Work in progress	**1,241**	28,850
Finished goods	**1,197,217**	792,805
	1,214,412	838,361
Less: provision for impairment losses	**(63,733)**	(37,984)
	1,150,679	800,377

Inventories are valued at the lower of cost and estimated net realizable value. Provision is made for obsolete and slow-moving items. The inventory write-down recognized in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB46,877,000 for the year ended 31 December 2016 (2015: RMB20,699,000).

24 TRADE RECEIVABLES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Due from third parties	**454,323**	519,170
Less: provision for impairment	**(3,093)**	(1,465)
Trade receivables – net	**451,230**	517,705

24 TRADE RECEIVABLES (Continued)

(a) As at 31 December 2016, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.

(b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new outlets. The ageing analysis of trade receivables based on invoice date, as at 31 December 2016 is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables, gross		
– Within 30 days	**234,559**	324,271
– Over 30 days and within 60 days	**54,784**	76,202
– Over 60 days and within 90 days	**37,223**	46,968
– Over 90 days and within 180 days	**46,224**	41,165
– Over 180 days and within 360 days	**75,670**	21,475
– Over 360 days	**5,863**	9,089
	454,323	519,170

(c) Trade receivables of the Group are analyzed as below:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Fully performing under credit terms	**409,711**	456,692
Past due but not impaired	**41,519**	61,013
Non-performing and impaired	**3,093**	1,465
	454,323	519,170
Less: provision for impairment	**(3,093)**	(1,465)
Trade receivables – net	**451,230**	517,705

24 TRADE RECEIVABLES (Continued)

(c) Trade receivables of the Group are analyzed as below: (Continued)

As at 31 December 2016, trade receivables of RMB3,093,000 of the Group are impaired and have been fully provided for (2015: RMB1,465,000). The individually impaired receivables mainly relate to certain franchise customers who are in unexpectedly difficult economic situations.

For past due but not impaired receivables, based on the past experiences, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors.

The ageing analysis of the Group's trade receivables which are past due but not impaired is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Within 30 days	**23,611**	27,797
– Over 30 days and within 60 days	**7,921**	14,184
– Over 60 days and within 90 days	**2,221**	9,082
– Over 90 days and within 180 days	**3,993**	3,870
– Over 180 days and within 360 days	**1,928**	856
– Over 360 days	**1,845**	5,224
	41,519	61,013

(d) Movements in the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January	**1,465**	1,611
Provision for impairment	**1,928**	404
Write-back of impairment due to collection	**(300)**	(550)
At 31 December	**3,093**	1,465

25 BANK BALANCES AND CASH

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash and cash equivalents	**799,533**	950,639
Term deposits with initial term of over three months *(Note a)*	**420**	210
Restricted bank deposits *(Note b)*	**9,225**	9,225
Total bank balances and cash	**809,178**	960,074
Denominated in:		
RMB	**786,224**	906,922
HK$	**22,638**	52,284
Other currencies	**316**	868
	809,178	960,074

(a) As at 31 December 2016, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 0.8% (2015: 3.45%) per annum.

(b) Restricted bank deposits were pledged to banks as collateral for construction of certain property, plant and equipment.

(c) The conversion of the RMB denominated balances maintained in the PRC into foreign currencies and remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	**Share capital**	**Share premium**	**Total**
		RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2015 and at 31 December 2015	1,906,457,000	117,320	1,431,994	1,549,314
Dividends	–	–	(177,420)	(177,420)
As at 31 December 2016	**1,906,457,000**	**117,320**	**1,254,574**	**1,371,894**

27 OTHER RESERVES

	Merger reserve	Shares held for share award scheme	Statutory reserve	Capital reserve	Capital contribution reserve	Equity-settled share-based compensation	Exchange reserve	Total other reserves
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (a)	*Note (d)*	*Note (b)*	*Note (c)*				
At 1 January 2015	(8,938)	–	37,749	192,790	–	14,577	(4,479)	231,699
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	7,019	–	7,019
– Transfer upon vested	–	–	–	–	9,119	(9,119)	–	–
Exchange differences	–	–	–	–	–	–	5,478	5,478
At 31 December 2015	(8,938)	–	37,749	192,790	9,119	12,477	999	244,196
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	3,373	–	3,373
– Transfer upon vested	–	–	–	–	9,310	(9,310)	–	–
Shares purchased for share award scheme	–	(14,872)	–	–	–	–	–	(14,872)
Exchange differences	–	–	–	–	–	–	1,925	1,925
Appropriation to statutory reserves	–	–	26,307	–	–	–	–	26,307
At 31 December 2016	**(8,938)**	**(14,872)**	**64,056**	**192,790**	**18,429**	**6,540**	**2,924**	**260,929**

Notes:

(a) Merger reserve

Merger reserve represented the difference between the aggregate consideration paid by the Group for the acquisition of subsidiaries pursuant to the Reorganization and the aggregate capital of the subsidiaries acquired, after elimination of investments in subsidiaries.

(b) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and the articles of association of the PRC incorporated subsidiaries of the Company, it is required to appropriate 10% of the annual statutory net profits of the Company's PRC incorporated 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 these 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.

27 OTHER RESERVES (Continued)

(c) Capital reserve

Capital reserve as at 1 January 2013 represented the excess of the cash consideration over the paid-in capital arising from capital contributions to Cosmo Lady Guangdong Holdings Limited by investors.

On 29 July 2013, Cosmo Lady Guangdong was converted into a joint stock company with limited liability by converting the total equity as at 31 December 2012 into 420,000,000 ordinary shares of nominal value of RMB1.00 each. The excess of total equity of Cosmo Lady Guangdong over the nominal value of total issued share capital with the amount of RMB192,790,000 has been recognized as capital reserve in the consolidated balance sheet.

(d) Shares held for share award scheme

The Share Award Scheme is managed by the Share Scheme Trustee established by the Group during the year. According to the Share Award Scheme approved by the Board of Directors on 17 August 2016, the Board may from time to time determine the maximum number of ordinary shares of the Company which may be purchased by the Share Scheme Trustee in the open market on the Stock Exchange.

During the year, the Share Scheme Trustee acquired and withheld 5,577,000 ordinary shares of the Company (2015: Nil) from the open market with funds provided by the Company by way of contributions, for an aggregate consideration of approximately HK$17,274,000 (equivalent to approximately RMB14,872,000) (2015: Nil), which had been deducted from shareholders' equity.

28 EQUITY-SETTLED SHARE-BASED COMPENSATION

(a) Pre-IPO Share Award Scheme

Great Ray Investment Holdings Limited, a limited liability company, initially hold an 2.5% equity interest in the Company operates a share award scheme established prior to the listing of the Company' (the "Pre-IPO Share Award Scheme") in exchange for employee services to the Group.

The equivalent numbers of ordinary shares of the Company granted under the Pre-IPO Share Award Scheme are as follows:

	Year ended 31 December	
	2016	2015
At 1 January	**21,645,000**	33,450,000
Granted during the year	**–**	–
Vested	**(11,895,000)**	(11,655,000)
Forfeited	**(2,850,000)**	(150,000)
At 31 December	**6,900,000**	21,645,000

28 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(a) Pre-IPO Share Award Scheme (Continued)

Pursuant to the Pre-IPO Share Award Scheme, vesting of shares awarded under the scheme are subject to the successful listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing") as well as a 3-year service period after the Listing.

The vesting schedule of the shares awarded under the scheme is as follows:

- 35% will vest on the first anniversary of the date of the Listing;
- 35% will vest on the second anniversary of the date of the Listing;
- 30% will vest on the third anniversary of the date of the Listing.

As the Company received the benefits associated with the services of the eligible employees, the fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined by the fair value of the equity instruments granted less the subscription cost of the instruments, and amortized over the different length vesting years of each grant with a credit recognized in equity as capital contribution. The fair values of grant under Share Award Scheme on 1 January 2014 was RMB2.98 per share.

Expenses arising from the share-based compensation have been charged in the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
General and administrative expenses	**2,350**	4,938
Selling and marketing expenses	**1,023**	2,081
	3,373	7,019

28 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(b) 2016 Share Award Scheme

The Board of Directors has approved the adoption of the Share Award Scheme on 17 August 2016. The purpose of the Share Award Scheme is to recognize and motivate the contribution of certain members of management of the Group and to provide incentives and help the Group in retaining its existing members of management and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. The vesting period of the awarded shares is determined by the Board.

No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 31 December 2016.

29 TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Due to third parties	**552,305**	489,652
Due to related parties *(Note 36(c))*	**1,949**	5,759
	554,254	495,411

As at 31 December 2016, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

As at 31 December 2016, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 31 December 2016 is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables		
– Within 30 days	**42,492**	69,468
– Over 30 days and within 60 days	**113,089**	125,427
– Over 60 days and within 90 days	**159,195**	154,705
– Over 90 days and within 180 days	**187,537**	94,683
– Over 180 days and within 360 days	**41,169**	30,864
– Over 360 days	**10,772**	20,264
	554,254	495,411

30 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Payables for purchases of property, plant and equipment and intangible assets	**61,588**	45,448
Receipts in advance from customers	**37,634**	37,311
Salaries and welfare payables	**50,257**	52,626
Accrued taxes other than income tax	**7,885**	7,643
Deposits from franchisees	**78,524**	65,176
Provision for sales return	**3,811**	3,753
Payable in respect of business combination *(Note 33)*	**–**	5,000
Other accrued expenses and payables	**65,915**	66,599
	305,614	283,556

As at 31 December 2016, accruals and other payables of the Group are non-interest bearing, and their fair values, except for the provision for sales return and receipts in advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2016, accruals and other payables of the Group are denominated in RMB.

31 BORROWINGS

The carrying amounts of the Group's borrowings are denominated in RMB.

The Group's bank borrowings are unsecured and repayable in 2019 and bearing interest at 4.75% per annum (2015: nil). The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.75% (2015: nil) and are within level 2 of the fair value hierarchy.

32 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**323,744**	710,569
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 16)*	**78,382**	60,554
– Amortization of land use rights *(Note 17)*	**2,080**	2,080
– Amortization of intangible assets *(Note 18)*	**7,758**	7,724
– Provision for impairment of other receivables *(Note 21)*	**2,829**	–
– Provision for impairment of trade receivables *(Note 24)*	**1,628**	(146)
– Write-down of inventories *(Note 23)*	**46,877**	20,699
– Finance income *(Note 12)*	**(22,707)**	(21,766)
– Finance expenses *(Note 12)*	**4,412**	–
– Foreign exchange gains *(Note 8)*	**(1,093)**	(1,614)
– Equity-settled share-based compensation *(Note 28)*	**3,373**	7,019
– Loss on disposal of property, plant and equipment – net *(Note 8)*	**391**	94
	447,674	785,213
Changes in working capital:		
– Decrease/(Increase) in trade receivables	**64,847**	(216,630)
– Increase in deposits, prepayments and other receivables	**(62,286)**	(106,856)
– Increase in inventories	**(397,179)**	(92,792)
– Increase in trade payables	**58,843**	219,525
– Increase/(decrease) in accruals and other payables	**11,094**	(20,018)
Cash generated from operations	**122,993**	568,442

32 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

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

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book amount of property, plant and equipment *(Note 16)*	**4,955**	4,775
Loss on disposal of property, plant and equipment – net *(Note 8)*	**(391)**	(94)
Proceeds from disposal of property, plant and equipment	**4,564**	4,681

33 BUSINESS COMBINATION IN 2015

On 1 March 2015, Tianjin Ordifen Fashion Company Limited ("Tianjin Ordifen"), an indirect wholly-owned subsidiary of the Company and a number of independent third parties entered into an asset transfer agreement ("Asset Transfer Agreement"), pursuant to which Tianjin Ordifen agreed to acquire the business of the design, research, development, sale and manufacturing of branded intimate wear products (under the brand of Ordifen, Rubii and Ilsee) owned by Shanghai Ordifen and certain related assets and liabilities (the "Acquisition") for a consideration of RMB92,000,000, subject to certain downward adjustments according to the terms of the Asset Transfer Agreement. The Acquisition was completed in June 2015 and the final consideration was concluded to be RMB79,800,000 by the contracting parties.

As part of the Acquisition, the Group agreed to provide financial assistance to Shanghai Ordifen by way of a two-year term entrusted loan of RMB105,000,000, details of which have been disclosed in Note 20.

Shanghai Ordifen is a well-established intimate wear retailer and manufacturer in the PRC focusing on the high-end market. The Ordifen brand originated from Taiwan and entered the PRC market back in 1993. It is one of the high-end intimate wear brands with the long history in the PRC with great customer awareness. The Acquisition is in line with the Group's development strategies of optimizing its product and brand portfolio as it enables the Group to mark its presence in the high-end intimate wear market in the PRC. In addition, since the acquired business is in the same industry sector as the Group, the Group also expects to reduce costs through economies of scale. The goodwill of RMB2,887,000 arising from the Acquisition is mainly attributable to the operational synergy to be attained.

33 BUSINESS COMBINATION IN 2015 (Continued)

The following table summarizes the consideration paid for the Acquisition, the fair value of assets acquired and liabilities assumed at the date of acquisition.

	As at 31 December 2015 *RMB'000*
Purchase consideration	
– Cash paid	74,800
– Payable	5,000
Total purchase consideration	79,800

	As at 1 June 2015 *RMB'000*
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	5,865
Intangible assets	7,100
Inventories	89,677
Trade receivables	20,124
Other receivables	11,072
Trade payables	(5,928)
Other payables	(49,219)
Deferred income tax liabilities	(1,778)
Total identifiable net assets	76,913
Goodwill	2,887
	79,800

Acquisition-related costs were not significant and have been charged to general and administrative expenses. The revenue contributed by acquired business to the Group for the year ended 31 December 2015 since the completion was RMB184,202,000 and the results contributed by acquired business was insignificant to the Group. The Group's revenue and results for the year ended 31 December 2015 would not be materially different if the Acquisition had occurred on 1 January 2015.

34 BALANCE SHEET AND RESERVES OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Assets		
Non-current assets		
Interests in subsidiaries *(Note (a))*	**1,182,117**	1,300,993
Current assets		
Other receivables	**–**	44
Amounts due from a subsidiary *(Note (b))*	**203,228**	142,819
Bank balances and cash	**11,579**	51,467
	214,807	194,330
Total assets	**1,396,924**	1,495,323
Equity		
Capital and reserves		
Share capital *(Note 26)*	**117,320**	117,320
Share premium *(Note 26)*	**1,254,574**	1,431,994
Other reserves	**178,843**	101,574
Accumulated losses	**(159,866)**	(159,719)
Total equity	**1,390,871**	1,491,169
Liabilities		
Current liabilities		
Accruals and other payables	**6,053**	4,154
Total liabilities	**6,053**	4,154
Total equity and liabilities	**1,396,924**	1,495,323

ZHENG Yaonan
Director

ZHANG Shengfeng
Director

34 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Accumulated losses of the Company

	RMB'000
At 1 January 2015	(6,811)
Loss for the year	(1,733)
Dividend	(151,175)
At 31 December 2015	(159,719)
Loss for the year	(147)
At 31 December 2016	(159,866)

Other reserves of the Company

	Shares held for share award scheme RMB'000	Contribution reserve RMB'000	Equity-settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other Reserves RMB'000
At 1 January 2015	–	–	14,577	(7,018)	7,559
Equity-settled share-based compensation					
– Value of employee services	–	–	7,019	–	7,019
– Transfer upon vested	–	9,119	(9,119)	–	–
Currency translation differences	–	–	–	86,996	86,996
At 31 December 2015	–	9,119	12,477	79,978	101,574
Equity-settled share-based compensation					
– Value of employee services	–	–	3,373	–	3,373
– Transfer upon vested	–	9,310	(9,310)	–	–
Shares purchased for share award scheme	(14,872)	–	–	–	(14,872)
Currency translation differences	–	–	–	88,768	88,768
At 31 December 2016	**(14,872)**	**18,429**	**6,540**	**168,746**	**178,843**

34 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Other reserves of the Company (Continued)

Notes:

(a) Interests in subsidiaries

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Capital contribution relating to share-based payment	**24,969**	21,596
Loans to subsidiaries	**1,157,148**	1,279,397
	1,182,117	1,300,993

The capital contribution relates to shares granted to employees of subsidiaries under Share Award Scheme. Refer to Note 28 for further details on the Group's share award scheme.

Loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to subsidiaries.

(b) Amounts due from a subsidiary are unsecured, non-interest bearing and repayable on demand. The carrying amounts of these balances are mainly denominated in HK$ and approximate their fair values.

35 COMMITMENTS

(a) Capital commitments

As at 31 December 2016 the Group had the following capital commitments not provided for:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contracted but not provided for:		
Property, plant and equipment	**107,894**	59,260
Intangible assets	**2,313**	11,881
	110,207	71,141

35 COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2016, the future aggregate minimum lease payments in respect of buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**235,187**	250,622
Later than 1 year and no later than 5 years	**358,945**	441,382
Later than 5 years	**18,539**	23,269
	612,671	715,273

36 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 year, and balances arising from related party transactions as at 31 December 2016.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. ZHANG Shengfeng	Director
Mr. LIN Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd (汕頭市盛強針織實業有限公司) ("Shantou Shengqiang")	Controlled by a brother of Mr. ZHANG Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd (汕頭市茂盛針織內衣有限公司) ("Shantou Maosheng")	Controlled by a brother of Mr. LIN Zhonghong

36 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties – purchases of goods:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Continuing transactions:		
Shantou Shengqiang	**10,901**	24,532
Shantou Maosheng	**9,592**	21,543
	20,493	46,075

Purchases of goods from these related parties are on mutually agreed terms and conditions, and the purchase prices are determined on cost-plus basis, with a mark-up rate of no more than 9%.

(c) Balances with related parties – payables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade balances *(Note 29)*:		
Shantou Shengqiang	**1,903**	5,594
Shantou Maosheng	**46**	165
	1,949	5,759

These trade payables to related parties were unsecured, non-interest bearing and repayable on demand.

36 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

The remuneration of directors of the Company and other members of key management of the Group is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Wages, salaries and bonuses	**8,679**	7,669
Pension costs – defined contribution plans	**469**	384
Equity-settled share-based compensation	**1,052**	2,251
	10,200	10,304

37 PARTICULARS OF THE SUBSIDIARIES AND JOINT VENTURE OF THE GROUP

(a) Particulars of the subsidiaries of the Group as at 31 December 2016 are set out below:

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group	Principal activities/place of operation
Directly held:				
Cosmo Lady (International) Holdings Co., Ltd (都市麗人(國際)控股有限公司)	BVI	1 share of US$1	100%	Investment holding/ Hong Kong
Indirectly held:				
Cosmo Lady Guangdong Holdings Limited (廣東都市麗人實業有限公司)	PRC	RMB420,000,000	100%	Sale of intimate wear/PRC
Beijing Ziseyangguang Sale Co., Ltd. (北京紫色陽光銷售有限公司)	PRC	RMB1,000,000	100%	Sale of intimate wear/PRC
Cosmo Lady Fashion (Shenzhen) Co., Ltd (深圳市都市麗人服裝有限公司)	PRC	RMB2,000,000	100%	Sale of intimate wear/PRC
Cosmo Lady Fashion (Guangzhou) Co., Ltd (廣州市都市麗人服裝有限公司)	PRC	RMB2,000,000	100%	Sale of intimate wear/PRC

37 PARTICULARS OF THE SUBSIDIARIES AND JOINT VENTURE OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2016 are set out below: (Continued)

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group	Principal activities/place of operation
Fanxue Fashion (Changsha) Co., Ltd (長沙市凡雪服裝貿易有限公司)	PRC	RMB1,000,000	100%	Sale of intimate wear/PRC
Tianjin Dushifengshang Fashion Co., Ltd. (天津都市風尚服裝銷售有限公司)	PRC	RMB30,000,000	100%	Sale of intimate wear/PRC
Fanxue Fashion (Chongqing) Co., Ltd (重慶市凡雪服裝有限公司)	PRC	RMB20,000,000	100%	Sale of intimate wear/PRC
Fanxue Fashion (Shanghai) Co., Ltd (上海市凡雪服裝有限公司)	PRC	RMB3,000,000	100%	Sale of intimate wear/PRC
Cosmo Lady (TianJin) E-commerce company limited (天津都市麗人電子商務有限公司)	PRC	RMB10,000,000	100%	Sale of intimate wear/PRC
Freeday (Tianjin) Fashion Company Limited (天津自在時光服裝銷售有限公司)	PRC	RMB15,000,000	100%	Sale of intimate wear/PRC
Ordifen (Tianjin) Fashion Company Limited (天津歐迪芬服裝銷售有限公司)	PRC	RMB100,000,000	100%	Sale of intimate wear/PRC
Cosmo Lady (Guang Dong) Technology Company Limited (廣東都市麗人科技有限公司)	PRC	RMB15,000,000	100%	Sale of intimate wear/PRC
都市麗人(深圳)科技有限公司	PRC	RMB10,000,000	100%	Sale of intimate wear/PRC
廣東艾蒂薇科技發展有限公司	PRC	RMB10,000,000	100%	Sale of intimate wear/PRC
Cosmo Lady (International) Company Limited (都市麗人(國際))集團有限公司)	Hong Kong	10,000 shares of HK$1	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Holdings Co., Ltd. (都市麗人(香港)控股有限公司)	Hong Kong	10,000 shares of HK$1	100%	Investment holding/ Hong Kong

37 PARTICULARS OF THE SUBSIDIARIES AND JOINT VENTURE OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2016 are set out below: (Continued)

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group	Principal activities/place of operation
Freeday (Hong Kong) Holdings Company Limited (自由時光(香港)控股有限公司)	Hong Kong	1 share of HK$1	100%	Investment holding/ Hong Kong
Ordifen (Hong Kong) Holdings Company Limited (歐迪芬(香港)控股有限公司)	Hong Kong	1 share of HK$1	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Industrial Company Limited (都市麗人(香港)工業有限公司)	Hong Kong	1 share of HK$1	100%	Investment holding/ Hong Kong
Ordifen (Shanghai) Corporate Management Consultanting Co., Ltd (上海歐迪芬企業管理咨詢有限公司)	PRC	HK$10,000,000	100%	Corporate consultanting/ PRC

(b) Particulars of the joint venture of the Group as at 31 December 2016 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group	Principal activities/place of operation
Guangdong Dongdu Holdings Limited (廣東東都實業有限公司)	PRC	RMB100,000,000	100%	Real estate development/ PRC

The English names of the PRC companies referred to the 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.

Five-year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out as follows:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**4,512,385**	4,953,415	4,007,636	2,916,266	2,257,626
Gross profit	**2,002,037**	2,114,794	1,567,519	1,068,857	616,675
Gross profit margin	**44.4%**	42.7%	39.1%	36.7%	27.3%
Operating profit	**305,449**	688,803	575,056	371,466	255,842
Operating profit margin	**6.8%**	13.9%	14.3%	12.7%	11.3%
Profit attributable to equity holders of the Company	**241,961**	540,008	425,227	275,508	192,742
Net profit margin	**5.4%**	10.9%	10.6%	9.4%	8.5%

	As of 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank balances and cash	**809,178**	960,074	1,080,562	306,252	209,870
Borrowings	**200,000**	–	–	–	27,000
Non-current assets	**760,100**	766,268	444,182	334,673	290,688
Current assets	**3,019,286**	2,716,499	2,324,689	972,423	799,880
Non-current liabilities	**201,601**	1,778	–	–	–
Current liabilities	**883,956**	842,127	531,339	619,539	484,245
Net current assets	**2,135,330**	1,874,372	1,793,350	352,884	315,635
Total assets	**3,779,386**	3,482,767	2,768,871	1,307,096	1,090,568
Total liabilities	**1,085,557**	843,905	531,339	619,539	484,245
Total equity	**2,693,829**	2,638,862	2,237,532	687,557	606,323

	2016	2015	2014	2013	2012
Current ratio *(times)*	**3.4**	3.2	4.4	1.6	1.7
Average inventory turnover period *(days)*	**141.8**	92.5	78.0	72.3	59.0
Average trade receivables turnover period *(days)*	**39.2**	29.4	20.6	22.0	20.0
Average trade payables turnover period *(days)*	**76.3**	49.2	36.6	45.1	42.6