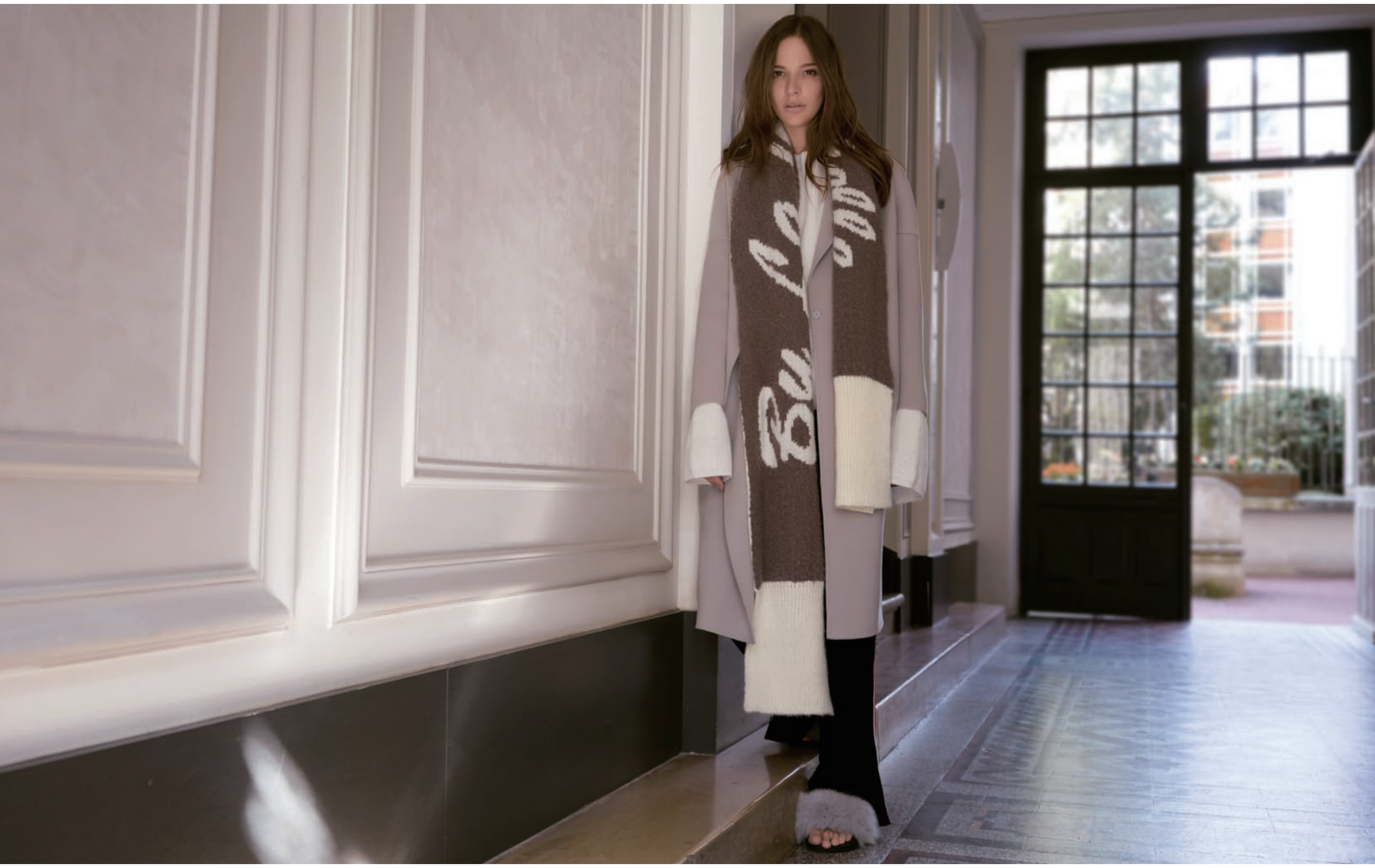
La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.



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

INTERIM REPORT 2017

(Stock Code: 06116)

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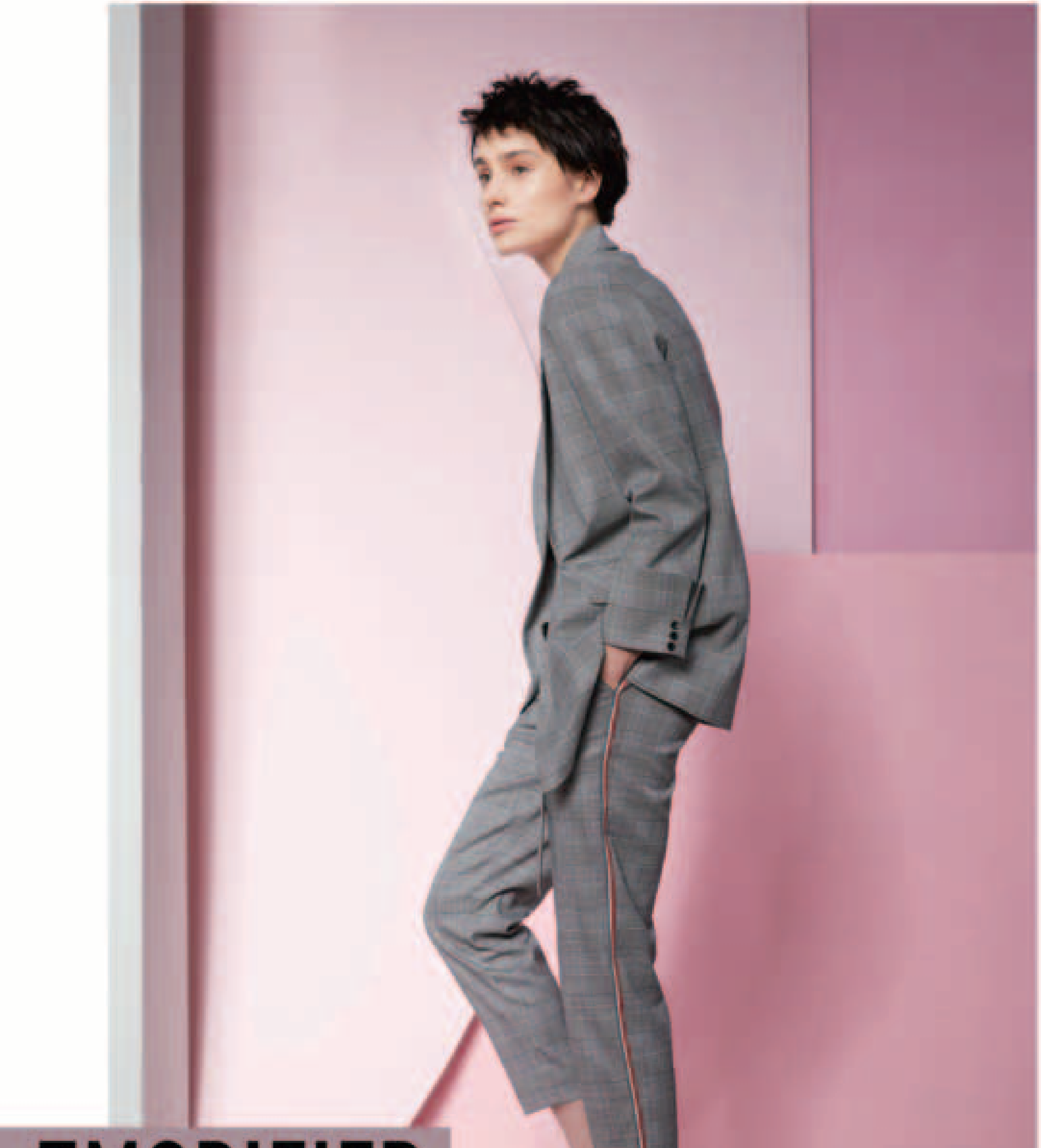
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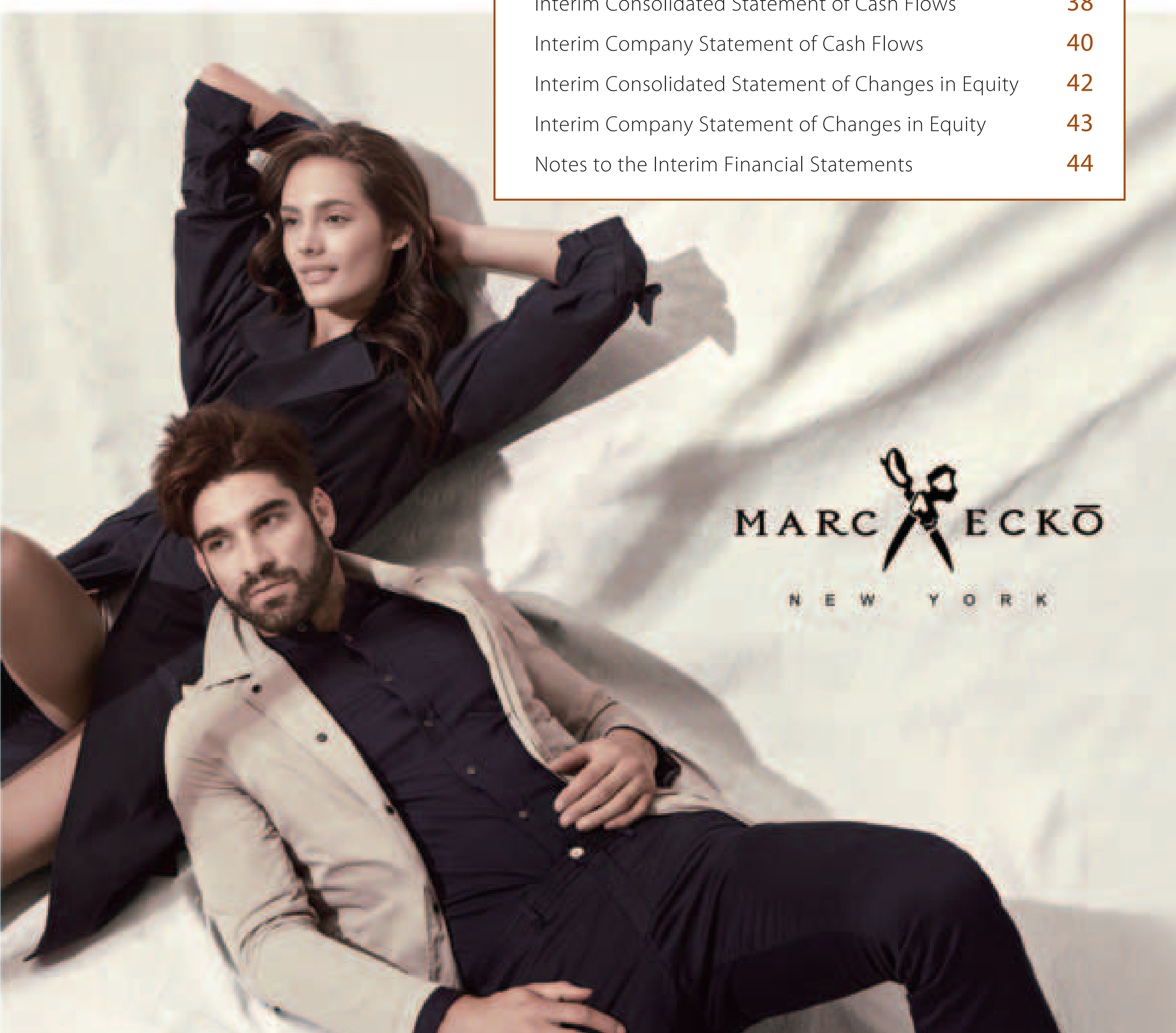
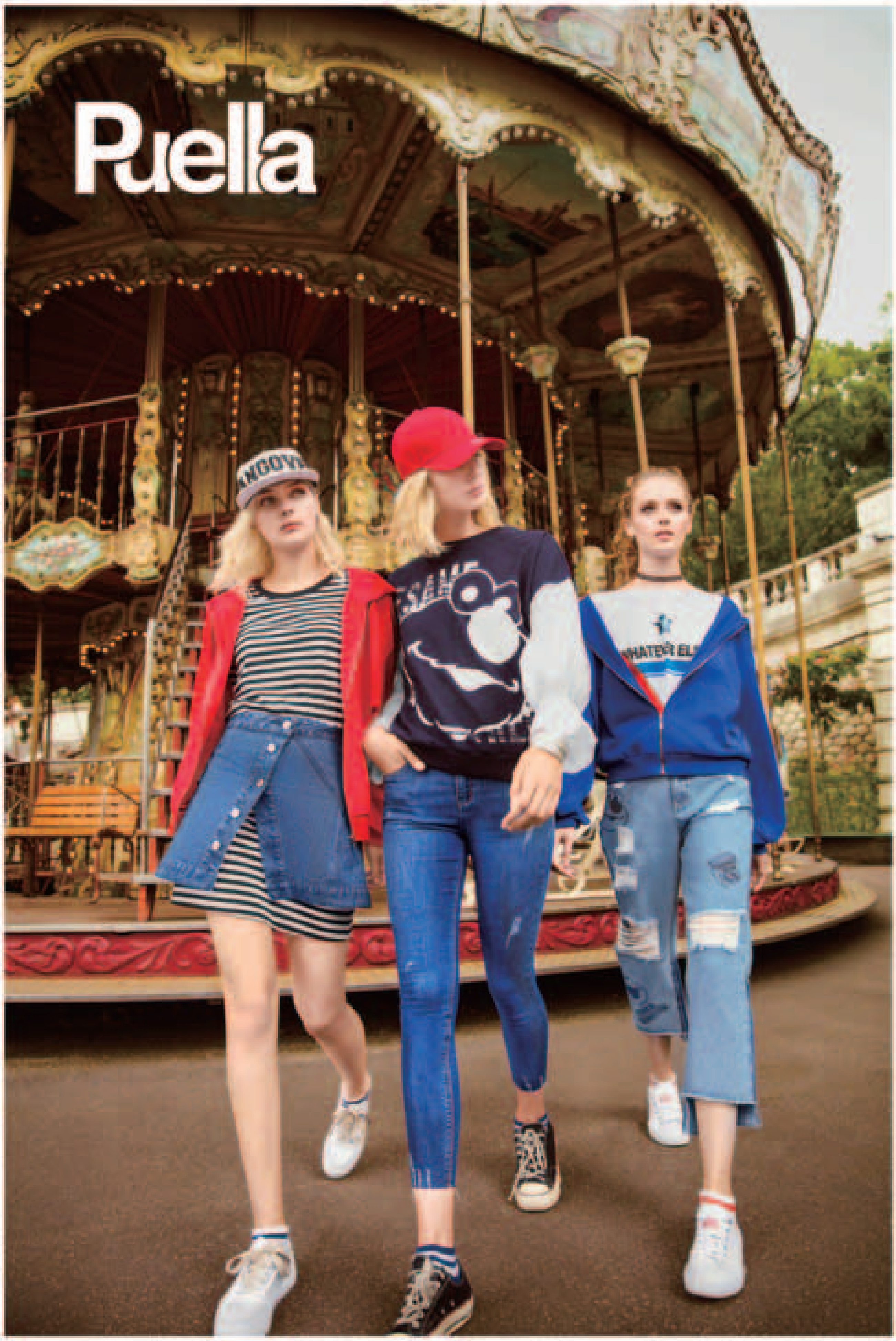
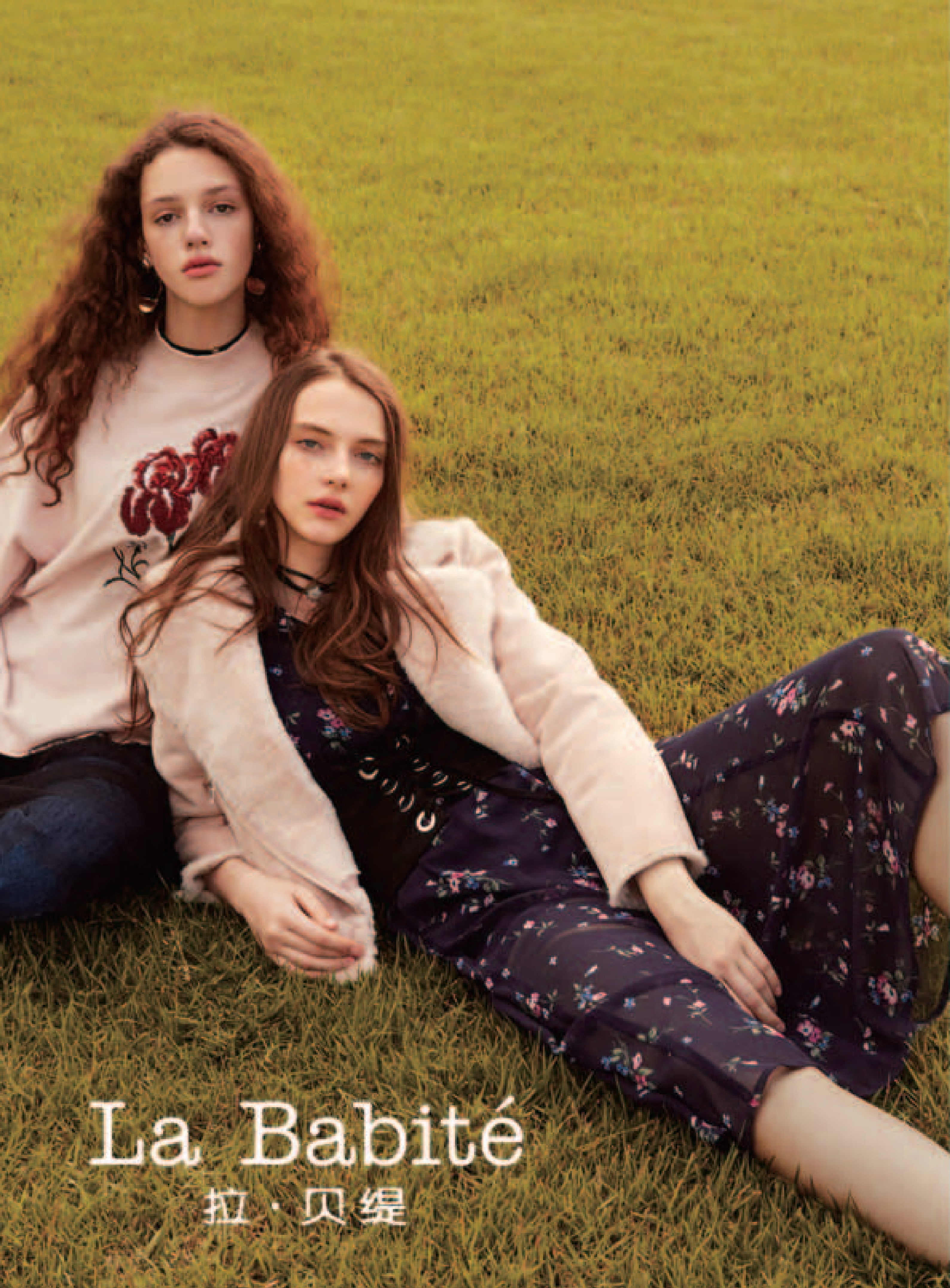
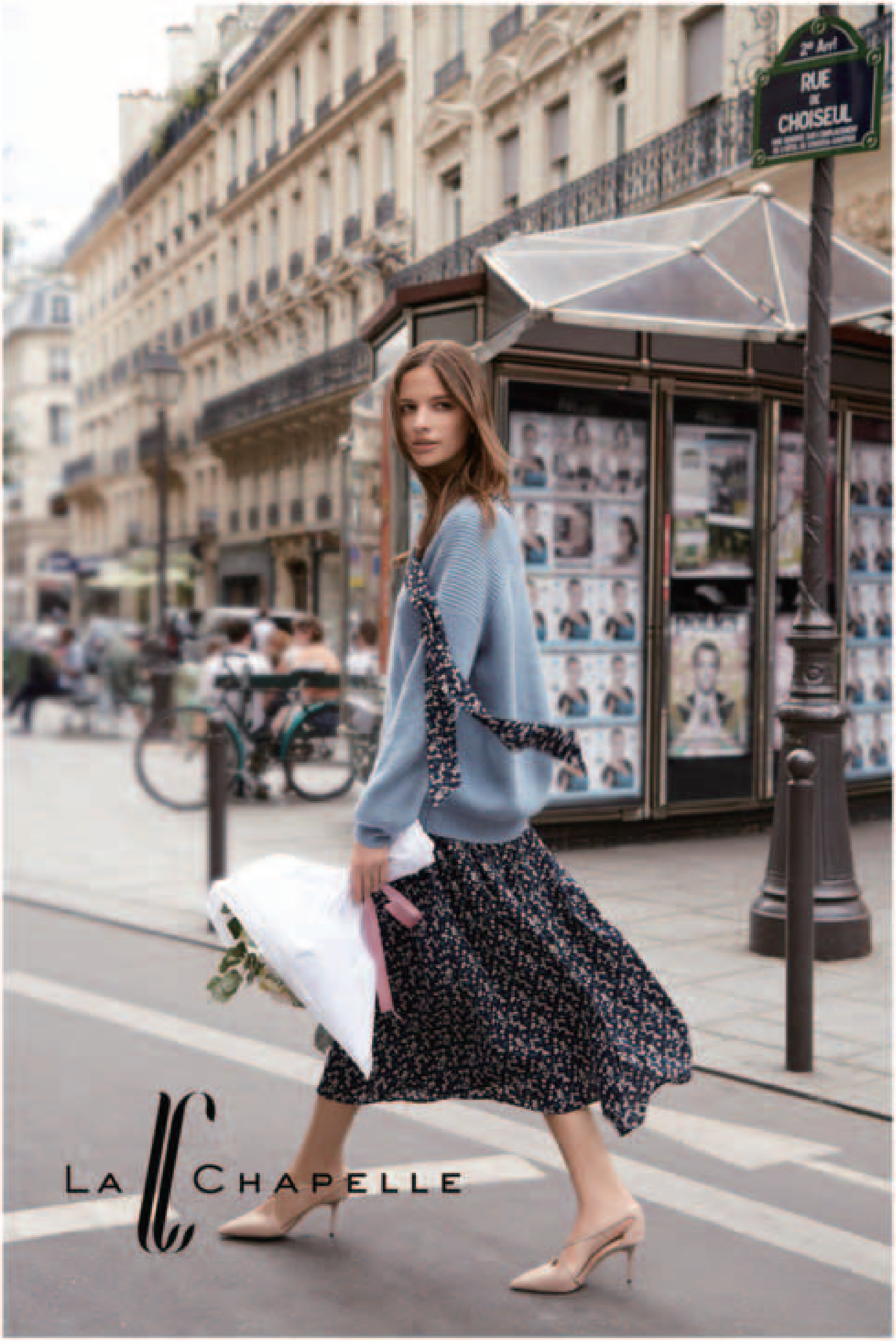



Puella


La Babité
拉·贝缇


LA CHAPELLE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CHOISEUL
LA CHAPELLE

CORPORATE INFORMATION

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

ENGLISH NAME
Shanghai La Chapelle Fashion Co., Ltd.

HEADQUARTERS AND REGISTERED OFFICE IN THE PRC
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Xuhui District, Shanghai, PRC

PLACE OF BUSINESS IN HONG KONG
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COMPANY'S WEBSITE
www.lachapelle.cn

DIRECTORS

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

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

Independent Non-executive Directors
Mr. Zhang Yi
Dr. Chen Jieping
Mr. Zhang Zeping
Mr. Chan, Wing Yuen Hubert

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

NOMINATION COMMITTEE
Mr. Zhang Yi *(Chairman)*
Mr. Xing Jiaxing
Mr. Lu Weiming
Mr. Zhang Zeping
Mr. Chan, Wing Yuen Hubert

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

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

STRATEGY AND DEVELOPMENT COMMITTEE
Mr. Xing Jiaxing *(Chairman)*
Mr. Wang Yong
Mr. Li Jiaqing
Ms. Wang Haitong
Mr. Luo Bin
Mr. Zhang Yi
Mr. Zhang Zeping

SUPERVISORS
Mr. Cheng Fangping *(Chairman)*
Ms. Yang Lin
Mr. Zhang Xueqing
Mr. Wu Jinying
Mr. Zhang Tao

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

AUTHORIZED REPRESENTATIVES
Ms. Fang Xian Li
Mr. Wang Yong

LEGAL ADVISERS TO THE COMPANY
Grandall Law Firm (Shanghai) *(as to PRC Law)*
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AUDITOR
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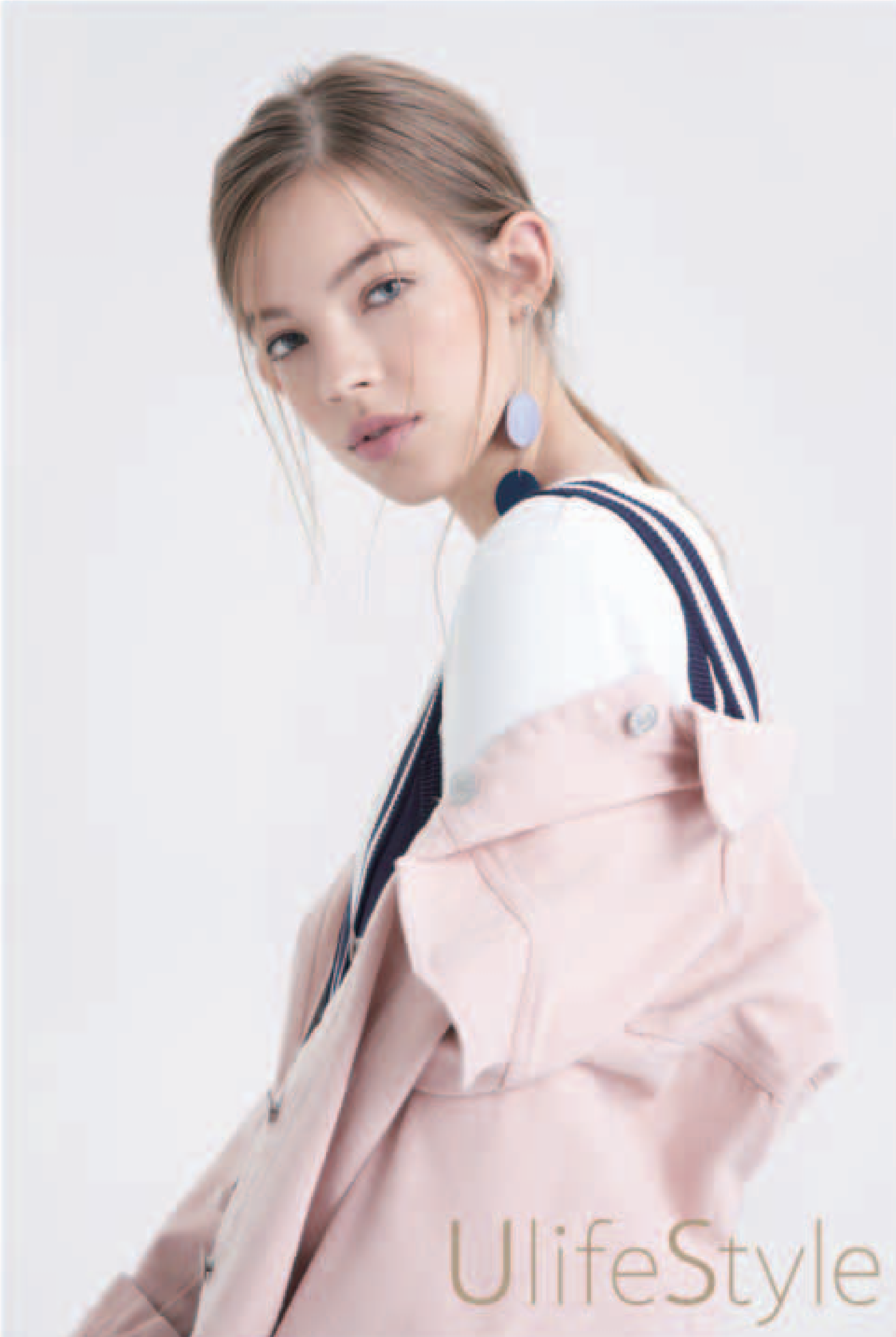
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS
Bank of Communications Shanghai Zhabei Branch
Bank of China Shanghai Luodian Branch

STOCK CODE
6116


UlifeStyle

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	2016	Increase/ (decrease)
	RMB'000	RMB'000	%
Financial highlights			
Revenue	**4,281,863**	4,005,986	6.9%
Gross profit	**2,786,536**	2,600,307	7.2%
Operating profit	**405,103**	377,295	7.4%
Total profit	**401,984**	408,440	(1.6)%
Income tax expense	**(101,017)**	(104,733)	(3.5)%
Net profit	**300,967**	303,707	(0.9)%
Basic and diluted earnings per share (RMB)	**0.57**	0.58	(1.7)%
Financial Ratios			
Gross profit margin	**65.1%**	64.9%	
Operating margin	**9.5%**	9.4%	
Net profit margin	**7.0%**	7.6%	


La Chapelle Kids

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2017, the general economy of the PRC demonstrated a rising trend while maintaining stability. According to the National Bureau of Statistics, the gross domestic product (GDP) increased by 6.9% for the first six months of 2017, representing a faster growth as compared with the increase of 6.7% for the corresponding period of last year. The national consumer price index (CPI) increased by 1.4% as compared with the corresponding period of last year. Total retail sales of consumer goods recorded a year-on-year growth of 10.4%, which was slightly higher as compared with 10.3% for the corresponding period of last year. Among which, online retail sales has experienced significant growth, with an increase of 33.4% as compared with the corresponding period of last year.

For the six months ended 30 June 2017 (the "**Reporting Period**"), the apparel market showed general signs of improvement but different segments had varying performances. The men's apparel segment showed a trend of continuous recovery and the mid- to high-end women's apparel segment rebounded further while the casual wear segment was still in the process of de-stocking and channel transformation. Rapid growth was maintained in the e-commerce segment.

In the first half of 2017, the Group continued its multi-brand strategy, adhering to a brand management model which is customer-oriented. In order to enhance the effectiveness of the shops, the Group continuously optimized the operation and management of merchandise, striving to effectively manage the life cycle of products. The Group set up a classification system for its shops and conducted merchandise operation and management according to the shop classification. During the same period, the Group continued to adjust and optimize the store network as well as to upgrade the store image.

FINANCIAL REVIEW

Financial Review

During the Reporting Period, the Group's revenue and operating profit reached RMB4,281.9 million and RMB405.1 million respectively, representing an increase of 6.9% and 7.4%, respectively, as compared with the corresponding period of last year. The net profit for the period over the first half of 2017 amounted to RMB301.0 million, representing a decrease of 0.9% as compared with the corresponding period of last year.

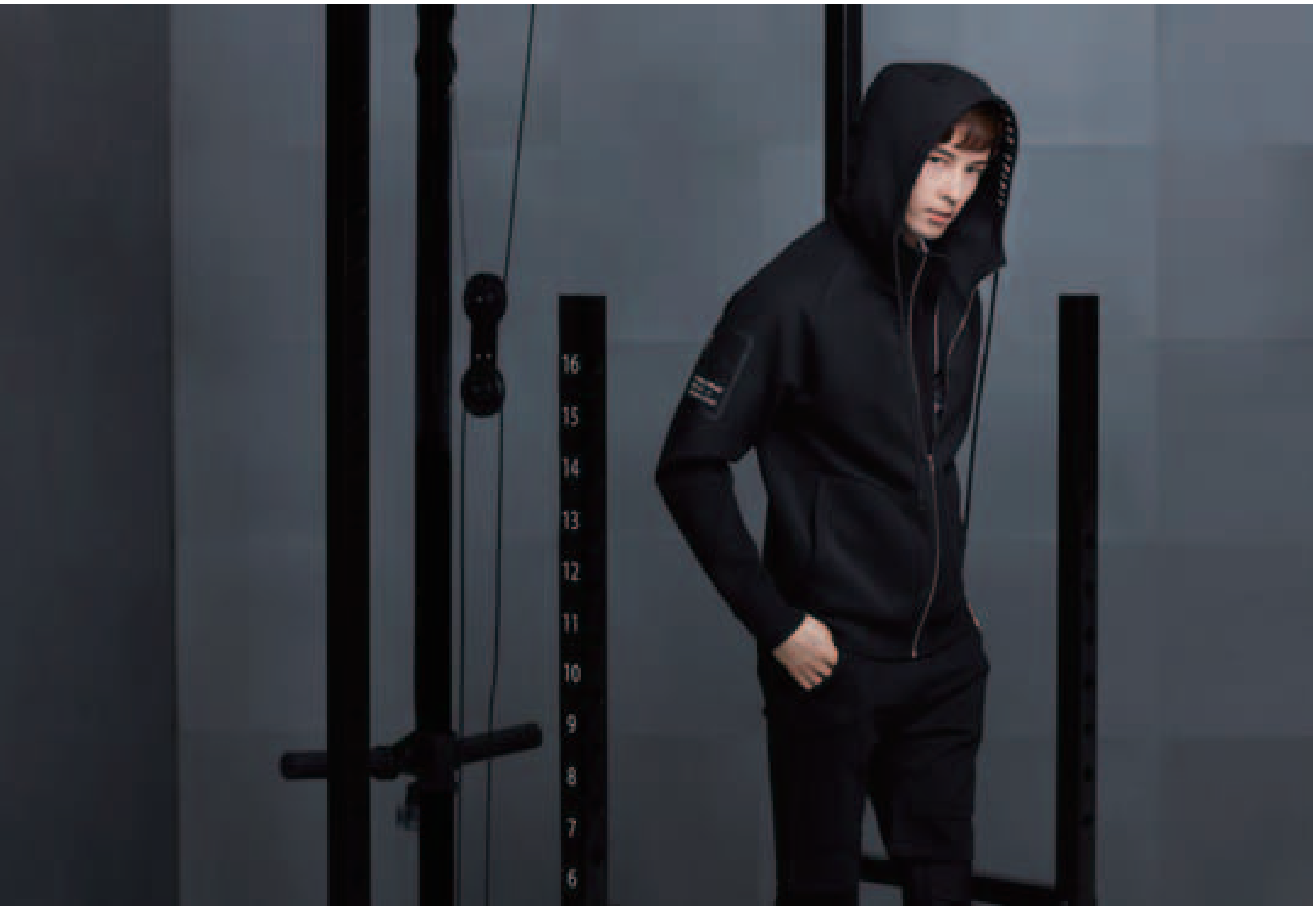
Revenue

The revenue of the Group in the first half of 2017 saw a steady growth and increased from RMB4,006.0 million in the first half of 2016 to RMB4,281.9 million in the first half of 2017, representing an increase of 6.9%. The growth in revenue was mainly attributable to the continuous sales growth from standalone outlets and online channels. The number of retails points of the Group increased from 8,907 as at 31 December 2016 to 9,066 as at 30 June 2017.

Revenue by distribution channel

The following table sets out the revenue breakdown by type of retail points for the Reporting Period and the corresponding period of last year:

	For the six months ended 30 June			
	2017		2016	
	Revenue (RMB'000)	% of total	Revenue (RMB'000)	% of total
Concessionaire counters	1,976,011	46.1%	2,174,626	54.3%
Standalone retail outlets	1,763,448	41.2%	1,455,097	36.3%
Online platform	534,565	12.5%	368,965	9.2%
Franchise/Associate	7,839	0.2%	7,298	0.2%
Total	4,281,863	100.0%	4,005,986	100.0%



The revenue from concessionaire counters decreased from RMB2,174.6 million in the first half of 2016 to RMB1,976.0 million in the first half of 2017, representing a decrease of 9.1%. The decrease in revenue from concessionaire counters was mainly attributable to the decrease in the number of retail points and aging of retail channels which results in a decrease in customer flow. The revenue from standalone retail outlets increased from RMB1,455.1 million in the first half of 2016 to RMB1,763.4 million in the first half of 2017, representing an increase of 21.2%. The growth in revenue from standalone retail outlets was mainly attributable to the increasing number of new retail points. Standalone retail outlets accounted for 41.2% of the total revenue of the Company during the first half of 2017, representing an increase of 4.9 percentage points as compared to the corresponding period of last year. The online platform recorded a revenue of RMB534.6 million in the first half of 2017, accounting for 12.5% of the total revenue, which represented an increase of 3.3 percentage points over the corresponding period of last year.

Revenue by brand

The following table sets out the revenue breakdown by brand for the Reporting Period and the corresponding period of last year:

	For the six months ended 30 June			
	2017		2016	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
La Chapelle	**1,046,275**	**24.4%**	1,046,690	26.1%
Puella	**908,948**	**21.2%**	989,474	24.7%
7m	**702,949**	**16.4%**	615,668	15.4%
La Babité	**617,572**	**14.4%**	476,118	11.9%
Candie's	**275,084**	**6.4%**	291,002	7.3%
JACK WALK/Pote	**230,593**	**5.4%**	183,644	4.6%
La Chapelle Kids	**47,635**	**1.1%**	42,693	1.1%
UlifeStyle	**251,748**	**6.0%**	192,461	4.8%
MARC ECKŌ	**14,428**	**0.3%**	8,905	0.2%
OTHERMIX	**153,413**	**3.6%**	157,276	3.9%
O.T.R	**15,788**	**0.4%**	1,988	0.0%
Siastella	**10,164**	**0.2%**	–	0.0%
Mum Meet Me/Kin	**268**	**0.0%**	–	0.0%
Others	**6,998**	**0.2%**	67	0.0%
Total	**4,281,863**	**100.0%**	4,005,986	100.0%

Notes:

1) In the first half of 2017, the Group has launched two new brands, namely, Mum Meet Me and Kin, which are owned and operated by the Group's non-wholly owned subsidiary Nine Snails (Shanghai) Education Technology Co., Ltd..

2) The Group's subsidiary Jack Walk (Shanghai) Fashion Limited (杰克沃克(上海)服飾有限公司) has authorized the Group to operate its brand JACK WALK. The subsidiary now focuses on running the new brand O.T.R.

3) "Others" refers to revenue generated from non-apparel services.

In the first half of 2017, La Chapelle and Puella continued to be two of the top brands in terms of their revenue contribution to the Group. Sales from both brands accounted for 45.6% of the Group's total sales, representing a decrease by 5.2 percentage points from 50.8% of the first half of 2016. In particular, revenue from the brand Puella decreased by 8.1% from the corresponding period of 2016 as a result of the decline in revenue contributed by existing stores from the corresponding period of last year and slower growth of new stores openings. For the first half of 2017, other major ladies' apparel brands of the Group (7m, La Babité) continued to maintain good growth trend in their revenue. Particularly, sales from La Babité increased significantly by 29.7% year-on-year compared to the corresponding period of 2016, mainly due to improved merchandizing and expansion of store network. Our men's apparel brands (JACK WALK, Pote, MARC ECKŌ), which were at rapid development stage, recorded an increase of 27.3% in revenue in the first half of 2017 as compared with the same period of last year. This is mainly due to an increase in same-store sales. UlifeStyle, the Group's newly launched brand in 2015, contributed to 6.0% of our total revenue.

Revenue by tier of cities

The following table sets out the revenue breakdown by tier of cities (including revenue from online platform) for the Reporting Period and the corresponding period of last year:

	For the six months ended 30 June			
	2017		2016	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
First-tier cities	**544,526**	**12.7%**	508,904	12.7%
Second-tier cities	**1,766,297**	**41.3%**	1,656,378	41.3%
Third-tier cities	**1,037,467**	**24.2%**	979,715	24.5%
Other cities	**933,573**	**21.8%**	860,989	21.5%
Total	**4,281,863**	**100.0%**	4,005,986	100.0%

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

The Group recorded an increase in revenue from all tiers of cities in the first half of 2017, which was mainly attributable to the expansion of retail network of the Group nationwide and an increase in online business. There is no material change in the contribution of each tier of cities to our revenue from the corresponding period of last year.

Revenue by product type

The following table sets out the revenue breakdown by product type (including revenue from online platform) for the Reporting Period and the corresponding period of last year:

	For the six months ended 30 June			
	2017		2016	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
Tops	**2,751,922**	**64.3%**	2,575,849	64.3%
Bottoms	**494,493**	**11.5%**	444,664	11.1%
Dresses	**1,006,135**	**23.5%**	953,425	23.8%
Accessories and others	**29,313**	**0.7%**	32,048	0.8%
Total	**4,281,863**	**100.0%**	4,005,986	100.0%

In the first half of 2017, sales revenue from all types of products other than accessories experienced a year-on-year increase due to expansion of the retail network nationwide and fast sales growth from online channels. There is no material change in the contribution by each product type to our revenue from the corresponding period of last year. Sales revenue from tops grew by 6.8%, while that from bottoms and dresses rose by 11.2% and 5.5%, respectively.

Cost of Sales

The cost of sales of the Group increased by 6.4% from RMB1,405.7 million in the first half of 2016 to RMB1,495.3 million in the first half of 2017.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from RMB2,600.3 million in the first half of 2016 to RMB2,786.5 million in the first half of 2017, representing a year-on-year increase of 7.2%, which was mainly attributable to the growth of revenue as a result of retail network expansion.

The overall gross profit margin of the Group increased to 65.1% in the first half of 2017 from 64.9% in the first half of 2016, mainly due to an increase in the sales share of seasonal apparel products in the first half of 2017.

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses in the first half of 2017 amounted to RMB2,051.8 million (the first half of 2016: RMB1,862.6 million), consisting primarily of sales staff salaries and benefits, rental expenses, marketing and promotional expenses, utilities cost and other expenses relating to selling and marketing activities. Selling and distribution expenses in the first half of 2017 as a percentage of total revenue in the first half of 2017 was 47.9% (the first half of 2016: 46.5%), representing an increase in the share of expenses of rentals, marketing and promotion to revenue during the corresponding period of last year. Administrative expenses in the first half of 2017 amounted to RMB186.5 million (the first half of 2016: RMB181.7 million), consisting primarily of administrative employee benefit expenses, rental expenses for offices, consulting expenses, amortization of the licensing of the Group's computer information system, office utilities expenses and traveling expenses. Administrative expenses as a percentage of total revenue in the first half of 2017 were 4.4% (the first half of 2016: 4.5%), representing a decrease in staff salaries and benefits for the first half of 2017 as compared with the corresponding period of last year.

Asset Impairment Loss

Loss on asset impairment recorded RMB155.4 million in the first half of 2017(the first half of 2016: RMB138.4 million), of which RMB121.1 million was write-down in inventories (the first half of 2016: RMB135.4 million), and RMB34.4 million was provision for bad debts of accounts receivable and other receivables (the first half of 2016: RMB3.0 million). The Group has changed its method of accounting estimate regarding provision for bad debts of accounts receivable to align with the industry practice effective from 1 January 2017, which resulted in an increase of RMB26.2 million in asset impairment loss in the first half of 2017.

Other Income – Net

The Group's other income amounted to RMB58.6 million (the first half of 2016: RMB32.4 million) in the first half of 2017, mainly due to the financial subsidies of RMB57.4 million received in the first half of 2017. This form of government subsidy, which was recorded as non-operating income in the corresponding period of last year, was recorded as other income in the first half of 2017 based on the revised China Accounting Standards for Business Enterprises ("**CAS**").

Finance Expenses/Income – Net

Net finance expenses of the Group amounted to RMB5.2 million in first half of 2017 (the first half of 2016: net gain of RMB4.3 million). The increase in finance expenses was mainly attributable to a year-on-year increase in interest expenses from borrowing and a year-on-year decrease in foreign exchange income.

Total Profit

Total profit of the Group decreased from RMB408.4 million in the first half of 2016 to RMB402.0 million in the first half of 2017, representing a decrease of 1.6%. The decrease in the total profit was primarily attributable to (i) an increase in the share of selling and distribution expenses to revenue; and (ii) an increase in bad debts provision for accounts receivable and other receivables, which was a result of the change of accounting estimate in provision for accounts receivable of bad debts.

Income Tax Expense

Income tax expense amounted to RMB101.0 million in the first half of 2017 (the first half of 2016: RMB104.7 million). The effective income tax rate in the first half of 2017 was 25.1% (the first half of 2016: 25.6%).

Net Profit and Net Profit Margin

In view of the above, net profit of the Group in the first half of 2017 amounted to RMB301.0 million, representing a decrease by 0.9% from RMB303.7 million in the first half of 2016. In particular, net profit attributable to the owner of the Company was RMB281.7 million, representing a decrease by 1.1% from RMB284.9 million in the first half of 2016. The net profit margin of the Group was 7.0% in the first half of 2017, compared with 7.6% in the first half of 2016.

Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. In the first half of 2017, the capital expenditure incurred by the Company was RMB323.3 million (the first half of 2016: RMB363.9 million).

Cash and Cash Flow

In the first half of 2017, net cash generated from operating activities amounted to a net inflow of RMB40.3 million (the first half of 2016: net inflow of RMB171.1 million). The decrease in net cash inflow from operating activities was mainly due to increases in expenditure related to brand-fostering, store network expanding and merchandizing as well as rises in prepayments for autumn and winter apparel procurement in the first half of 2017 as compared with the corresponding period of last year.

In the first half of 2017, net cash used in investing activities was RMB371.4 million (the first half of 2016: net cash used in investing activities was RMB375.8 million). Major investment activities in the first half of 2017 were: (i) net cash outflow of RMB25.9 million for investment in associates; (ii) net cash outflow of RMB37.8 million for other investment-related activities, among which RMB17.8 million was invested in investment fund, RMB15.0 million was invested in a company quoted on the National Equities Exchange and Quotations Systems ("**NEEQ**") in the PRC, RMB5.0 million was used to provide a bridge loan; and (iii) net cash outflow of RMB323.3 million for purchase of properties, warehouses and equipment, while that amount in the first half of 2016 was RMB363.9 million.

In the first half of 2017, net cash generated from financing activities was RMB275.3 million (the first half of 2016: net used cash was RMB7.4 million). Major financing activities in the first half of 2017 were: (i) obtaining bank loans of net cash inflow of RMB636 million; (ii) repayment of bank loans of net cash outflow of RMB150 million; and (iii) payment of dividends to shareholders of net cash outflow of RMB207.6 million.

As at 30 June 2017, the Group held cash and cash equivalents in the total amount of RMB525.6 million (31 December 2016: total cash and cash equivalents of RMB581.4 million).

In the first half of 2017, the average inventory turnover of the Group was 193.3 days (the first half of 2016: 199.1 days), and the average receivables turnover was 37.4 days (the first half of 2016: 40.8 days). The increase in our inventory turnover rate was mainly due to an increase in our sales of dresses and bottoms as compared with the corresponding period of last year.

The Group's financial position remained solid. As at 30 June 2017, net current assets of the Group amounted to RMB1,285.0 million. Total assets less current liabilities amounted to RMB3,688.7 million, and the gearing ratio (the following formula is used in the gearing ratio: total liabilities/total assets) was 40.1%.

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

Bank loans and other borrowings

As at 30 June 2017, bank borrowings of the Group amounted to RMB786.0 million (31 December 2016: borrowing balance of RMB300.0 million), which was credit borrowings repayable within one year.

Pledge of assets

As at 30 June 2017, no properties, warehouses and equipment, land use rights and investment properties were pledged by the Group in respect of any available bank facilities.

Contingent liabilities

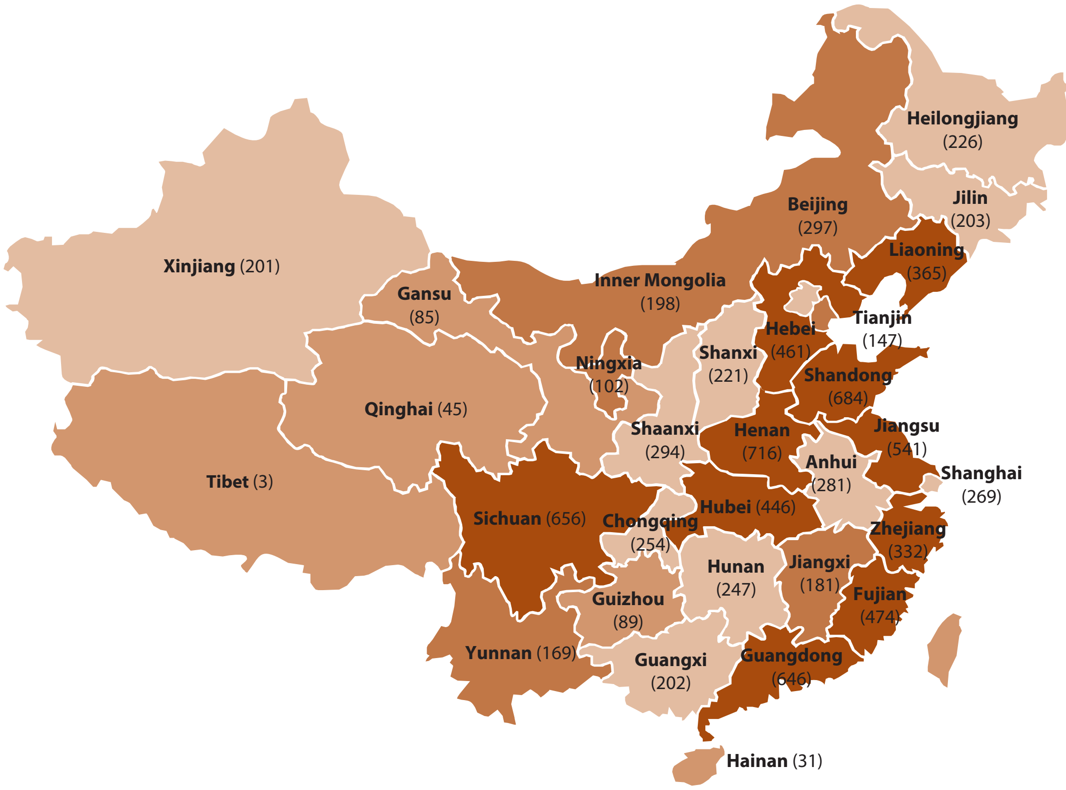
As at 30 June 2017, the Group had no material contingent liabilities.

BUSINESS REVIEW

Retail Network

As at 30 June 2017, the number of retail points of the Group were 9,066, which increased from 8,907 as at 31 December 2016, and were situated at approximately 2,745 physical locations. The number of retail points was counted on the basis used for that as at 31 December 2015, taking one UlifeStyle store as a single retail point.

The map below shows the geographical distribution of the Group's retail points in the PRC as at 30 June 2017.



Tibet	3
Hainan	31
Qinghai	45
Gansu	85
Guizhou	89
Ningxia	102
Tianjin	147
Yunnan	169
Jiangxi	181
Inner Mongolia	198
Xinjiang	201
Guangxi	202
Jilin	203
Shanxi	221
Heilongjiang	226
Hunan	247
Chongqing	254
Shanghai	269
Anhui	281
Shaanxi	294
Beijing	297
Zhejiang	332
Liaoning	365
Hubei	446
Hebei	461
Fujian	474
Jiangsu	541
Guangdong	646
Sichuan	656
Shandong	684
Henan	716

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2017 and as at 31 December 2016 by tier of cities.

	As at 30 June 2017		As at 31 December 2016	
	Number of retail points	**% of total**	Number of retail points	% of total
First-tier cities	**821**	**9.1%**	814	9.1%
Second-tier cities	**3,337**	**36.8%**	3,286	36.9%
Third-tier cities	**2,495**	**27.5%**	2,459	27.6%
Other cities	**2,413**	**26.6%**	2,348	26.4%
Total	**9,066**	**100.0%**	8,907	100.0%

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

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2017 and as at 31 December 2016 by type of the retail points.

	As at 30 June 2017		As at 31 December 2016	
	Number of retail points	**% of total**	Number of retail points	% of total
Concessionaire counters	**5,639**	**62.2%**	5,730	64.3%
Standalone retail outlets	**3,421**	**37.7%**	3,175	35.7%
Franchise/Associate	**6**	**0.1%**	2	0.0%
Total	**9,066**	**100.0%**	8,907	100.0%

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2017 and as at 31 December 2016 by brands.

	As at 30 June 2017		As at 31 December 2016	
	Number of retail points	**% of total**	Number of retail points	% of total
La Chapelle	**1,861**	**20.5%**	1,855	20.8%
Puella	**2,092**	**23.1%**	2,090	23.5%
7m	**1,624**	**17.9%**	1,610	18.0%
La Babité	**1,382**	**15.2%**	1,298	14.6%
Candie's	**931**	**10.3%**	940	10.6%
JACK WALK/Pote	**654**	**7.2%**	700	7.9%
La Chapelle Kids	**207**	**2.3%**	171	1.9%
UlifeStyle	**236**	**2.6%**	191	2.1%
MARC ECKŌ	**32**	**0.4%**	32	0.4%
O.T.R	**19**	**0.2%**	7	0.1%
Siastella	**24**	**0.3%**	13	0.1%
Mum Meet Me/Kin	**4**	**0.0%**	–	0.0%
Total	**9,066**	**100.0%**	8,907	100.0%

The table below sets out the distribution of the Group's net additional retail points in the PRC in the first half of 2017 by brands.

	For the six months ended 30 June 2017	
	Number of net additional retail points	**% of total**
La Chapelle	**6**	**3.8%**
Puella	**2**	**1.3%**
7m	**14**	**8.8%**
La Babité	**84**	**52.8%**
Candie's	**(9)**	**(5.7)%**
JACK WALK/Pote	**(46)**	**(28.9)%**
La Chapelle Kids	**36**	**22.6%**
UlifeStyle	**45**	**28.3%**
MARC ECKŌ	**0**	**0%**
O.T.R	**12**	**7.5%**
Siastella	**11**	**7.0%**
Mum Meet Me/Kin	**4**	**2.5%**
Total	**159**	**100.0%**

Except for Candie's and JACK WALK/Pote, all of the Group's other brands have seen a net increase in the number of retail points in the first half of 2017.

Same store sales

Due to the slow recovery in the consumer market, same store sales for physical stores of the Group for the first half of 2017 decreased by 8.1% as compared to that of the first half of 2016. Same store sales decreased by 5.0% for the first half of 2016 as compared to that of the first half of 2015.

Multi-brand strategy

The Group insists to adopt the multi-brand strategy as its long-term strategy and continues to enrich its existing brand combinations and categories through external investments.

Through organic growth, external acquisition or equity injection, the Group now owns close to twenty fashion brands, including La Chapelle, Puella, 7m, La Babité, Candie's, JACK WALK, Pote, MARC ECKŌ, UlifeStyle, La Chapelle Kids, O.T.R, OTHERMIX, Siastella, tanni, Maria Luisa, NN, Mum Meet Me, Kin, GARTINE, covering categories such as casual wear, designer-brands, high-end men and women's wear, kid's wear and parent-child clothing.

During the Reporting Period, the Group introduced a "high value for money" babywear brand SaintBuD through equity injection to further enrich the Group's existing product lines in the hope of muscling into the baby clothing market. In addition, the Group has also invested in Beijing Mingtongsiji Technology Co., Ltd. ("**BMT**"), an NEEQ-quoted Company which owns and operates Inmix, a leading internet fashion brand in the PRC specialising in eyewear. It is expected to introduce various types of glasses into the Group's stores while BMT can also expand its offline shops through La Chapelle's strong retail network to achieve synergy effect.

E-commerce business

The Group operates its women's wear online business through Hangzhou Anshe E-Commerce Company Limited, a non-wholly-owned subsidiary of the Company. In the first half of 2017, the Group's e-commerce business recorded revenue of RMB534.6 million, representing a year-on-year increase of 44.9% and accounting for 12.5% of the Group's total revenue (the first half of 2016: 9.2%).

During the Reporting Period, the Group focused on content marketing and customer relationship management (CRM) for its online business so as to increase brand activity and customer loyalty. In terms of transaction volume, La Chapelle, the primary brand of the Group, was ranked top 10 while Puella was ranked top 20 on the Tmall platform .

The Group has launched the menswear online business in the first half of 2017 through Shanghai Bercent Industrial Co., Ltd.* （上海品呈實業有限公司）, a menswear e-commerce company which the Group has invested in. Such business is still at its experimental stage.

Front-end supply chain management

During the Reporting Period, the Group has realized data sharing with its suppliers. Both ends can check on the project progress through the Supply Chain Management system (SCM), which enhanced the effectiveness of communication with the suppliers. Concurrently, through bill arrangement and payment management, the Group has optimised the billing process with its suppliers.

In the first half of 2017, the Group and certain raw materials and apparel suppliers reached a three-party strategic alliance to control the cost of raw and ancillary materials. The Group will continue to promote the establishment of its strategic supplier team.

Back-end supply chain management (Warehouse logistic center)

As of 30 June 2017, the Group had three warehouse logistic centres located in Taicang, Chengdu and Tianjin, for distribution of goods across the country. Among which, Taicang Phase II was still under trial operation; the warehouse and logistics centre in Chengdu was completed in the first half of the year while Tianjin Phase I will enter into trial operation in the second half of 2017.

The Group continued to increase its investment in the automation of its warehouses and logistics centres to enhance efficiency. The automated warehouse of Taicang Phase II was put into use in the first half of 2017, which has enhanced our storage capacity. In addition, the warehouse centre in Taicang is expected to conduct a pilot scheme related to robotic shelves in the second half of 2017 to further improve efficiency.

Information system

In the first half of 2017, the Group rolled out the radio frequency identification ("**RFID**") system, in the hope of achieving stronger management of each apparel item. The RFID system has improved the efficiency and accuracy of inventory taking as well as increased the transparency of store inventories.

In the second half of 2017, the Group will extend the application of the RFID system, and will strive to establish smart shops.

Further construction of sales regions

To streamline management and improve management efficiency, the Group has established sales regions in 2016, so that part of the decision-making functions could be decentralized to the regions.

During the Reporting Period, six major sales regions were established to take charge of sales in the North, East, South, Central, Southwest and Northwest regions of China, and decision-making functions were further decentralized, giving more operational autonomy to the respective regions. Such steps have not only motivated operational enthusiasm, but also enhanced operational efficiency.

More flexible incentive mechanism

The Group continues to improve the employee incentive policy to motivate employees.

During the Reporting Period, the Group formulated tailored assessment and incentive mechanism according to the development priorities of different regions and the different stages of brand development. The sales regions may implement the incentive mechanism based on local conditions under the framework of the incentive mechanism developed by the Group.

In addition, the Group continued to promote the partnership incentive programme. Different incentives were implemented in different types of stores.

HUMAN RESOURCES

As at 30 June 2017, the Group had a total of 38,356 full-time employees (31 December 2016: 39,289). The Group offers its staff appropriate remuneration schemes, including mandatory pension funds, general and commercial insurances, medical benefits and other subsidies. In addition, the Group has set up a union fund which aimed at helping employees with family difficulties or to whom accidents occurred. Concurrently, the Group is committed to building up a culture of learning and sharing within the organization. Since the Group's success depends on the effort of skilled employees in each department, the Group lays emphasis on employee skill training and team spirit fostering.

BUSINESS OUTLOOK

In the near future, the Group will still face a relatively high level of pressure. The Group will adhere to the principle of being customer-oriented, continue to optimize its goods and services and provide customers with enhanced shopping experience. In the second half of 2017, the Group will pursue the following initiatives:

- continue to expand the store network for brands still under development;
- upgrade certain stores and eliminate stores with poor results for established brands;
- reinforce efforts in expanding offline and online business of menswear brands;
- continue to increase investment in information system, extend the application of the RFID system;
- adjust and optimize its organisational structure so as to enhance management effectiveness.

In addition, subsequent to the submission of application materials in relation to the proposed issuance of A share offering to the China Securities Regulatory Commission ("**CSRC**") and the approval by the CSRC of the Company's application, the Group will continue to prepare for the listing in the domestic A share market in the PRC.

For details, please refer to the announcements of the Company dated 20 June 2017, 16 June 2017, 9 June 2017, 25 May 2017, 16 November 2015, 26 October 2015, 20 July 2015 and 21 April 2015, and the circulars dated 31 July 2017, 12 June 2017, 10 June 2016, 12 March 2016, 27 August 2015 and 31 July 2015.

OTHER INFORMATION

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

As at 30 June 2017, the interests and short positions of the directors (the "**Director(s)**"), supervisors (the "**Supervisor(s)**") and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Model Code**") were as follows:

Long position in the shares of the Company

Name of Director, Supervisor and chief executive	Nature of interest and capacity	Number of shares interested	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2017	Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2017
Mr. Xing Jiaxing[1]	Beneficial owner, interest in a controlled corporation, deemed interest pursuant to section 318 of the SFO	187,078,815 Domestic Shares	72.32%	37.95%

1 Mr. Xing Jiaxing was the beneficial owner of 141,874,425 domestic shares of the Company (the "**Domestic Share(s)**"), which represent approximately 28.78% of the total issued share capital of the Company as at 30 June 2017. As Mr. Xing Jiaxing holds more than one-third of the equity interest in the registered capital of Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**"), he is deemed, pursuant to section 316 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being 45,204,390 Domestic Shares), which represented approximately 9.17% of the total issued share capital of the Company as at 30 June 2017. In addition, Mr. Xing Jiaxing and Shanghai Hexia entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 Domestic Shares mentioned above), which represents approximately 9.17% of the total issued share capital of the Company as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the six months ended 30 June 2017, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 30 June 2017, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest and capacity	Number of shares interested	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2017	Approximate percentage of shareholding in the total issued share capital of the Company as at 30 June 2017
Shanghai Hexia[1]	Beneficial owner, deemed interest pursuant to section 318 of the SFO	187,078,815 Domestic Shares	72.32%	37.95%
The Goldman Sachs Group Inc[2]	Interest in controlled corporation	18,236,842 Domestic Shares	7.05%	3.69%
LC Fund IV GP Limited[3]	Interest in controlled corporation	–	–	–
Ningbo Meishan free trade zone Jinxin Changtai Investment Partnership (limited partnership)	Beneficiary of a trust	22,150,000 H shares	10.31%	4.49%
Gabriel Li[4]	Interest in controlled corporation	21,655,200 H shares	10.08%	4.39%
Lam Lai Ming[4]	Interest in controlled corporation	21,655,200 H shares	10.08%	4.39%
Zhejiang Longsheng Group Co., Ltd[5]	Interest in controlled corporation	20,396,400 H shares	9.49%	4.13%
Senda International Capital Limited	Beneficial owner	16,630,800 H shares	7.74%	3.37%

1 Shanghai Hexia was interested in 45,204,390 Domestic Shares, which represented approximately 9.17% of the total issued share capital of the Company as at 30 June 2017. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Mr. Xing Jiaxing is interested (being the 141,874,425 Domestic Shares, representing approximately 28.78% of the total issued share capital as at 30 June 2017 held by Mr. Xing Jiaxing as at 30 June 2017).

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

3 The equity interest of Good Factor Limited is owned by LC Fund IV, L.P. as to 55.4%. LC Fund IV, L.P. is controlled by LC Fund IV GP Limited. By 12 April 2017, Good Factor Limited has disposed of all its 58,697,132 H Shares of the Company, representing approximately 11.91% of the total issued capital of the Company.

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

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

Other than as disclosed above, as at 30 June 2017, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

The Board will convene a meeting to consider the recommendation on payment of an interim dividend for the six months ended 30 June 2017 after the completion of the proposed issuance and listing of the A shares of the Company. The Company will make further announcement upon a decision being made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2017, save as to the deviation from the Code Provision A.2.1.

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

Mr. Xing Jiaxing is currently the chairman and chief executive officer of the Company, responsible for the overall management of the Group. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of four independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing Jiaxing taking up both roles for continuous effective management and business development of the Group.

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in the Appendix 14 to the Listing Rules for the six months ended 30 June 2017.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the six months ended 30 June 2017.

CHANGE IN INFORMATION REGARDING DIRECTORS AND SUPERVISORS ACCORDING TO RULE 13.51B(1) OF THE LISTING RULES

In accordance with Rule 13.51B(1) of the Listing Rules, changes in the personal information regarding Directors and Supervisors are as follows:

- Mr. Cao Wenhai, a Director, resigned as the director of Eastern Pioneer Driving School Co., Ltd. (東方時尚駕駛學校股份有限公司), a company listed on the Shanghai Stock Exchange, effective from 3 May 2017.

- On 4 November 2016, Mr. Chan, Wing Yuen Hubert, a Director, has been appointed as an independent non-executive director of FIT Hong Teng Limited, the issued shares of which has successfully listed on the Hong Kong Stock Exchange on 13 July 2017.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the interim results of the Group for the six months ended 30 June 2017 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee currently comprises two non-executive Directors, namely Mr. Cao Wenhai and Mr. Luo Bin, and three independent non-executive Directors, namely Dr. Chen Jieping, Mr. Zhangyi and Mr. Chan, Wing Yuen Hubert.

EVENT AFTER REPORTING PERIOD

According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Hong Kong Stock Exchange in December 2010, PRC incorporated issuers listed in Hong Kong are allowed to prepare their financial statements in accordance with the CAS and PRC audit firms approved by the Ministry of Finance of the PRC and the CSRC are allowed to audit these financial statements in accordance with the CAS.

In view of such arrangement and the proposed listing of the A Shares of the Company and in order to improve the efficiency and reduce the cost of disclosure and audit expenses, the Board has passed a resolution on 9 June 2017 to prepare only one set of financial statement for the Company under the CAS. At the 2017 first extraordinary general meeting of the Company held on 28 July 2017, the resolutions on (i) proposed amendments to the Articles of Association of the Company pursuant to the change of accounting standards and (ii) the change of the Company's international auditors from PricewaterhouseCoopers to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) were passed. For details, please refer to the announcements of the Company published on the website of the Hong Kong Stock Exchange on 9 June 2017 and 28 July 2017.

The financial statements for the six months ended 30 June 2017 and onwards of the Company shall be prepared in accordance with the CAS and other relevant regulations.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers and staff for their continued support to the Group.

By Order of the Board
Shanghai La Chapelle Fashion Co., Ltd.
Mr. Xing Jiaxing
Chairman

Shanghai, the PRC, 24 August 2017

Interim Consolidated Balance Sheet

As at 30 June 2017

(All amounts in RMB'000 unless otherwise stated)

Assets	Notes	30 June 2017 Consolidated	31 December 2016 Consolidated
Current assets			
Cash at bank and on hand	4(1)	**640,562**	701,914
Accounts receivable	4(2),4(17),8(5)	**711,370**	1,052,184
Advances to suppliers	4(3)	**505,506**	324,590
Interests receivable	4(4), 8(5)	**1,605**	2,695
Other receivables	4(5),4(17)	**289,966**	276,271
Inventories	4(6),4(17)	**1,498,609**	1,713,576
Other current assets	4(7)	**12,119**	7,486
Total current assets		**3,659,737**	4,078,716
Non-current assets			
Available-for-sale financial assets	4(8)	**234,915**	190,649
Long-term equity investments	4(9)	**157,783**	130,381
Fixed assets	4(10)	**231,728**	230,664
Construction in progress	4(11)	**530,900**	365,331
Intangible assets	4(12)	**209,169**	218,322
Goodwill	4(13)	**113,555**	105,722
Long-term prepaid expenses	4(14)	**727,929**	776,640
Deferred tax assets	4(16)	**187,721**	192,149
Other non-current assets	4(15)	**10,000**	15,069
Total non-current assets		**2,403,700**	2,224,927
TOTAL ASSETS		**6,063,437**	6,303,643

Interim Consolidated Balance Sheet

As at 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Liabilities and owners' equity	Notes	30 June 2017 Consolidated	31 December 2016 Consolidated
Current liabilities			
Short-term borrowings	4(18)	**786,000**	300,000
Notes payable	4(19)	**125,487**	395,292
Accounts payable	4(20),8(5)	**467,245**	638,910
Advances from customers	4(21)	**292**	320
Employee benefits payable	4(22)	**170,145**	281,872
Taxes payable	4(23)	**122,306**	344,946
Interests payable	4(24)	**1,036**	381
Other payables	4(25),8(5)	**659,130**	728,133
Other current liabilities	4(26)	**43,098**	34,632
Total current liabilities		**2,374,739**	2,724,486
Non-current liabilities			
Deferred tax liabilities	4(16)	**18,162**	14,566
Other non-current liabilities	4(26)	**36,651**	54,373
Total non-current liabilities		**54,813**	68,939
Total liabilities		**2,429,552**	2,793,425
Owners' equity			
Share capital	4(27)	**492,902**	492,902
Capital surplus	4(28)	**1,540,683**	1,537,825
Other comprehensive income	4(29)	**27,860**	11,973
Surplus reserve	4(30)	**148,768**	148,768
Undistributed profits	4(31)	**1,249,693**	1,115,817
Total equity attributable to equity owners of the Company		**3,459,906**	3,307,285
Minority interests		**173,979**	202,933
Total owners' equity		**3,633,885**	3,510,218
TOTAL LIABILITIES AND WNERS' EQUITY		**6,063,437**	6,303,643

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Interim Company Balance Sheet

As at 30 June 2017

(All amounts in RMB'000 unless otherwise stated)

Assets	Notes	30 June 2017 Company	31 December 2016 Company
Current assets			
Cash at bank and on hand		**382,571**	388,337
Accounts receivable	15(1)	**511,158**	897,791
Advances to suppliers		**165,410**	92,094
Interests receivable		**280**	1,245
Other receivables	15(2)	**2,162,073**	1,575,200
Inventories		**1,234,249**	413,816
Other current assets		**12,119**	6,495
Total current assets		**4,467,860**	3,374,978
Non-current assets			
Available-for-sale financial assets		**7,800**	–
Long-term equity investments	15(3)	**863,650**	817,650
Fixed assets		**9,644**	11,269
Construction in progress		**5,760**	5,277
Intangible assets		**12,667**	14,345
Long-term prepaid expenses		**62,362**	78,428
Deferred tax assets		**49,436**	31,846
Other non-current assets		**–**	10,000
Total non-current assets		**1,011,319**	968,815
TOTAL ASSETS		**5,479,179**	4,343,793

Interim Company Balance Sheet

As at 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Liabilities And Owners' Equity	Notes	30 June 2017 Company	31 December 2016 Company
Current liabilities			
Short-term borrowings		**786,000**	300,000
Notes payable		**92,961**	150,256
Accounts payable		**1,134,764**	492,631
Employee benefits payable		**38,538**	72,486
Taxes payable		**52,009**	109,097
Interests payable		**1,036**	381
Other payables		**546,704**	882,888
Current portion of non-current liabilities		**3,555**	3,721
Total current liabilities		**2,655,567**	2,011,460
Non-current liabilities			
Other non-current liabilities		**719**	2,387
Total liabilities		**2,656,286**	2,013,847
Owners' equity			
Share capital	1,4(27)	**492,902**	492,902
Capital surplus	4(28)	**1,540,683**	1,537,825
Surplus reserve	4(30)	**148,768**	148,768
Undistributed profits		**640,540**	150,451
Total owners' equity		**2,822,893**	2,329,946
TOTAL LIABILITIES AND OWNERS' EQUITY		**5,479,179**	4,343,793

The accompanying notes form an integral part of these financial statements.

Legal representative: Xing Jiaxing	Person in charge of accounting function: Yu Qiang	Person in charge of accounting department: Zhang Haiyun

Interim Consolidated Income Statement

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	**For the 6 months ended 30 June 2017 Consolidated**	For the 6 months ended 30 June 2016 Consolidated
1.Revenue	4(32),8(4)	**4,281,863**	4,005,986
Less: Cost of sales	4(32),4(37)	**(1,495,327)**	(1,405,679)
Taxes and surcharges	4(33)	**(42,558)**	(44,673)
Selling and distribution expenses	4(34),4(37),8(4)	**(2,051,818)**	(1,862,580)
General and administrative expenses	4(35),4(37),8(4)	**(186,485)**	(181,703)
Financial (expenses)/income-net	4(36)	**(5,220)**	4,268
Asset impairment losses	4(38)	**(155,444)**	(138,387)
Investment income	4(39)	**1,502**	63
Including: Share of profit of associates		**1,502**	–
Other income	4(40)	**58,590**	–
2.Operating profit		**405,103**	377,295
Add: Non-operating income	4(41)	**1,336**	32,435
Including: Gains on disposal of non-current assets		**18**	21
Less: Non-operating expenses	4(42)	**(4,455)**	(1,290)
Including: Losses on disposal of non-current assets		**(209)**	(788)
3.Total profit		**401,984**	408,440
Less: Income tax expenses	4(43)	**(101,017)**	(104,733)
4.Net profit		**300,967**	303,707
– Attributable to equity owners of the Company		**281,747**	284,944
– Minority interests		**19,220**	18,763

Interim Consolidated Income Statement

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June 2017 Consolidated	For the 6 months ended 30 June 2016 Consolidated
5.Other comprehensive income, net of tax	4(29)	**15,887**	3,313
– Attributable to equity owners of the Company		**15,887**	
– Changes in fair value of available-for-sale financial assets		**16,680**	3,313
– Translation differences on translation of foreign currency financial statements		**(793)**	–
6.Total comprehensive income		**316,854**	307,020
Attributable to equity owners of the Company		**297,634**	288,257
Attributable to minority interests		**19,220**	18,763
7.Earnings per share			
– Basic earnings per share (RMB Yuan)	4(44)	**0.57**	0.58
– Diluted earnings per share (RMB Yuan)		**0.57**	0.58

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Interim Company Income Statement

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

		For the 6 months ended 30 June 2017 Company	For the 6 months ended 30 June 2016 Company
1.Revenue	15(4)	**1,919,812**	1,566,305
Less: Cost of sales	15(4)	**(1,188,119)**	(645,724)
Taxes and surcharges		**(9,636)**	(11,946)
Selling and distribution expenses		**(447,233)**	(693,780)
General and administrative expenses		**(95,290)**	(109,901)
Financial expenses-net		**(8,840)**	7,496
Asset impairment losses		**(123,443)**	(44,165)
Investment income	15(5)	**583,277**	–
Including: Share of profit of associates		**583,277**	–
Other income		**26,722**	–
2.Operating profit		**657,250**	68,285
Add: Non-operating income		**333**	23,072
Including: Gains on disposal of non-current assets		**7**	13
Less: Non-operating expenses		**(349)**	(52)
Including: Losses on disposal of non-current assets		**(36)**	(51)
3.Total profit		**657,234**	91,305
Less: Income tax expenses		**(19,274)**	(25,367)
4.Net profit		**637,960**	65,938
5.Other comprehensive income, net of tax		**–**	–
6.Total comprehensive income		**637,960**	65,938

The accompanying notes form an integral part of these financial statements.

Legal representative: Xing Jiaxing	Person in charge of accounting function: Yu Qiang	Person in charge of accounting department: Zhang Haiyun

Interim Consolidated Statement of Cash Flow

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June 2017 Consolidated	For the 6 months ended 30 June 2016 Consolidated
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**5,338,879**	4,951,463
Cash received relating to other operating activities	4(45)	**77,134**	72,881
Sub-total of cash inflows		**5,416,013**	5,024,344
Cash paid for goods and services		**(3,219,084)**	(2,871,987)
Cash paid to and on behalf of employees		**(1,194,041)**	(1,059,443)
Payments of taxes and surcharges		**(674,664)**	(654,199)
Cash paid relating to other operating activities	4(45)	**(287,875)**	(267,616)
Sub-total of cash outflows		**(5,375,664)**	(4,853,245)
Net cash flows from operating activities	4(46)	**40,349**	171,099
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**–**	544
Cash received from returns on investments		**618**	63
Cash received relating to other investing activities	4(45)	**14,893**	1,780
Sub-total of cash inflows		**15,511**	2,387
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(323,253)**	(363,919)
Net cash paid to acquire subsidiaries and other business units	4(9)(a)	**(25,900)**	–
Cash paid relating to other investing activities	4(45)	**(37,800)**	(14,314)
Sub-total of cash outflows		**(386,953)**	(378,233)
Net cash flows used in investing activities		**(371,442)**	(375,846)

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June 2017 Consolidated	For the 6 months ended 30 June 2016 Consolidated
3. Cash flows from financing activities			
Cash received from capital contributions		**1,150**	2,000
Including: cash received from capital contributions by minority interests of subsidiaries		**1,150**	2,000
Cash received from borrowings		**636,000**	200,000
Sub-total of cash inflows		**637,150**	202,000
Cash repayments of borrowings		**(150,000)**	–
Cash payments for distribution of dividends, profits or interest expenses		**(211,260)**	(209,423)
Cash payments relating to other financing activities	4(45)	**(624)**	(22)
Sub-total of cash outflows		**(361,884)**	(209,445)
Net cash flows from/(used in) financing activities		**275,266**	(7,445)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**–**	794
5. Net decrease in cash and cash equivalents	4(46)	**(55,827)**	(211,398)
Add: Cash and cash equivalents at beginning of period		**581,389**	1,118,410
6. Cash and cash equivalents at end of period		**525,562**	907,012

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Interim Company Statement of Cash Flow

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

	For the 6 months ended 30 June 2017 Company	For the 6 months ended 30 June 2016 Company
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**2,714,419**	2,199,510
Cash received relating to other operating activities	**36,265**	28,433
Sub-total of cash inflows	**2,750,684**	2,227,943
Cash paid for goods and services	**(2,074,840)**	(1,666,579)
Cash paid to and on behalf of employees	**(285,492)**	(286,106)
Payments of taxes and surcharges	**(277,518)**	(219,208)
Cash paid relating to other operating activities	**(62,681)**	(31,510)
Sub-total of cash outflows	**(2,700,531)**	(2,203,403)
Net cash flows from operating activities	**50,153**	24,540
2. Cash flows from investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**353**	683,000
Cash received relating to other investing activities	**584,242**	197
Sub-total of cash inflows	**584,595**	834
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(18,860)**	(35,624)
Net cash paid to acquire subsidiaries	**(36,000)**	–
Cash paid relating to other investing activities	**(909,500)**	(914,746)
Sub-total of cash outflows	**(964,360)**	(950,370)
Net cash flows used in investing activities	**(379,765)**	(266,339)
3. Cash flows from financing activities		
Cash received from borrowings	**636,000**	200,000
Sub-total of cash inflows	**636,000**	200,000
Cash repayments of borrowings	**(150,000)**	–
Cash payments for distribution of dividends, profits or interest expenses	**(161,530)**	(209,423)
Cash payments relating to other financing activities	**(624)**	(22)
Sub-total of cash outflows	**(312,154)**	(209,445)
Net cash flows from/(used in) financing activities	**323,846**	(9,445)

(All amounts in RMB'000 unless otherwise stated)

	For the 6 months ended 30 June 2017 Company	For the 6 months ended 30 June 2016 Company
4. Effect of foreign exchange rate changes on cash and cash equivalents	**–**	794
5. Net decrease in cash and cash equivalents	**(5,766)**	(250,450)
Add: Cash and cash equivalents at beginning of period	**388,337**	858,987
6. Cash and cash equivalents at end of period	**382,571**	608,537

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

		Attributable to equity owners of the Company						
Item	Note	Share capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Minority interests	Total owners' equity
Balance at 31 December 2015		492,902	1,521,985	–	128,370	983,786	182,835	3,309,878
Balance at 1 January 2016		492,902	1,521,985	–	128,370	983,786	182,835	3,309,878
Movements for the 6 months ended 30 June 2016								
Total comprehensive income								
Net profit	4(31)	–	–	–	–	284,944	18,763	303,707
Other comprehensive income	4(29)	–	–	3,313	–	–	–	3,313
Capital contribution and withdrawal by owners								
Capital contribution by owners		–	–	–	–	–	2,000	2,000
Amount recorded in owners' equity arising from share-based payment arrangements	4(28)	–	10,120	–	–	–	–	10,120
Profit distribution								
Profit distribution to equity owners	4(31)	–	–	–	–	(207,019)	–	(207,019)
Balance at 30 June 2016		492,902	1,532,105	3,313	128,370	1,061,711	203,598	3,421,999
Balance at 31 December 2016		**492,902**	**1,537,825**	**11,973**	**148,768**	**1,115,817**	**202,933**	**3,510,218**
Balance at 1 January 2017		**492,902**	**1,537,825**	**11,973**	**148,768**	**1,115,817**	**202,933**	**3,510,218**
Movements for the 6 months ended 30 June 2017								
Total comprehensive income								
Net profit	4(31)	**-**	**-**	**-**	**-**	**281,747**	**19,220**	**300,967**
Other comprehensive income	4(29)	**-**	**-**	**15,887**	**-**	**-**	**-**	**15,887**
Capital contribution and withdrawal by owners								
Capital contribution by owners		**-**	**-**	**-**	**-**	**-**	**3,460**	**3,460**
Amount recorded in owners' equity arising from share-based payment arrangements	4(28)	**-**	**2,858**	**-**	**-**	**-**	**-**	**2,858**
Minority interests arising from business combination	5(1)	**-**	**-**	**-**	**-**	**-**	**8,111**	**8,111**
Profit distribution								
Profit distribution to equity owners	4(31)	**-**	**-**	**-**	**-**	**(147,871)**	**(59,745)**	**(207,616)**
Balance at 30 June 2017		**492,902**	**1,540,683**	**27,860**	**148,768**	**1,249,693**	**173,979**	**3,633,885**

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Interim Company Statement of Changes in Equity

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Note	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 31 December 2015		492,902	1,521,985	128,370	346,403	2,489,660
Balance at 1 January 2016		492,902	1,521,985	128,370	346,403	2,489,660
Movements for the 6 months ended 30 June 2016						
Total comprehensive income						
Net profit		–	–	–	65,938	65,938
Capital contribution and withdrawal by owners						
Amount recorded in owners' equity arising from share-based payment arrangements	4(28)	–	10,120	–	–	10,120
Profit distribution						
Profit distribution to equity owners	4(31)	–	–	–	(207,019)	(207,019)
Balance at 30 June 2016		492,902	1,532,105	128,370	205,322	2,358,699
Balance at 31 December 2016		**492,902**	**1,537,825**	**148,768**	**150,451**	**2,329,946**
Balance at 1 January 2017		**492,902**	**1,537,825**	**148,768**	**150,451**	**2,329,946**
Movements for the 6 months ended 30 June 2017						
Total comprehensive income						
Net profit		**–**	**–**	**–**	**637,960**	**637,960**
Capital contribution and withdrawal by owners						
Amount recorded in owners' equity arising from share-based payment arrangements	4(28)	**–**	**2,858**	**–**	**–**	**2,858**
Profit distribution						
Profit distribution to equity owners	4(31)	**–**	**–**	**–**	**(147,871)**	**(147,871)**
Balance at 30 June 2017		**492,902**	**1,540,683**	**148,768**	**640,540**	**2,822,893**

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting function:	Person in charge of accounting department:
Xing Jiaxing	Yu Qiang	Zhang Haiyun

Notes to the Interim Financial Statements

For the 6 months ended 30 June 2017
(All amounts in RMB'000 unless otherwise stated)

1 GENERAL INFORMATION

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

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

The Company is applying to list its shares on the main board of Shanghai Stock Exchange (the "A Share Listing"). As at the date of this financial statements, the A share Listing is still in the process.

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

Please refer to Note 6 for the principle subsidiaries for the 6 months ended 30 June 2017. Please refer to Note 5(2) for the companies which were no longer the subsidiaries of the Group for the 6 months ended 30 June 2017.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies the accounting policies and makes accounting estimates based on its daily operating characteristics. The critical accounting estimate and judgement were mainly reflected in the bad debts provision of accounts receivable (Note 2(10)), valuation of inventories (Note 2(11)), impairment provision of available-for-sale financial assets (Note 2(9)), depreciation of fixed assets (Note 2(13)), amortization of intangible assets (Note 2(16)), revenue recognition (Note 2(23)),etc.

The key estimates and assumptions used by the Group in determining critical accounting policies are described in Note 2(29).

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises — Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standards for Business Enterprises" or "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The presentation and disclosures of the financial statements have reflected the changes in Hong Kong Companies Ordinance which were effective from 2015.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(2) Statement of compliance with the Accounting Standard for Business Enterprises

The financial statements of the Company for the period ended 30 June 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the company's financial position of the Company as at 30 June 2017 and of their financial performance, cash flows and other information for the 6 months then ended.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combinations

Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statements.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Preparation of consolidated financial statements (continued)

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to minority interests, and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Foreign currency translation (continued)

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.

<u>Receivables</u>

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification of financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities of no more than 12 months when the investments were made are included in other current assets.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss for the current period as 'Profit arising from changes in fair value'. Interests and cash dividends received during the period in which such financial assets are held, as well as gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly in equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised in profit or loss for the current period as 'Investment income'.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

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.

Objective evidence of impairment of available-for-sale financial instruments includes a significant or prolonged decline in the fair value of an investment in equity instruments. The Group separately checks the available-for-sale equity instruments at each balance sheet date. If their fair value at the balance sheet date is lower than their initial investment costs for more than 50% (inclusive) or lower than their initial investment costs for the duration of more than 1 year (inclusive), therefore, the impairment loss has occurred. However, if their fair value at the balance sheet date is lower than their initial investment costs for more than 20% (inclusive) but less than 50%, the Group will take into account other factors, such as price volatility in the judgement of impairment loss. The Group calculates the initial investment cost of available-for-sale equity instruments by using weighted average method.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of the impairment loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

If there is objective evidence that an impairment loss on available-for-sale financial assets measured at fair value incurred, the cumulative loss arising from the decline in fair value that had been recognised directly in equity are removed from equity and recognised as impairment loss. For an investment in debt instrument classified as available-for-sale on which the impairment loss has been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which the impairment loss has been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Impairment of financial assets (continued)

If an impairment loss on an available-for-sale financial asset measured at cost incurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. The previously recognised impairment loss will not be reversed in subsequent periods.

(iv) The derecognition of financial assets

A financial asset is derecognized when any of the below criteria is met: (1) The contractual rights to receive the cash flows from the financial asset expired; or (2) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (3) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers not retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables, including bills payable, accounts payable and other payables, are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognized initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability (or a part of a financial liability) is derecognised when all or part of the obligation is extinguished. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. At valuation, the Group uses valuation techniques that are applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. The Group uses unobservable inputs when relevant observable inputs are not available or feasible.

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

For the six months ended 30 June 2017, with the accumulated experience gained from practices, the Group has been making continuous efforts in improving and perfecting its management of receivables. The Group made a change in accounting estimate regarding the provision percentage of bad debts arising from receivables (including accounts receivable and other receivables) after considering the industry features and the accounting approaches taken by other listed companies within the same industry. The above-mentioned change becomes effective for the annual periods beginning on or after 1 January 2017.

(a) Receivables with amounts that are individually significant which are subject to separate assessment for impairment

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made.

The criteria for amounts that are individually significant: individual amount is more than RMB500,000.

If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (continued)

(b) *Receivables with amounts that shall be impaired within certain groupings based on credit risk characteristics*

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. Provision for bad debts is determined based on the historical loss experience for groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

The provision of impairment percentage according to the aging analysis is listed as below:

	Provision percentage of accounts receivable	**Provision percentage of other receivables**
Current (90 days)	2%	Not applicable
Overdue (over 90 days) to one year	5%	5%
One year to two years	20%	20%
Two year to three years	50%	50%
Above three years	100%	100%

(c) *Receivables with amounts that are not individually significant but being subject to separate assessment for impairment:*

If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made.

A provision is made at the difference between its carrying amount and the present value of its estimated future cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Inventories

(a) *Category*

Inventories include raw materials, finished goods and low value consumables, and are stated at the lower of cost and net realisable value.

(b) *Costing of inventories*

Cost is determined using the weighted average method.

(c) *Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventories system.

(e) *Amortization method of low value consumables*

Low value consumables are expensed when issued.

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its associates.

Subsidiaries are the investees over which the Company is able to exercise control. An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (continued)

(a) Investment cost determination

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

Investments are accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at that cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. The Group's share of the changes in investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investees. Unrealised gains or losses on transactions between the Group and its investees are eliminated to the extent of the Group's equity interest in the investees, based on which the investment income or losses are recognised. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (continued)

(c) Basis for determining existence of control and significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Provision for impairment of long-term equity investments

Joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

(13) Fixed assets

(a) Initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles and office equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

(b) Fixed assets depreciation method

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Fixed assets (continued)

(b) Fixed assets depreciation method (continued)

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	**Estimated net residual values**	**Annual depreciation rates**
Buildings	10 to 20 years	0%	5% to 10%
Machinery and equipment	5 to10 years	5%	9.5% to 19%
Motor vehicles	4 to 5 years	5%	19% to 23.75%
Office equipment	3 to 5 years	5%	19% to 31.67%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) The carrying amount of a fixed asset is reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(19)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(14) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(19)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Borrowing costs

The borrowing costs that are directly attributable to acquisition and construction of an asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of an asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

(16) Intangible assets

Intangible assets include land use rights, trademark right, purchased software, favorable contract and brand etc. and are measured at cost.

(a) Land use rights

Land use rights are initially measured at cost at the time of acquisition. Land use rights are amortised on the straight-line basis over 50 years.

(b) Trademark

Trademarks are initially measured at historical cost or an external valuation result and are amortised on the straight-line basis over the expected beneficial period.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(16) Intangible assets (continued)

(c) Purchased software

Purchased softwares are initially measured at historical cost and are amortised on the straight-line basis over the expected beneficial period.

(d) Brands

Brands obtained through a business combination not under common control are initially measured based on the valuation result from external valuer and are amortised on the straight-line basis over the expected beneficial period.

(e) Favorable contracts

Favourable contracts obtained through a business combination not under common control are initially measured based on the valuation result from external valuer and are amortised on the straight-line basis over the expected beneficial period.

(f) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(g) Provision for impairment of Intangible assets

When the recoverable amount of intangible assets is lower than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2(19)).

(17) Goodwill

Goodwill is recognised at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date.

(18) Long-term prepaid expenses

Long-term prepaid expenses are the expenditure for improvements to fixed assets held under operating leases, and are amortised on the straight-line basis over 2 to 5 years the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, long-term prepaid expenses and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet available for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits and other long-term employee benefits.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences and etc. The short-term employee benefits actually occurred are recognised as a liability in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are measured at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits (continued)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as defined contribution plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(21) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the the shareholders' meeting.

(22) Provisions

The current obligations due to the return of goods and the early closure of shops are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts and returns.

Revenue is recognised when it's probable that the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific criteria of revenue recognition have been met for each type of the Group's activities as described below:

(a) Sale of goods – retail

Revenue from the sales of products is recognized when the risk and reward of the products have been transferred to the customer, which is usually at the time when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. During the reporting period, the Group generally achieve sales through the stores, counters and e-commerce platform. The sales income of the store is confirmed when the product has been delivered to the customer and the customer accepts the product. The sales income of the counter is confirmed when the product has been delivered to the customers and they accept the product. The sales revenue through the e-commerce platform is confirmed when the product has been delivered to the ultimate customer and they accept the products. When selling the products, the Group makes use of accumulated experience to estimate sales returns.

(b) Sale of goods – wholesale and distribution

Sales of products – wholesale distribution are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customer and title has been passed.

(c) Provision of services

The Group mainly provides e-commercial service. The related revenue is recognised recognised in the period the services are provided.

(24) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. The government grant is measured at the amount received or receivable.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Government grants (continued)

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets will be recorded as deferred income and recognised evenly in profit or loss over the useful lives of the related assets. Government grants related to income will be recorded as deferred income and recognised in profit or loss in the period in which the related expenses are recognised if the grants are intended to compensate for future expenses or losses, and otherwise recognised in profit or loss for the current period if the grants are used to compensate for expenses or losses that have been incurred. The government grants related with operation would be classified as operating profit, otherwise would be classified as non-operating income/expenses.

The borrowings with the preferred interest rate are initially recognised when received by the Group, and the interest expenses are calculated based on the principle of the borrowings and the preferred interest rate. Government grants received related to interest expenses are recognised in interest expenses.

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Deferred tax assets and deferred tax liabilities (continued)

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(26) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

If the lessor provides a rent-free period, the Group will allocate the total amount of the rent in the straight-line method for the whole lease term without deducting the rent-free period. The rental fee and the corresponding liabilities are accounted during the rent-free period.

Certain lessors provided incentives to the Group to compensate the costs for leasehold improvements. The Group recognised the aggregate benefit of incentives as a reduction of "operating lease rentals" over the lease term on a straight-line basis. If the lease term is within one year the amounts are listed as current liabilities, otherwise they are presented as non-current liabilities.

(27) Share-based payment

(a) Equity settled share-based payments

Shanghai Hexia Investment Co., Ltd. ("Shanghai Hexia") is a company which was set up for the benefits of the Group's employees and holds certain equity interests in the Company. It adopted a series of share-based compensation plans in exchange for employee services to the Group. Under each of the share-based compensation plan, an employee has the right to choose settlement either in cash or by Shanghai Hexia's issuing equity instruments, with different length of vesting periods. Accordingly, Shanghai Hexia is considered to have issued compound instruments with debt component (to the extent that the employees have rights to demand cash) and equity component (to the extent that the employees have rights to demand settlement in Shanghai Hexia's issuing equity instruments by giving up their rights to demand cash). The fair value of the debt component at the grant date is determined as the present value of the future cash outflow. The equity component is then measured at the difference between the fair value of compound instrument as a whole and the debt component.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(27) Share-based payment (continued)

(a) Equity settled share-based payments (continued)

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

(b) The method of determining the fair value of equity instruments

The fair value of compound instruments is determined by the discounted cash flow method under the income approach. The discounted cash flow derived by management considered the Group's future business plan, specific business and financial risks, the stage of development of the Group's operations and economic and competitive elements affecting the Group's business, industry and market.

(c) The basis of the best estimate of exercisable equity instrument

As at each balance sheet date during the vesting period, the Group makes the best estimate based on the latest information of exercisable employees, and revises the number of the exercisable equity instruments. On the exercise date, the number of expected exercisable equity instruments is consistent with that of actual exercisable equity instruments.

(28) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to generate revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance; and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Change in accounting policies

In 2017, The Ministry of Finance of China issued Accounting Standards for Business Enterprises No.42 – Available-for-sale Non-current Assets, Disposition and Discontinuing operation, and revised Accounting Standards for Business Enterprises No.16 – Government Grants. The Group has prepared its consolidated financial statements for the six months ended 30 June 2017 under the accounting rules stated above. The adoption of accounting standard No.42 is not applicable for the Group and the adoption of accounting standard No.16 has no financial impact on the Group's consolidated financial statements in 2016 because no retrospective adjustment is required. Details please refer to Note 4 (40).

(30) Change in accounting estimates

For the six months ended 30 June 2017, with the accumulated experience gained from practices, the Group has been making continuous efforts in improving and perfecting its management of receivables. The Group made a change in accounting estimate regarding the provision percentage of bad debts arising from receivables (including accounts receivable and other receivables) after considering the industry features and the accounting approaches taken by other listed companies within the same industry. The above-mentioned change becomes effective for the annual periods beginning on or after 1 January 2017. The changes in accounting estimate resulted in decrease in net profit of RMB19,627,000 for the six months ended 30 June 2017.

(31) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including be reasonable expectations of future events.

(a) Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated useful life and net residual value of fixed assets, intangible assets and long-term deferred expenses (operating lease fixed assets improvement)

The estimated useful life and estimated net residual value of the Group's fixed assets, intangible assets and long-term deferred expenses (operating lease fixed assets improvement) are confirmed based on those of fixed assets, intangible assets and long-term deferred expenses (operating leases) with similar nature and function If the useful life of such assets is shortened or the estimated net residual value is reduced, the Group will increase the depreciation amortization rate, phase out or technically update such assets.

At the end of each year, the Group reviews and makes appropriate adjustments (if applicable) to the estimated useful lives and estimated residual value of fixed assets, intangible assets and long-term deferred expenses (operating lease fixed assets).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(ii) Provision for impairment of long-term assets

At the balance sheet date, the Group conducts impairment test on the assets with signs of impairment. The recoverable amount of the asset and asset group is determined according to the use value. The calculation needs to use certain assumptions and estimates.

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

(iii) Net realizable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Management exercised significant judgement in determining the net realizable value of each category of finished goods inventories, taking into consideration of historical experience, current market condition, customer demands and fashion trends. Management reassesses these estimates at each balance sheet date.

(iv) Income taxes

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and key assumptions (continued)

(v) Provision for impairment of account receivable

The Group's provision for bad debts of receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances. The Group's management assess the rationality of those estimation at each reporting date.

(vi) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates.

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

(vii) Available-for-sale financial assets

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

(All amounts in RMB'000 unless otherwise stated)

3 TAXATION

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax rate	Tax base
Corporate income tax	Taxable income	25%
Hong Kong profit tax	Taxable income	16.5%
Value added tax ("VAT") (a)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	17%, 11%, 6% and 3%
Business tax (a)	Taxable turnover amount	3%
City maintenance and construction tax	The payment amount of VAT and business tax	7%, 5% and 1%
Educational surcharge	The payment amount of VAT and business tax	3%
Local educational surcharges	The payment amount of VAT and business tax	2%
Riverside maintenance fee	The payment amount of VAT and business tax	1%

(a) Pursuant to the '*Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax*' (Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from service decoration of the Group is subject to VAT from 1 May 2016, and the applicable tax rate is 11%, while the business tax was 3% before then.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2017	31 December 2016
Cash on hand	**6,409**	13,311
Cash at bank	**519,153**	568,078
Other cash balances	**115,000**	120,525
	640,562	701,914

As at 30 June 2017 and 31 December 2016, other cash balances represented guaranteed deposits placed at designated bank accounts with more than three months to maturity when placed. Such deposits are released to cash at bank when they mature.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable

	30 June 2017	31 December 2016
Accounts receivable	**761,135**	1,080,280
Less: Provision for bad debts	**(49,765)**	(28,096)
	711,370	1,052,184

(a) The ageing of accounts receivable are analysed below:

	30 June 2017	31 December 2016
Within 90 days	**681,777**	1,021,207
90 days to 180 days	**29,316**	18,063
180 days to 360 days	**12,552**	8,348
Over 360 days	**37,490**	32,662
	761,135	1,080,280

As 31 December 2016, accounts receivable of RMB32,686,000 were past due, but based on the analysis of the customers' financial status and credit record, the Group expected that the overdue amounts can be recovered, and the accounts receivable are not impaired, thus no provisions for bad debts are individually provided. As at 30 June 2017, there is no accounts receivable overdue but not impaired. The ageing analysis of these accounts receivable is set out as follows:

	30 June 2017	31 December 2016
90 days to 180 days	**–**	17,456
180 days to 360 days	**–**	7,232
Over 360 days	**–**	7,998
	–	32,686

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (continued)

(b) Accounts receivable are analysed by categories as follows:

	30 June 2017				31 December 2016			
	Accounts receivable		Provision for bad debts		Accounts receivable		Provision for bad debts	
	Amount	% of total balance	Amount	% of total provision	Amount	% of total balance	Amount	% of total provision
Amount of each item is significant item and the provision for bad debts is accrued separately	**14,922**	**2%**	**(14,922)**	**100%**	13,073	2%	(13,073)	100%
Accrued provision for bad debts according to aging analysis	**733,066**	**96%**	**(21,696)**	**3%**	–	0%	–	0%
Accrued provision for bad debts according to group 1	**-**	**0%**	**-**	**0%**	1,052,184	97%	–	0%
Accrued provision for bad debts according to group 2	**-**	**0%**	**-**	**0%**	4,487	0%	(4,487)	100%
Amount of each item is non significant item while the provision for bad debts is accrued separately	**13,147**	**2%**	**(13,147)**	**100%**	10,536	1%	(10,536)	100%
	761,135	**100%**	**(49,765)**	**7%**	1,080,280	100%	(28,096)	3%

As mentioned in Note 2(31), effective from 1 January 2017, the Group changed the method in making estimation of bad debt provision to align with the industry practice. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB16,521,000 for the six months ended 30 June 2017.

(c) As at 30 June 2017, the account receivable amount of each item is significant and the provision for bad debts is accrued separately as follow:

	Amount	Provision for bad debts	Proportion of accrual	Reason
Accounts receivable 1	1,755	(1,755)	100%	(i)
Accounts receivable 2	1,651	(1,651)	100%	(ii)
Accounts receivable 3	1,044	(1,044)	100%	(iii)
Accounts receivable 4	1,041	(1,041)	100%	(iv)
Accounts receivable 5	984	(984)	100%	(v)
Other	8,447	(8,447)	100%	Expected to be uncollectible
	14,922	(14,922)	100%	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (continued)

(c) As at 30 June 2017, the accounts receivable amount of each item is significant and the provision for bad debts is accrued separately as follow (continued):

(i) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB1,755,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(ii) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB1,651,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(iii) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB1,044,000, since the mall had already gone into liquidation, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(iv) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB1,041,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(v) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB984,000, since the mall had already gone into liquidation, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(d) Accounts receivable that are subject to provision for bad debts on the grouping basis using the ageing analysis method are analysed as follows:

	30 June 2017		
	Ending balance	**Ending balance**	
	Amount	**Amount**	**Ratio**
Current (90 days)	**681,777**	**(13,636)**	**2%**
Current (90 days) to one year	**40,564**	**(2,028)**	**5%**
One year to two years	**3,506**	**(701)**	**20%**
Two years to three years	**3,776**	**(1,888)**	**50%**
Above three years	**3,443**	**(3,443)**	**100%**
	733,066	**(21,696)**	**3%**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (continued)

(e) For the 6 months ended 30 June 2017, the Group accrued provision for bad debts of RMB23,207,000, and reversed provision for bad debts of RMB1,538,000.

(f) For the 6 months ended 30 June 2017, no accounts receivable have been written off.

(g) As at 30 June 2017, The top five balance of accounts receivable are summarized as below:

	Amount	Provision for bad debts	% of total accounts receivable balance
The top five balance of accounts receivable	104,816	(2,420)	14%

(h) As at 30 June 2017, there is no accounts receivable derecognised due to the transfer of financial assets (31 December 2016: nil).

(3) Advances to suppliers

(a) As at 30 June 2017 and 31 December 2016, the Group's prepayments are mainly prepayments for inventories purchases and rental expenses, which are within one year

(b) As at 30 June 2017, the summary of the top five prepayment balances by the arrears are listed as below:

	Amount	% of total advances to suppliers balance
The top balance of advances to suppliers	145,963	29%

(4) Interests receivable

	30 June 2017	31 December 2016
Fixed deposit	**1,605**	2,695

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables

	30 June 2017	31 December 2016
Deposits	**299,111**	277,337
Staff advances	**11,445**	6,957
Others	**637**	490
	311,193	284,784
Less: Provision for bad debts	**(21,227)**	(8,513)
	289,966	276,271

(a) Other receivables are analysed below:

	30 June 2017	31 December 2016
Within 1 year	**295,402**	276,820
1 to 2 years	**8,615**	6,592
2 to 3 years	**7,176**	1,372
	311,193	284,784

As at 31 December 2016, other receivables of RMB1,221,000 were past due, but based on the analysis of the debtors' financial status and credit record, the Group expected that the overdue amounts can be recovered, and the other receivables are not impaired, thus no provisions for bad debts are individually provided. As at 30 June 2017, there is no other receivables overdue but not impaired. The ageing analysis of these other receivables is set out as follows:

	30 June 2017	31 December 2016
1 to 2 years	**–**	882
2 to 3 years	**–**	339
	–	1,221

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(b) Other receivables are analysed by categories as follows:

	30 June 2017				31 December 2016			
	Other receivables		Provision for bad debts		Other receivables		Provision for bad debts	
	Amount	% of total balance	Amount	% of total provision	Amount	% of total balance	Amount	% of total provision
Amount of each item is significant and the provision for bad debts is accrued separately	**2,291**	**1%**	**(2,291)**	**100%**	2,291	1%	(2,291)	100%
Accrued provision for bad debts according to aging analysis	**308,902**	**99%**	**(18,936)**	**6%**	–	0%	–	0%
Accrued provision for bad debts according to group 1	**-**	**0%**	**-**	**0%**	267,867	94%	–	0%
Accrued provision for bad debts according to group 2	**-**	**0%**	**-**	**0%**	6,222	2%	(6,222)	100%
Accrued provision for bad debts according to group 3	**-**	**0%**	**-**	**0%**	8,404	3%	–	0%
	311,193	**100%**	**(21,227)**	**7%**	284,784	100%	(8,513)	3%

As mentioned in Note 2(31), effective from 1 January 2017, the Group changed the method in making estimation of bad debt provision to align with the industry practice. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB9,648,000 for the six months ended 30 June 2017.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(c) As at 30 June 2017, the other receivables amount of each item is significant and the provision for bad debts is accrued separately as follow:

	Amount	Provision for bad debts	Proportion of accrual	Reason
Other receivables 1	1,000	(1,000)	100%	(i)
Other receivables 2	775	(775)	100%	(ii)
Other receivables 3	516	(516)	100%	(iii)
	2,291	(2,291)	100%	

(i) As at 30 June 2017, deposit receivable from one shopping mall amounted to RMB1,000,000. Since the shopping mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low, therefore full bad debt provision has been made accordingly.

(ii) As at 30 June 2017, deposit receivable from one shopping mall amounted to RMB775,000. Since the shopping mall had already gone into liquidation, the Group deemed the recoverability of the receivables very low, therefore full bad debt provision has been made accordingly.

(iii) As at 30 June 2017, deposit receivable from one shopping mall amounted to RMB516,000. Since the shopping mall had already gone into liquidation, the Group deemed the recoverability of the receivables very low, therefore full bad debt provision has been made accordingly.

(d) Accounts receivable that are subject to provision for bad debts on the grouping basis using the ageing analysis method are analysed as follows:

	30 June 2017		
	Ending balance	Ending balance	
	Amount	Amount	Ratio
Within 1 year	**295,402**	**(14,770)**	**5%**
1 to 2 years	**8,615**	**(1,723)**	**20%**
2 to 3 years	**4,885**	**(2,443)**	**50%**
	308,902	**(18,936)**	**6%**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(e) For the 6 months ended 30 June 2017, the Group accrued provision for bad debts of RMB12,714,000, and no provision reversed.

(f) For the 6 months ended 30 June 2017, no other receivables have been written off in the Group.

(g) As at 30 June 2017, The top five balance of other receivables are summarized as below:

	Nature	Amount	Ageing	% of total other receivables balance	Provision for bad debts
Shanghai Longemont Department Store Co., Ltd.	Deposits	4,722	Within 1 year	2%	(236)
Shanghai Zizhu Technology Park Wujing Town Development department	Deposits	3,437	1 to 2 year	1%	(687)
Shanghai Xinsheng Development Co., Ltd.	Deposits	3,406	Within 1 year	1%	(170)
Shanghai Meiluo City Commercial Management Co., Ltd.	Deposits	2,409	Within 1 year	1%	(120)
Beijing Kaide Jiamao Xizhimen Real Estate Management Co., Ltd.	Deposits	2,105	Within 1 year	1%	(105)
		16,079		6%	(1,318)

(h) As at 30 June 2017, the Group has no government subsidy receivable.

(6) Inventories

(a) Inventories are analysed by categories as follows:

	30 June 2017			31 December 2016		
	Cost	**Provision**	**Amount**	Cost	Provision	Amount
Raw materials	**6,732**	**(588)**	**6,144**	8,041	–	8,041
Finished goods	**1,704,111**	**(226,044)**	**1,478,067**	1,959,973	(269,466)	1,690,507
Low value consumables	**14,398**	**–**	**14,398**	15,028	–	15,028
	1,725,241	**(226,632)**	**1,498,609**	1,983,042	(269,466)	1,713,576

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Inventories

(b) Provision for decline in the value of inventories are analysed as follows:

		Increase in the current period		Decrease in the current period		
	31 December 2016	Business combination	Accrued in the current period	Reversed	Resold*	**30 June 2017**
Finished goods	(269,466)	–	(121,061)	–	163,895	**(226,632)**

"Resold" means the inventories with impairment provision provided last year have been sold or disposed in this period.

(c) Provision for decline in the value of inventories are analysed as follows:

	The basis for calculating net realizable value	**The reason for reversing provision for inventories impairment provision**
Finished goods	Market price	Sold/donated

(7) Other current assets

	30 June 2017	31 December 2016
Listing expense for A Share Listing	**7,119**	6,495
Entrusted Loan	**5,000**	–
Prepaid Corporate income tax	**–**	991
	12,119	7,486

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Available-for-sale financial assets

	30 June 2017	31 December 2016
Measured at fair value		
– Available-for-sale equity instruments (a)	**234,915**	190,649
Less: Provisions for impairment	**–**	–
	234,915	190,649
Less: Available-for-sale financial assets included in other current assets	**–**	–
	234,915	190,649

(a) Available-for-sale financial assets other information are analysed as follow:

Available-for-sale financial assets measured at fair value:

	30 June 2017	31 December 2016
Available-for-sale equity instruments		
– Fair value	**234,915**	190,649
– Cost	**198,076**	175,026
– Other comprehensive income	**36,839**	15,623
– Provisions for impairment	**–**	–

The Group invested Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) (天津星曠企業管理咨詢合夥企業(有限合夥)) in 2015, the Group contributed RMB150,000,000 as the limited partner and Beijing Legend Capital Fellow Investment Consultancy Partnership (Limited Partnership) (北京君聯同道投資顧問合夥企業(有限合夥)) contributed RMB3,000,000 as the general partner. The Group has no voting power in operational and financial decision, therefore, the investment was accounted for as an available-for-sale financial asset. As at 30 June 2017, the fair value of this equity instrument was RMB186,839,000 (31 December 2016: RMB164,599,000).

The Group entered into an agreement with TNPI HK Co., Limited ("TNPI") in 2016, pursuant to which, the Group acquired 20.75% interests in TNPI with a total consideration of USD 3,750,000 (equivalent to RMB25,026,000). The Group has no voting power in operational and financial decision, therefore, TNPI was accounted for as an available-for-sale financial asset. As at 30 June 2017, the fair value of this equity instrument was RMB25,276,000 (31 December 2016: RMB26,050,000).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Available-for-sale financial assets (continued)

For the 6 months ended 30 June 2017, the Group invested Ningbo Lang Sheng Qian Hui Investment Partnership (Limited Partnership)（寧波朗盛千匯投資合夥企業（有限合夥））, the Group contributed RMB78,000,000 as the limited partner and acquired 11.89% equity interests. Ningbo Zhenhai Lang Sheng Baihui Investment Management Co., Ltd.（寧波鎮海朗盛百匯投資管理有限公司）contributed RMB1,000,000 as the general partner. The Group has no voting power in operational and financial decision, therefore, the investment was accounted for as an available-for-sale financial asset. As at 30 June 2017, the fair value of this equity instrument was RMB78,000,000.

For the 6 months ended 30 June 2017, the Group acquired 1,075,000 ordinary shares, or 3.74% equity interests in Beijing Mingtongsiji Technology Co., Ltd.（北京明通四季科技股份有限公司）through National Equity Exchange and Quotation with a total consideration of RMB15,000,000. The Group has no voting power in operational and financial decision, therefore, the investment was accounted for as an available-for-sale financial asset. As at 30 June 2017, the fair value of this equity instrument was RMB15,000,000.

(9) Long-term equity investments

	30 June 2017	31 December 2016
Associates (a)	**157,783**	130,381
Less: Provision for impairment of long-term equity investments	**–**	–
	157,783	130,381

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (continued)

(a) Associates

		Movement in the current period									
	31 December 2016	Increase	Decrease	Net profit or loss adjusted under the equity method	Other comprehensive income adjustment	Other changes in equity	Cash dividend declared	Provision for impairment	Others	**30 June 2017**	Period end balance of provision for impairment
Tibet Baoxin Equity Investment Partnership Enterprise	60,000	-	-	4,042	-	-	-	-	-	**64,042**	-
Hong Che Industrial (Shanghai) Co., Ltd.	48,901	-	-	(3,566)	-	-	-	-	-	**45,335**	-
Beijing Ao Ni Trading Co., Ltd.	20,000	-	-	-	-	-	-	-	-	**20,000**	-
Hangzhou Honey New E-commerce Co., Ltd.	960	-	-	92	-	-	-	-	-	**1,052**	-
Hangzhou KaiHui E-Commerce Co., Ltd.	520	-	-	1,026	-	-	-	-	-	**1,546**	-
Hangzhou Jianing E-Commerce Co., Ltd.	-	900	-	(92)	-	-	-	-	-	**808**	-
Shanghai Pincheng Industry Co., Ltd.	-	15,000	-	-	-	-	-	-	-	**15,000**	-
Fuzhou Badi Fashion Co., Ltd.	-	10,000	-	-	-	-	-	-	-	**10,000**	-
	130,381	25,900	-	1,502	-	-	-	-	-	**157,783**	-

Please see Note 6(2) for equity-related information in associates.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Total
Cost					
31 December 2016	178,728	30,038	8,569	108,038	325,373
Increases in the current period					
Purchase	–	224	650	16,983	17,857
Transferred from construction in progress (Note 4(11))	–	–	–	1,250	1,250
Acquired from business combination not under the same control (Note 5(1))	–	–	–	545	545
Decrease in the current period					
Disposal	–	(16)	(762)	(3,359)	(4,137)
30 June 2017	178,728	30,246	8,457	123,457	340,888
Accumulated depreciation					
31 December 2016	(20,963)	(6,949)	(3,269)	(63,528)	(94,709)
Increases in the current period					
Addition	(4,499)	(1,697)	(656)	(10,947)	(17,799)
Decrease in the current period					
Disposal	–	15	440	2,893	3,348
30 June 2017	(25,462)	(8,631)	(3,485)	(71,582)	(109,160)
Provision for impairment loss					
31 December 2016	–	–	–	–	–
Increases in the current period					
Addition	–	–	–	–	–
Decrease in the current period					
Disposal	–	–	–	–	–
30 June 2017	–	–	–	–	–
Net book value					
30 June 2017	153,266	21,615	4,972	51,875	231,728
31 December 2016	157,765	23,089	5,300	44,510	230,664

For the 6 months ended 30 June 2017, accrued depreciation are RMB17,779,000, of which RMB15,550,000 and RMB2,249,000 have been charged to selling expenses, general and administrative expenses respectively.

The original cost of construction in progress that has been converted to fixed assets is RMB1,250,000 (Note (11(a))).

As at 30 June 2017, no fixed assets are idle, or under a finance lease, or don't have a certificate.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Construction in progress

	30 June 2017			31 December 2016		
	Cost	**Provision for impairment**	**Net book value**	Cost	Provision for impairment	Net book value
Taicang logistics center project	**206,946**	**–**	**206,946**	159,394	–	159,394
Wu Jing headquarters projects	**171,046**	**–**	**171,046**	76,401	–	76,401
Tianjin logistics center project	**90,066**	**–**	**90,066**	82,364	–	82,364
Chengdu logistics center project	**57,082**	**–**	**57,082**	41,427	–	41,427
Retail system project	**5,404**	**–**	**5,404**	5,170	–	5,170
EBD software project	**356**	**–**	**356**	107	–	107
CBA air conditioning project	**–**	**–**	**–**	468	–	468
	530,900	**–**	**530,900**	365,331	–	365,331

(a) Significant movement of construction in progress

Project	Budget	31 December 2016	Increase in the current period	Transfer to fixed assets (Note4(10))	Other decrease	**30 June 2017**	The completion percentage of the project compared with budget	The completion percentage of the project	The aggregated value of capitalization of borrowing costs	The capitalization of borrowing costs in this period	Interest rate of capitalized borrowing costs for the current period	Sources of funds
Taicang logistics center project	228,428	159,394	47,968	(416)	–	**206,946**	91%	91%	7,474	3,808	4.18%	borrow funds and working capital
Wu Jing headquarters projects	1,065,260	76,401	94,645	–	–	**171,046**	16%	16%	3,716	1,717	4.18%	borrow funds and working capital
Tianjin logistics center project	190,464	82,364	7,702	–	–	**90,066**	47%	47%	4,073	2,812	4.18%	borrow funds and working capital
Chengdu logistics center project	139,430	41,427	15,655	–	–	**57,082**	41%	41%	1,662	1,048	4.18%	borrow funds and working capital
Retail system project	5,685	5,170	234	–	–	**5,404**	95%	95%	–	–	–	working capital
EBD software project	358	107	249	–	–	**356**	99%	99%	–	–	–	working capital
CBA air conditioning project	834	468	366	(834)	–	**-**	100%–	100%–	–	–	–	working capital
		365,331	166,819	(1,250)	–	**530,900**			16,925	9,385		

As at 30 June 2017, no provision for impairment of construction in progress have been accrued.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Intangible assets

	Trademark	Purchased software	Land use rights	Brands	favorable contracts	Total
Cost						
31 December 2016	1,776	63,464	162,818	48,130	9,203	285,391
Increase in current period						
Purchase	–	4,129	–	–	–	4,129
Invested by shareholders	2,310	–	–	–	–	2,310
Business combination not under the same control (Note 5(1))	–	6	–	–	–	6
Decrease in current period						
Disposal	–	(1,459)	–	–	–	(1,459)
30 June 2017	4,086	66,140	162,818	48,130	9,203	290,377
Accumulated amortisation						
31 December 2016	(1,072)	(46,739)	(6,811)	(9,448)	(2,999)	(67,069)
Increase in current period						
Addition	(197)	(5,866)	(1,637)	(2,833)	(5,045)	(15,578)
Decrease in current period						
Disposal	–	1,439	–	–	–	1,439
30 June 2017	(1,269)	(51,166)	(8,448)	(12,281)	(8,044)	(81,208)
Provision for impairment loss						
31 December 2016	–	–	–	–	–	–
Increase in current period						
Addition	–	–	–	–	–	–
Decrease in current period						
Disposal	–	–	–	–	–	–
30 June 2017	–	–	–	–	–	–
Net book value						
30 June 2017	2,817	14,974	154,370	35,849	1,159	209,169
31 December 2016	704	16,725	156,007	38,682	6,204	218,322

For the 6 months ended 30 June 2017, accrued amortisation are RMB15,578,000, of which RMB9,812,000 and RMB5,766,000 are charged to general and administrative expenses, selling expenses respectively.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Goodwill

	31 December 2016	Increase in the current period	Decrease in the current period	**30 June 2017**
Goodwill –				
Hangzhou Anshe	92,339	–	–	**92,339**
Jack Walk	13,383	–	–	**13,383**
Jiuwo (Shanghai) Education Technology Co., Ltd. (hereinafter referred to as Jiuwo)	–	7,833	–	**7,833**
	105,722	7,833	–	**113,555**
Less: Provision for impairment –				
Hangzhou Anshe	–	–	–	**–**
Jack Walk	–	–	–	**–**
Jiuwo	–	–	–	**–**
	105,722	7,833	–	**113,555**

For the six months ended 30 June 2017, the increased goodwill represents the goodwill arising from business combination of Jiuwo.

(a) Impairment

The goodwill allocated to the asset groups and groups of asset groups are summarised by operating segments as follows:

	30 June 2017	31 December 2016
Hangzhou Anshe	**92,339**	92,339
Jack Walk	**13,383**	13,383
Jiuwo	**7,833**	–
	113,555	105,722

The recoverable amount of asset groups and groups of asset groups is calculated using the estimated cash flows determined according to the five-year budget approved by management. The cash flows beyond the five-year period are calculated based on the following estimated growth rates.

	Hangzhou Anshe	**Jack Walk**	**Jiuwo**
Growth rate	0%	0%	0%
Gross margin	65%	55%	47%
Discount rate	15%	15%	15%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Goodwill (continued)

(a) Impairment (continued)

The weighted average growth rates applied by management are consistent with those estimated in the industry reports, and do not exceed the long-term average growth rates of each product. Management determines budgeted gross margin based on past experience and forecast on future market development. The discount rates used by management are the pre-tax interest rates that are able to reflect the risks specific to the related asset groups and groups of asset groups. The above assumptions are used to assess the recoverable amount of each asset group and group of asset groups within the corresponding operating segment.

(14) Long-term prepaid expenses

		Increase in the current period			
	31 December 2016	Business Combination	Increase	Amortisation in the current period	**30 June 2017**
Leasehold improvement	776,640	740	128,456	(177,907)	**727,929**

For the 6 months ended 30 June 2017, the amount of amortisation expense was RMB177,907,000, including RMB174,862,000 charged to selling expenses and RMB3,045,000 charged to general and administrative expenses.

(15) Other non-current assets

	30 June 2017	31 December 2016
Prepayments of long-term equity investment	**10,000**	10,000
Deposit for construction in progress	**–**	5,069
	10,000	15,069

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities

(a) Deferred assets before offsetting are set out as follows:

	30 June 2017		31 December 2016	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Provision for inventories impairments	**226,632**	**56,658**	269,466	67,366
The rental fee recognized in the rent-free period	**139,588**	**34,897**	151,860	37,965
Tax losses carried forward	**300,549**	**75,134**	148,367	37,090
Elimination of intra-group unrealised profit	**22,272**	**5,568**	133,300	33,325
Bad debt provision	**70,992**	**17,748**	36,609	9,152
Employee benefits payable	**12,655**	**3,164**	36,356	9,091
Differences in amortization of long-term prepaid expense between tax laws and accounting rules	**2,098**	**525**	5,056	1,264
	774,786	**193,694**	781,014	195,253
Including:				
Expected to be recovered within one year (inclusive)	**84,943**		132,612	
Expected to be recovered after one year	**108,751**		62,641	
	193,694		195,253	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities (continued)

(b) Deferred liabilities before offsetting are set out as follows:

	30 June 2017		31 December 2016	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Acquired from business combination under common control	**37,008**	**9,252**	44,886	11,222
Capitalized borrowing costs	**22,693**	**5,673**	11,192	2,798
Changes in fair value of available-for-sale financial assets	**36,839**	**9,210**	14,599	3,650
	96,540	**24,135**	70,677	17,670
Including:				
Expected to be recovered within one year (inclusive)	**1,467**		1,999	
Expected to be recovered after one year	**22,668**		15,671	
	24,135		17,670	

(c) The Group has no unrecognized deferred income tax from deductible temporary differences or tax losses.

(d) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	30 June 2017		31 December 2016	
	Offsetting amount	**Net balance after offsetting**	Offsetting amount	Net balance after offsetting
Deferred tax assets, net	**(5,973)**	**187,721**	(3,104)	192,149
Deferred tax liabilities, net	**5,973**	**18,162**	3,104	14,566

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Asset impairment losses

	31 December 2016	Increase in the current period Accrue	Decrease in the current period Reverse	Resell	**30 June 2017**
Provision for bad debts	(36,609)	(35,921)	1,538	–	**(70,992)**
Include: bad debts for account receivable	(28,096)	(23,207)	1,538	–	**(49,765)**
bad debts for other receivables	(8,513)	(12,714)	–	–	**(21,227)**
Decline in the value of inventories	(269,466)	(121,061)	–	163,895	**(226,632)**
	(306,075)	(156,982)	1,538	163,895	**(297,624)**

(18) Short-term borrowings

	Currency	**30 June 2017**	31 December 2016
Unsecured	RMB	**786,000**	300,000

(a) The Group had the following undrawn bank borrowing facilities:

	30 June 2017	31 December 2016
Undrawn bank borrowing facilities	**400,000**	1,177,210

(b) The interest rate range of short-term borrowings as follow:

	30 June 2017	31 December 2016
Interest rate range	**4.13%-4.35%**	4.13%-4.26%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Notes payable

	30 June 2017	31 December 2016
Commercial acceptance notes	**104,673**	352,981
Bank acceptance notes	**20,814**	42,311
	125,487	395,292

As at 30 June 2017 and 31 December 2016, notes payable are due within 100 days.

(20) Accounts payable

	30 June 2017	31 December 2016
Inventory purchase payable	**467,245**	638,910

(a) Ageing of account payable over 1 year as follow:

	30 June 2017	31 December 2016
Ageing of account payable over 1 year	**7,416**	9,831

The accounts payable aged over one year are mainly final payment which has not yet been paid due to delay in issuance of the invoice.

(21) Advances from customers

As at 30 June 2017 and 31 December 2016, the ageing of advances from customers are all within 1 year.

(22) Employee benefits payable

	30 June 2017	31 December 2016
Short-term employee benefits payable (a)	**152,314**	249,691
Defined contribution plans payable (b)	**17,831**	32,181
	170,145	281,872

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Employee benefits payable (continued)

(a) Short-term employee benefits payable

	31 December 2016	Increase in the current period: Business Combination	Increase in the current period: Increase	Decrease in the current period	**30 June 2017**
Wages and salaries, bonus, allowances and subsidies	223,311	182	876,489	(962,283)	**137,699**
Staff welfare	2,844	2	9,847	(10,975)	**1,718**
Social security contributions	13,959	11	49,775	(55,953)	**7,792**
Including: Medical insurance	8,683	7	31,380	(35,153)	**4,917**
Others	5,276	4	18,395	(20,800)	**2,875**
Housing funds	9,577	8	32,463	(36,943)	**5,105**
Labour union funds and employee education funds	–	–	216	(216)	**–**
	249,691	203	968,790	(1,066,370)	**152,314**

(b) Defined contribution plans payable

	31 December 2016	Increase in the current period: Business Combination	Increase in the current period: Increase	Decrease in the current period	**30 June 2017**
Basic pensions	29,608	24	103,448	(116,796)	**16,284**
Unemployment insurance	2,573	2	9,847	(10,875)	**1,547**
	32,181	26	113,295	(127,671)	**17,831**

(23) Taxes payable

	30 June 2017	31 December 2016
Corporate income tax payable	**81,916**	197,980
Unpaid VAT	**28,369**	125,522
City maintenance and construction tax payable	**5,638**	10,149
Educational surcharge payable	**3,740**	7,378
Withholding tax	**2,398**	2,334
Others	**245**	1,583
	122,306	344,946

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Interests payable

	30 June 2017	31 December 2016
Interest payable for borrowings	**1,036**	381

(25) Other payables

	30 June 2017	31 December 2016
Payables for purchases of fixed assets	**332,667**	338,659
Rental expense payables	**167,593**	220,264
Suppliers' deposits	**71,431**	55,945
Logistic expenses	**12,207**	43,313
Customers' deposits	**40,983**	43,275
Promotion expense payables	**8,851**	9,474
Others	**25,398**	17,203
	659,130	728,133

As at 30 June 2017 and 31 December 2016, the ageing of other payables are all within 1 year.

(26) Other non-current liabilities-deferred income

	30 June 2017	31 December 2016
Rental subsidy (a)	**73,111**	82,348
Government grant (b)	**6,638**	6,657
	79,749	89,005
Less: Deferred income due within one year	**(43,098)**	(34,632)
	36,651	54,373

(a) Rental subsidy

	30 June 2017	31 December 2016
Rental subsidy	**73,111**	82,348
Less: Rental subsidy due within one year	**(43,061)**	(34,595)
	30,050	47,753

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other non-current liabilities-deferred income (continued)

(a) Rental subsidy (continued)

	For the 6 months ended 30 June 2017	For the year ended 31 December 2016
Beginning balance	**82,348**	68,805
Increase in the current period/year	**16,385**	57,546
Decrease in the current period/year	**(25,622)**	(44,003)
Ending balance	**73,111**	82,348

The Group recognised the aggregate benefit of incentives as a reduction of rental expenses over the lease term on a straight-line basis. If the lease term is within one year, the amounts are listed as current liabilities, otherwise they are presented as non-current liabilities.

(b) Government grant

	30 June 2017	31 December 2016
Government grant	**6,638**	6,657
Less: Government grant due within one year	**(37)**	(37)
	6,601	6,620

	For the 6 months ended 30 June 2017	For the year ended 31 December 2016
At beginning of the year	**6,657**	6,696
Increase in the current period/year	**–**	–
Decrease in the current period/year	**(19)**	(39)
At end of the period	**6,638**	6,657

The government subsidy mainly includes: the special funds of the modern service industry granted by the Shanghai Xuhui District Business Committee and the project construction support fund granted by the Daxi Town People's Government of Tianjin Xiqing District. The Group recognized the deferred income after receiving the special funds. After achieving the pre-specified indicators and meeting the inspection conditions of relevant departments, the subsidy is classified as the current income, the rest amount is included in the deferred income. The part that is expected to meet the criteria within the next year is classified as current liabilities; the remained is shown as non-current liabilities.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other non-current liabilities-deferred income (continued)

(b) Government grant (continued)

	Tianjing Logistic Project	**Taicang Logistic Project**	**Total**
12 December 2016	6,000	657	6,657
Increase in the current period	–	–	–
Decrease in the current period			
Offset selling expense	–	(19)	(19)
30 June 2017	6,000	638	6,638
Related to assets/Related to income	Related to assets	Related to assets	Related to assets

(27) Share capital

	31 December 2015	Movement in the current period	30 June 2016
Mr. Xing Jiaxing	141,875	–	141,875
Good Factor Limited (i)	86,625	(24,370)	62,255
Shanghai Hexia Investment Co., Ltd.	45,204	–	45,204
Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership)	23,482	–	23,482
Boxin China Growth Fund I L.P.	19,435	–	19,435
Shanghai Ronggao Venture Capital Co., Ltd.	18,787	–	18,787
Beijing Broad Street Investment Centre (Limited Partnership)	18,237	–	18,237
Mr. Yu Tiecheng	4,695	–	4,695
Asia Alternatives (Shanghai) Q Fund L.P.	4,048	–	4,048
Mr. Zhang Jiangming	2,349	–	2,349
Overseas listed foreign shares H shares (i)	128,165	24,370	152,535
Total share capital	492,902	–	492,902

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Share capital (continued)

	31 December 2016	Movement in the current period	30 June 2017
Mr. Xing Jiaxing	141,875	–	**141,875**
Good Factor Limited (ii)	58,697	(58,697)	**–**
Shanghai Hexia Investment Co., Ltd.	45,204	–	**45,204**
Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership)	23,482	–	**23,482**
Boxin China Growth Fund I L.P.	19,435	–	**19,435**
Shanghai Rongao Venture Capital Co., Ltd.	18,787	–	**18,787**
Beijing Broad Street Investment Centre (Limited Partnership)	18,237	–	**18,237**
Mr. Yu Tiecheng	4,695	–	**4,695**
Asia Alternatives, (Shanghai) Q Fund L.P.	4,048	–	**4,048**
Mr. Zhang Jiangming	2,349	–	**2,349**
Overseas listed foreign shares H shares (ii)	156,093	58,697	**214,790**
Total share capital	492,902	–	**492,902**

(i) In 2016, Good Factor Limited reduced 27,928,000 H shares, or 5.66% equity interests in the Company.

(ii) For the 6 months ended 30 June 2017, Good Factor Limited reduced 58,697,000 H shares, or 11.91% equity interests in the Company.

(28) Capital surplus

	31 December 2016	Increase in the current period	Decrease in the current period	30 June 2017
Capital premium	1,500,224	–	–	**1,500,224**
Other capital surplus (a)	37,601	2,858	–	**40,459**
	1,537,825	2,858	–	**1,540,683**

	31 December 2015	Increase in the current period	Decrease in the current period	30 June 2016
Capital premium	1,500,224	–	–	1,500,224
Other capital surplus (a)	21,761	10,120	–	31,881
	1,521,985	10,120	–	1,532,105

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Capital surplus (continued)

(a) Other capital surplus

(i) Shanghai He Xia's rewards for staff

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

On 30 December 2009, Shanghai Hexia was established in the PRC by Mr. Xing Jiaxing and certain selected employees (the "1st Batch Employees"). The registered capital of Shanghai Hexia at that time was RMB500,000, which was paid up by Mr. Xing Jiaxing and the 1st Batch Employees at the ratio of 32.79% and 67.21%. On 2 April 2010, Shanghai Hexia acquired 8.25% and 7%(Note 1) of the equity interests in the Company from two individuals and two financial investors, respectively. The cash considerations for these acquisitions were paid by Mr. Xing Jiaxing as a unilateral contribution to the existing equity owners of Shanghai Hexia. The proportion attributable to the 1st Batch Employees was considered as management incentive.

On 19 October 2010, Good Factor Limited ("Good Factor"), a financial investor transferred 5% and 3% of its equity interests in the Company to Mr. Xing Jiaxing and Shanghai Hexia, respectively, at nil consideration for the purpose of rewarding the chief executive and the 1st Batch Employees for their contributions to the Group based on the valuation adjustment items defined in the capital increment agreements signed by Good Factor, the Company and the shareholders.

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

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

On 31 March 2017, Mr. Xing Jiaxing transferred 7.08% of his exiting equity interests in Shanghai Hexia to several employees (the "4th Batch Employees") of the Group at a consideration of some percentage of the H Shares as management incentive.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Capital surplus (continued)

(a) Other capital surplus (continued)

(i) Shanghai He Xia's rewards for staff (continued)

The percentage of equity interest in the Company indirectly held by the 1st Batch Employees, 2nd Batch, 3rd Batch and 4th Batch Employees through Shanghai Hexia as follow:

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch Employees	**6.55%**	5.73%

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Capital surplus (continued)

(a) Other capital surplus (continued)

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

As at 30 June 2017 and 2016, the fair value as of the grant dates of each of the share-based compensation plans are summarised as follows:

	Fair value
Granted to the 1st Batch Employees by Mr. Xing Jiaxing on 2 April 2010	24,226
Granted to Mr. Xing Jiaxing by Good Factor on 19 October 2010	9,354
Granted to the 1st Batch Employees by Good Factor on 19 October 2010	7,526
Granted to the 2nd Batch Employees by Mr. Xing Jiaxing on 22 April 2011	40,754
Granted to the 3rd Batch Employees by Mr. Xing Jiaxing on 24 March 2016	3,889
Granted to the 4th Batch Employees by Mr. Xing Jiaxing on 31 March 2017	2,229

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

The employee may choose the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service period. Accordingly, the share-based compensation plans were accounted for as compound financial instruments (Note 2(27(a))) in the financial statements of Shanghai Hexia. As the Company received the benefits associated with the services of these employees, the share-based compensation charges were pushed down to the Company during the vesting period and recorded as an expense in the consolidated income statements, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Company.

For the 6 months ended 30 June 2017 and 2016, expenses arising from the share-based compensation plans were charged in the consolidated income statements as follows:

	For 6 months ended 30 June 2017	For 6 months ended 30 June 2016
General and administrative expenses	**2,294**	4,875
Selling and distribution expenses	**564**	5,245
	2,858	10,120

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Other comprehensive income

	Other comprehensive income in the consolidated balance sheet			For 6 months ended 30 June 2017, other comprehensive income in the consolidated income statements				
	31 December 2016	Attributable to equity owners of the Company	30 June 2017	Current amount of income before tax	Less: Pre-included other comprehensive income transferred out of the current period	Less: Income tax expenses	Attributable to equity owners of the Company	Attributable to minority interests
Other comprehensive income that may be reclassified to profit or loss								
Fair value on available-for-sale financial assets	10,949	16,680	27,629	22,240	-	(5,560)	16,680	-
Currency translation differences	1,024	(793)	231	(793)	-	-	(793)	-
	11,973	15,887	27,860	21,447	-	(5,560)	15,887	-

	Other comprehensive income in the consolidated balance sheet			For 6 months ended 30 June 2016, other comprehensive income in the consolidated income statements				
	31 December 2015	Attributable to equity owners of the Company	30 June 2016	Current amount of income before tax	Less: Pre-included other comprehensive income transferred out of the current period	Less: Income tax expenses	Attributable to equity owners of the Company	Attributable to minority interests
Other comprehensive income that may be reclassified to profit or loss								
Fair value on available-for-sale financial assets	–	3,313	3,313	3,313	–	–	3,313	–

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Surplus reserve

	31 December 2016	Increase in the current period	Decrease in the current period	**30 June 2017**
Statutory surplus reserve	148,768	–	–	**148,768**

	31 December 2015	Increase in the current period	Decrease in the current period	30 June 2016
Statutory surplus reserve	128,370	–	–	128,370

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

For 6 months ended 30 June 2017 and 2016, the Company did not appropriate the statutory surplus reserve.

(31) Undistributed profits

	For the 6 months ended 30 June 2017		For the 6 months ended 30 June 2016	
	Amount	**Proportion**	Amount	Proportion
Undistributed profits at the beginning of year	**1,115,817**	**–**	983,786	–
Add: Net profit attributable to equity owners of the Company	**281,747**	**–**	284,944	–
Less: Dividend declared (a)	**(147,871)**	**–**	(207,019)	–
Undistributed profits at the end of period	**1,249,693**		1,061,711	

(a) Pursuant to the approval of Shareholders' General Meeting Resolution on 12 May 2017, the Company declared a cash dividend of RMB0.30 per share to the shareholders of the Company, representing a total amount of RMB147,871,000.

Pursuant to the approval of Shareholders' General Meeting Resolution on 29 April 2016, the Company declared a cash dividend of RMB0.42 per share to the shareholders of the Company representing a total amount of RMB207,019,000.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Revenue and cost of sales

Revenue and cost of main operation

	For the 6 months ended 30 June 2017		For the 6 months ended 30 June 2016	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail	**4,274,025**	**(1,495,022)**	3,999,590	(1,401,074)
Provision of service	**6,998**	**–**	–	–
Wholesale	**840**	**(305)**	6,396	(4,605)
	4,281,863	**(1,495,327)**	4,005,986	(1,405,679)

(a) Revenue form main operation

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
The income from the end consumers	**4,995,400**	4,802,927
Less: concessionaire fee (i)	**(721,375)**	(803,337)
Provision of service	**6,998**	–
Wholesale	**840**	6,396
Revenue from main operation	**4,281,863**	4,005,986

(i) Revenue is generated from sales of retail points and e-commerce platforms. The retail points are operated in the form of concessionaire counters and standalone retail outlets. The concessionaire counters are located within department stores. The e-commerce platforms include TMall, JD.com, Dangdang.com and Suning.com platforms. Revenue generated from concessionaire counters and certain e-commerce platform, are calculated on the basis of the revenue earned from the end customers being net of concessionaire fees charged by the department stores and certain e-commerce platform. If the revenue is recognized at a gross basis, the revenue will increase by RMB721,350,000 for the six months ended 30 June 2017, and the net profit remains the same.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Taxes and surcharges

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016	Payment Standard
City maintenance and construction tax	**22,281**	23,962	Note 3
Educational surcharge	**16,859**	18,103	Note 3
Others	**3,418**	2,608	
	42,558	44,673	

(34) Selling and distribution expenses

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Employee benefit expenses	**966,216**	916,916
Rentals expenses	**553,593**	504,696
Amortization of long-term prepaid expenses	**174,862**	137,092
Marketing and promotion expenses	**115,135**	66,919
Utility costs	**107,092**	99,144
Logistic expenses	**46,274**	41,814
Costs of low value consumables	**36,410**	38,870
Depreciation of fixed assets	**15,550**	11,969
Travelling and communication expenses	**13,797**	13,029
Point-of-sale device processing fees	**9,691**	14,036
Amortization of intangible assets	**5,766**	7,165
Consulting expenses	**3,197**	6,224
Quality inspection fee	**3,134**	3,961
Taxes and levis	**–**	426
Miscellaneous	**1,101**	319
	2,051,818	1,862,580

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) General and administrative expenses

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Employee benefit expenses	**118,727**	118,750
Rental expenses	**12,624**	9,355
Consulting expenses	**12,012**	10,993
Sample expenses	**11,864**	12,072
Amortization of intangible assets	**9,812**	7,334
Travelling and communication expenses	**8,138**	8,155
Utility costs	**5,774**	4,137
Amortization of long-term prepaid expenses	**3,045**	748
Depreciation of fixed assets	**2,249**	4,083
Logistic expenses	**1,615**	898
Statutory audit fee	**–**	1,750
Taxes and levis	**–**	1,618
Quality inspection fee	**–**	260
Miscellaneous	**625**	1,550
	186,485	181,703

(36) Financial (expenses)/income – net

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Interest expenses	**(13,999)**	(1,716)
Add: amounts capitalised on fixed assets	**9,385**	1,716
Add: interest income	**7,287**	5,488
Exchange gains-net	**279**	8,236
Bank charges	**(8,172)**	(9,456)
	(5,220)	4,268

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Expenses by nature

The cost of sales, selling expenses and general and administrative expenses in the income statements are listed as follows by nature:

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Costs of inventories recognized as expenses, included in costs of sales	**1,495,327**	1,405,679
– original value	**1,601,518**	1,584,748
– inventories written down in prior years	**(106,191)**	(179,069)
Employee benefit expenses	**1,084,943**	1,035,666
Rental expenses	**566,217**	514,051
Amortization of long-term prepaid expenses	**177,907**	137,840
Marketing and promotion expenses	**115,135**	66,919
Utility costs	**112,866**	103,281
Logistic expenses	**47,889**	42,712
Costs of low value consumables	**36,410**	38,870
Travelling and communication expenses	**21,935**	21,184
Depreciation of fixed assets	**17,799**	16,052
Consulting expenses	**15,209**	17,217
Amortization of intangible assets	**15,578**	14,499
Sample expenses	**11,864**	12,072
Point-of-sale device processing fees	**9,691**	14,036
Quality inspection fee	**3,134**	4,221
Taxes and levis	**–**	2,044
Statutory audit fee	**–**	1,750
Miscellaneous	**1,726**	1,869
	3,733,630	3,449,962

For the 6 months ended 30 June 2017, government grants credited to selling and distribution expenses amounted to RMB19,000 (for the 6 months ended 30 June 2016: nil).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(38) Asset impairment losses

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Losses of decline in the values of inventories	**121,061**	135,423
Losses for bad debts provision for accounts receivable and other receivables	**34,383**	2,964
	155,444	138,387

(39) Investment income

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Income from disposal of available-for-sale financial assets	**–**	63
Share of profits of associates	**1,502**	–
	1,502	63

(40) Other income

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016	Related to assets/ Related to income
Funds for enterprises development	**57,392**	–	Related to income
Refunds from individual income tax	**1,009**	–	Related to income
Others	**189**	–	Related to income
	58,590	–	

According to the interpretation issued by Ministry of Finance 10 May 2017 No. 15 [2017] government grants received after 1 January 2017 which were related to operation activities were reclassified to "other income". The comparative figures were not required to be retrospectively adjusted.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(41) Non-operating incomes

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Government grant (a)	–	31,843
Gains on disposal of fixed assets	18	21
Others	1,318	571
	1,336	32,435

(a) Government grant

	For the 6 months ended 30 June 2017 Notes (40)	For the 6 months ended 30 June 2016	Related to assets/ Related to income
Funds for enterprises development	–	31,174	Related to income
Refunds from individual income tax	–	650	Related to income
Others	–	19	Related to income
	–	31,843	

(42) Non-operating expenses

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Donation	3,706	–
Losses on disposal of fixed assets	209	788
Others	540	502
	4,455	1,290

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(43) Income tax expenses

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Current income tax calculated according to the tax law	**96,979**	101,391
Deferred income tax	**4,038**	3,342
	101,017	104,733

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Total profit	**401,984**	408,440
Income tax expenses calculated at applicable tax rates	**100,496**	102,110
Costs, expenses and losses not deductible for tax purposes (i)	**896**	2,623
Non-taxable income (ii)	**(375)**	–
Income tax expenses	**101,017**	104,733

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

(ii) Non-taxable income mainly included the income from the share of the profits of the associates

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(44) Earnings per share

(a) Basic earnings per share

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

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Profit attributable to equity owners of the Company	**281,747**	284,944
Weighted average number of ordinary shares in issue (thousands of shares)	**492,902**	492,902
Basic earnings per share (RMB per share)	**0.57**	0.58

(b) Diluted earnings per share

Diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the 6 months ended 30 June 2017. The Company has no dilutive potential ordinary shares. Thus, diluted earnings per share equal to basic earnings per share

(45) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Increase in customers' deposits	**13,194**	34,997
Government grant	**58,590**	31,825
Interest income	**4,032**	5,488
Others	**1,318**	571
	77,134	72,881

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Notes to the consolidated cash flow statement (continued)

(b) Cash paid relating to other operating activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Marketing and promotion expenses	**115,135**	103,281
Utility costs	**112,866**	66,919
Increase in deposits	**21,774**	55,527
Bank charges and point-of-sale device processing fees	**17,863**	23,492
Consulting expenses	**15,209**	17,217
Net increase in staff advances	**4,488**	678
Miscellaneous	**540**	502
	287,875	267,616

(c) Cash received relating to other investing activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Interest income generated from other cash balances	**4,345**	1,780
Decrease of other cash balances	**5,525**	–
Net cash received for acquisition of Jiuwo (Note 4(46(c)))	**5,023**	–
	14,893	1,780

(d) Cash paid relating to other investing activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Prepayment for investing available-for-sale financial assets (Note 4(15))	**10,000**	–
Prepayment for investing in long-term equity investments (Note 4(15))	**–**	10,000
Purchase of available-for-sale financial assets	**22,800**	4,314
Increase in entrusted loan-net	**5,000**	–
	37,800	14,314

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Notes to the consolidated cash flow statement (continued)

(e) Cash payments relating to other financing activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Advance payment of listing expense for A Share Listing	**624**	22

(46) Supplementary information of cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Net profit	**300,967**	303,707
Add: Provisions for asset impairment	**155,444**	138,387
Amortisation of long-term prepaid expenses	**177,907**	137,840
Depreciation of fixed assets	**17,799**	16,052
Amortisation of intangible assets	**15,578**	14,499
Amortization of share base payment	**2,858**	10,120
Decrease in other liabilities	**(9,256)**	(4,873)
Financial expenses/(income) – net	**1,044**	(1,079)
Investment income	**(1,502)**	(63)
Losses on disposal of fixed assets, intangible assets and other long-term assets	**191**	767
Decrease in inventories	**97,510**	267,771
Decrease in deferred tax assets	**6,002**	4,848
Decrease in deferred tax liability	**(1,964)**	(1,506)
Decrease in operating receivables	**120,784**	112,494
Decrease in operating payables	**(843,013)**	(827,865)
Net cash flows from operating activities	**40,349**	171,099

(b) Net decrease in cash and cash equivalents

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Cash at the end of the period	**525,562**	907,012
Less: Cash at the beginning of the period	**(581,389)**	(1,118,410)
Net decrease in cash and cash equivalents	**(55,827)**	(211,398)

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(46) Supplementary information of cash flow statement (continued)

(c) Acquisition of subsidiaries

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Cash paid for acquiring subsidiaries in the current period – Jiuwo		
Cash consideration	**10,000**	–
Less: Cash and cash equivalents of Jiuwo at acquisition date	**(15,023)**	–
Net cash inflow on acquisition	**(5,023)**	–

(d) Cash and cash equivalents

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Cash and cash equivalents	**525,562**	907,012
Including: Cash on hand	**6,409**	5,102
Cash at bank that can be readily drawn on demand	**519,153**	901,910
Cash and cash equivalents at the end of the period	**525,562**	907,012

(47) Monetary items denominated in foreign currencies

	30 June 2017		
	Foreign currency balance	**Exchange rate**	**RMB balance**
Cash at bank and on hand –			
HKD	**702**	**0.8679**	**610**
	702		**610**

	31 December 2016		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	162	6.9370	1,125
HKD	707	0.8945	632
	869		1,757

5 CHANGE OF SCOPE OF CONSOLIDATION

(1) The business combination not under the same control

(a) The business combination not under the same control that occurred in the first 6 months ended 30 June 2017

The acquiree	Date of acquisition	Consideration (RMB'000)	% of equity interest	Method of acquisition	Date of acquisition	Basis to determine acquisition date	Revenue of the acquiree from the date of acquisition to the end of the period	Net loss of the acquiree from the date of acquisition to the end of the period	Cash flows used operating activities of the acquiree from the date of acquisition to the end of the period	Net cash out flow of the acquiree from the date of acquisition to the end of the period
Jiuwo (i)	1 April 2017	20,000	60%	Cash	1 April 2017	Contract terms	785	(1,884)	(8,311)	(9,546)

The Company acquired 60% equity interests of Jiuwo with a consideration of RMB20,000,000 and obtained the control of Jiuwo.

(b) Cost of combination and goodwill are set out as follows:

	Jiuwo
Cost of combination –	
Cash	20,000
Total cost of combination	20,000
Less: The fair value of the identifiable net assets obtained	(12,167)
Goodwill	7,833

The Company determined the fair value of non-cash assets and liabilities of Jiuwo at the acquisition date by using valuation technique.

(All amounts in RMB'000 unless otherwise stated)

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(1) The business combination not under the same control (continued)

(c) The assets and liabilities of the acquiree at the date of purchase are listed as below:

Jiuwo

	Fair value on the acquisition date	Carring amount on the acquisition date
Cash and cash equivalents	15,023	15,023
Accounts receivable	112	112
Inventories	3,604	3,604
Other accounts receivable	949	950
Prepayment	1,340	1,340
Other current assets	521	521
Fixed assets	545	545
Intangible assets	6	6
Long-term prepaid expenses	740	739
Deferred tax assets	1,574	1,574
Advances from customers	(309)	(309)
Less: Accounts payable	(2,270)	(2,270)
Employee benefits payable	(229)	(230)
Other accounts payable	(1,328)	(1,327)
Net assets	20,278	20,278
Less: minority interests	(8,111)	(8,111)
Net assets acquired	12,167	12,167

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(2) Disposal of Subsidiaries

(a) The relevant information for the disposal of subsidiaries for the 6 months ended 30 June 2017 is summarized as below:

Name of Subsidiary	Consideration received form disposal	Disposal % of equity interests	Method of disposal	Date of losing control	The basis of judgement of losing control	The difference between the disposal price and the disposal value of subsidiary's net assets of the subsidiary at the level of the the consolidated financial statements	The amount of other comprehensive income related to the equity investment of the subsidiary is transferred to the investment gains and losses
Hangzhou Zhuolv (i)	–	54.05%	Registration Cancelled	4 May 2017	Registration Cancelled	–	–

(b) Information on disposal gains and losses as well as related cash flows are as below:

(i) Hangzhou Zhuolv

The disposal gains and losses are calculated as below:

	Amount
Consideration received form disposal	–
Less: The share of Hangzhou Zhuolv's net assets at the consolidated financial statements level	–
Other comprehensive income which is accounted into the current profits and losses	–
Investment income generated by disposal	–

(All amounts in RMB'000 unless otherwise stated)

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(3) Change of the scope for consolidation

The subsidiaries for consolidation from the 6 months ended 30 June 2017

On 23 February 2017, Jalkwalk, a subsidiary of the Company, set up Dianlan Xinlong of which the Company indirectly holds 55.3% equity interests. Since February 2016, Dianlan Xinlong became a subsidiary of the Group.

6 EQUITY IN OTHER SUBJECTS

(1) Equity in subsidiaries

(a) Components

Company name	Principal place of business	Registered address	Principle activities	Effective interests held by the Company%		Gaining method
				Direct	Indirect	
Shanghai La Chapelle Casual Fashion Co., Ltd. ("LaCha Xiuxian")	Shanghai	Shanghai	Design and sales of apparel products	100%	–	Wholly owned subsidiary
Candie's Shanghai Fashion Co., Ltd. ("Shanghai Le'ou")	Shanghai	Shanghai	Design and sales of apparel products	65%	–	Holding subsidiaries
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei')	Chongqing	Chongqing	Design and sales of apparel products	100%	–	Wholly owned subsidiary
Beijing La Chapelle Lewei Fashion Co., Ltd. ("Beijing LaCha")	Beijing	Beijing	Design and sales of apparel products	100%	–	Wholly owned subsidiary
Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha")	Chengdu	Chengdu	Sales of apparel products	100%	–	Wholly owned subsidiary
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Shanghai	Shanghai	Sales of apparel products	100%	–	Wholly owned subsidiary
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Shanghai	Shanghai	Sales of apparel products	100%	–	Wholly owned subsidiary
Shanghai Xiawei	Shanghai	Shanghai	Sales of apparel products	100%	–	Wholly owned subsidiary
Taicang LaCha (i)	Taicang	Taicang	Sales of apparel products	95%	5%	Wholly owned subsidiary
Tianjin LaCha	Tianjin	Tianjin	Sales of apparel products	100%	-	Wholly owned subsidiary
Chengdu Lewei	Chengdu	Chengdu	Sales of apparel products	100%	-	Wholly owned subsidiary
Hangzhou Anshe	Hangzhou	Hangzhou	Sales of apparel products	54%	-	Holding subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) Components (continued)

Company name	Principal place of business	Registered address	Principle activities	Effective interests held by the Company% Direct	Indirect	Gaining method
Qigege	Hangzhou	Hangzhou	Sales of apparel products	–	54%	Holding sub-subsidiaries
Hangzhou Fushe	Hangzhou	Hangzhou	Sales of apparel products	–	54%	Holding sub-subsidiaries
Xinyugexia	Hangzhou	Hangzhou	Sales of apparel products	–	54%	Holding sub-subsidiaries
Hangzhou Chenge	Hangzhou	Hangzhou	Sales of apparel products	–	54%	Holding sub-subsidiaries
Jack Walk	Shanghai	Shanghai	Sales of apparel products	69%	–	Holding subsidiaries
Shanghai Chongan	Shanghai	Shanghai	Sales of apparel products	85%	–	Holding subsidiaries
Shanghai Youshi	Shanghai	Shanghai	Sales of apparel products	100%	–	Wholly owned subsidiary
Fujian Lewei	Pucheng	Pucheng	Sales of apparel products	100%	–	Wholly owned subsidiary
Enterprise Management	Shanghai	Shanghai	Investment	100%	–	Wholly owned subsidiary
LaCha Fashion	HongKong	HongKong	Investment	100%	–	Wholly owned sub-subsidiary
Shanghai Nuoxing	Shanghai	Shanghai	Sales of apparel products	100%	–	Wholly owned subsidiary
Shanghai Jiatuo	Shanghai	Shanghai	IT technology	100%	–	Wholly owned subsidiary
Xingji	Shanghai	Shanghai	Home furnishing	–	60%	Holding sub-subsidiaries
Guangzhou Xichen	Guangzhou	Guangzhou	Sales of apparel products	–	80%	Holding sub-subsidiaries
Jiuwo	Shanghai	Shanghai	Education	60%		Holding subsidiaries
Dianlan Xinlong	Dongguan	Dongguan	Sales of apparel products	–	55%	Holding sub-subsidiaries
Apparel	HongKong	HongKong	Investment	100%	–	Wholly owned sub-subsidiary

(i) The Company directly hold 95% equity interest in Taicang LaCha, and indirectly holds 5% equity interest in Taicang LaCha via Shanghai Xiawei, thus possessing 100% voting right in Taicang LaCha

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(b) Subsidiaries that having important minority interests

Company name	Shareholding ratio of minority interests	Net profit attributables to minority interests for the 6 months ended 30 June 2017	Dividends distributed to minority interests for the 6 months ended 30 June 2017	Minority interests on 30 June 2017
Hangzhou Anshe Group	45.95%	36,082	59,745	148,467

Hangzhou Anshe Group contains the Company's subsidiary Hangzhou Anshe and its investment company-Qigege, Hangzhou Fushe, Hangzhou ZhuoLv, Hangzhou Chenge and Xinyu Ge Xia.

Set out below are the summarised financial information for the subsidiaries that have minority equity interests that are material to the Group:

	30 June 2017						31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Anshe Group	330,283	51,802	382,085	52,851	6,129	58,980	427,968	54,686	482,654	101,389	6,662	108,051

	For the 6 months ended 30 June 2017			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Anshe Group	229,696	78,523	78,523	108,532

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(2) Equity in associates (continued)

Immaterial associates

Associates:	For the 6 months ended 30 June 2017
Balance of long-term equity investments in its associates	**157,783**
The following items are calculated based on the shareholding percentage	
Net losses (i)	**1,502**
Other comprehensive income (i)	**–**
Total comprehensive income	**1,502**

(i) The information above reflects the amounts presented in the financial statements of the associates adjusted according to the fair value of the identifiable assets and liabilities of the joint ventures at the acquisition date and for differences in accounting policies between the Group and the associates.

As at 30 June 2016, there were no associates in the Group.

7 SEGMENT INFORMATION

The Group is engaged in apparel production and sales business in mainland China. As the business is relatively simple, in order to facilitate the performance appraisal and resource allocation, the management of the Group runs daily operation as a whole. Thus, the Group has only one operating segment for reporting.

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The ultimate controlling party

(a) General information of the ultimate controlling party

The Company's ultimate controlling party is Mr. Xing Jiaxing.

(b) The percentages of shareholding and voting rights in the Company held by the ultimate controlling party

	30 June 2017		31 December 2016	
	Share holding (%)	**Voting rights (%)**	Share holding (%)	Voting rights (%)
Mr. Xing Jiaxing	**29%**	**38%**	29%	38%

Pursuant to an act-in-concert agreement entered into between Mr. Xing Jiaxing and Shanghai Hexia, Mr. Xing Jiaxing is entitled to control the exercise of the voting rights in respect of the Shares held by Shanghai Hexia.

(2) The subsidiaries

The general information and other related information of the subsidiaries are set out in Note 6.

(3) Other related parties

	Relationship with the Group
Hangzhou Kaihui E-Commerce Co., Ltd.	Associate of the Group
Hangzhou Mixin E-Commerce Co., Ltd.	Associate of the Group
Hangzhou Jianing E-Commerce Co., Ltd.	Associate of the Group
Shanghai Pincheng Industry Co., Ltd.	Associate of the Group
Hongche Industry (Shanghai) Co., Ltd.	Associate of the Group
Hangzhou Anshe	Related person acting as the director
Cao Qing	The minority interest holding more than 10% equity interests of the significant subsidiary
Beijing Mingtongsiji Technology Limited Company	Related person acting as the director

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions

(a) Remuneration of key management

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Remuneration of key management	**11,265**	11,552

(b) Borrowing

For the 6 months ended 30 June 2017, Cao Qing borrowed RMB28,000,000 from the Group, and repaid RMB28,000,000.

(c) Provision of e-commerce service

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Hangzhou Kaihui E-Commerce Co., Ltd.	**4,640**	–
Hangzhou Mixin E-Commerce Co., Ltd.	**650**	–
Hangzhou Jianing E-Commerce Co., Ltd.	**303**	–
	5,593	–

(d) Interest income

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Cao Qing	**440**	–

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions (continued)

(e) Purchase of goods

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Shanghai Pincheng Industry Co., Ltd.	**3,253**	–

(f) Provision of service

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Shanghai Pincheng Industry Co., Ltd.	**1,025**	–
Hongche Industry (Shanghai) Co., Ltd.	**747**	–
	1,772	–

(g) Joint investment with related parties

For the 6 months ended 30 June 2017, the Group acquired 1,075,000 ordinary shares, or 3.74% equity interests in Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司) with a total consideration of RMB15,000,000.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party balances

(a) Interest receivables

	30 June 2017		31 December 2016	
	Ending Balance	**Provision**	Ending Balance	Provision
Cao Qing	**440**	**–**	–	–

(b) Accounts receivable

	30 June 2017		31 December 2016	
	Ending Balance	**Provision**	Ending Balance	Provision
Hangzhou Kaihui E-Commerce Co., Ltd.	**1,638**	**(33)**	–	–
Hangzhou Mixin E-Commerce Co., Ltd.	**412**	**(8)**	–	–
Hangzhou Jianing E-Commerce Co., Ltd.	**321**	**(6)**	–	–
	2,371	**(47)**	–	–

(c) Accounts payable

	30 June 2017	31 December 2016
Hangzhou Kaihui E-Commerce Co., Ltd.	**894**	–
Shanghai Pincheng Industry Co., Ltd.	**610**	–
Hongche Industry (Shanghai) Co., Ltd.	**91**	–
	1,595	–

(d) Other payables

	30 June 2017	31 December 2016
Shanghai Pincheng Industry Co., Ltd.	**1,061**	–

(All amounts in RMB'000 unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	30 June 2017	31 December 2016
Fixed assets	**631,002**	449,545
Long-term equity investments	**92,000**	90,600
Long-term prepaid expenses	**15,617**	8,242
Intangible assets	**–**	717
	738,619	549,104

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows:

	30 June 2017	31 December 2016
Within 1 year	**812,037**	661,640
1 to 2 years	**716,788**	759,028
2 to 3 years	**591,516**	684,461
3 to 4 years	**479,670**	548,040
4 to 5 years	**372,209**	443,490
Over 5 years	**568,438**	1,182,524
	3,540,658	4,279,183

According to the rental agreement, the actual payments in respect of certain operating leases are calculated at a certain percentage of sales of the respective department stores or at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the department stores. The amount calculated on the basis of a percentage of the sales of the store is not included in the summary of the rent payable for the minimum commitment.

10 EVENTS AFTER THE BALANCE SHEET DATE

(1) Material events after the balance sheet date

(a) The Group entered into an agreement with Shanghai Yuanji Asset Management Co.,Ltd. (上海元吉資產資產管理有限公司) to set up Hangzhou Zhitou equity investment partnership (Limited Partnership) (杭州智投股權投資合夥企業(有限合夥) "Zhitou") in June 2017, pursuant to which, the Group will acquire 20% equity interests in Zhitou. As at 30 June 2017, the Group made a prepayment of RMB10,000,000 for the acquisition(Note 4(15)). On 7 August 2017, the Group has completed all the required administrative procedures for the investment.

11 BUSINESS COMBINATION

See note 5.

12 FINANCIAL RISK

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group did not use any derivative financial instruments to hedge risk exposures for the 6 months ended 30 June 2017 and 2016.

(1) Market risk

(a) Foreign exchange risk

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

As at 30 June 2017 and 31 December 2016, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized below:

	30 June 2017 RMB'000	31 December 2016 RMB'000
HKD		
Financial assets denominated in foreign currency – Cash at bank and on hand	**610**	1,125
USD		
Financial assets denominated in foreign currency – Cash at bank and on hand	**–**	632
Total	**610**	1,757

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

As at 30 June 2017, if RMB had strengthened by 10% against USD and HKD with all other variables held constant, the Group's net profit for the year would have been approximately RMB46,000 (30 June 2016: RMB25,754,000) higher as a result of foreign exchange gains on translation of USD and HKD denominated cash and cash equivalents.

(b) Interest rate risk

Since it has no significant interest-bearing assets (other than cash at bank and on hand, details of which have been disclosed in Note 4(1)), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash at bank and on hand held at variables rates. The interest rates and terms of repayments of borrowings are disclosed in Note 4(18). The Group did not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk for the 6 months ended 30 June 2017 and 2016. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arises. There were no borrowings obtained at variable rates at 30 June 2017 and 31 December 2016.

Bank borrowings obtained at fixed rates exposed the Group to fair value interest rate risk. The fixed interest rates are based on the market interest rate. Since borrowings as at 30 June 2017 and 31 December 2016 were with the maturity dates within twelve months, the fair value of the borrowings approximated their carrying amount.

The Group's interest-bearing debt mainly contains bank borrowing (Note 4(18)) with a fixed interest rate which is denominated in Renminbi. The specific amounts are as below:

	30 June 2017	31 December 2016
Bank borrowing		
– Fixed rate	**786,000**	300,000

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Decreases in interest rates will increase the cost of new borrowing, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the 6 months ended 30 June 2017 and 2016, the Group did not enter into any interest rate swap agreements.

12 FINANCIAL RISK (CONTINUED)

(2) Credit risk

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

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

As at 30 June 2017 and 31 December 2016, all the cash at bank as detailed in Note 4(1) are deposited at state-owned banks and other medium or large size commercial banks. Management does not expect any losses arising from non-performance by these counterparties.

(3) Liquidity risk

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(3) Liquidity risk (continued)

	30 June 2017				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial assets –					
Cash at bank and on hand	**640,562**	**–**	**–**	**–**	**640,562**
Accounts receivable	**711,370**	**–**	**–**	**–**	**711,370**
Other receivables	**289,966**	**–**	**–**	**–**	**289,966**
	1,641,898	**–**	**–**	**–**	**1,641,898**
Financial liability –					
Short-term borrowings	**786,000**	**–**	**–**	**–**	**786,000**
Notes payables	**125,487**	**–**	**–**	**–**	**125,487**
Accounts payables	**467,245**	**–**	**–**	**–**	**467,245**
Interests payable	**20,620**	**–**	**–**	**–**	**20,620**
Other payables	**659,130**	**–**	**–**	**–**	**659,130**
	2,058,482	**–**	**–**	**–**	**2,058,482**

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets –					
Cash at bank and on hand	701,914	–	–	–	701,914
Accounts receivable	1,052,184	–	–	–	1,052,184
Other receivables	276,271	–	–	–	276,271
	2,030,369	–	–	–	2,030,369
Financial liability –					
Short-term borrowings	300,000	–	–	–	300,000
Notes payables	395,292	–	–	–	395,292
Accounts payables	638,910	–	–	–	638,910
Interests payable	8,457	–	–	–	8,457
Other payables	728,133	–	–	–	728,133
	2,070,792	–	–	–	2,070,792

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2017 and 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

(1) Assets measured at fair value on a recurring basis

As at 30 June 2017, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets Available-for-sale financial assets – Available-for-sale equity instruments (Note 4(8))	**–**	**–**	**234,915**	**234,915**
Total financial assets	**–**	**–**	**234,915**	**234,915**
Total assets	**–**	**–**	**234,915**	**234,915**

As at 31 December 2016, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets Available-for-sale financial assets – Available-for-sale equity instruments (Note 4(8))	–	–	190,649	190,649
Total financial assets	–	–	190,649	190,649
Total assets	–	–	190,649	190,649

13 FAIR VALUE (CONTINUED)

(1) Assets measured at fair value on a recurring basis (continued)

The Group did not have any financial liabilities that were measured at fair value as at 30 June 2017 and 31 December 2016.

There were no transfers among levels during the 6 months ended 30 June 2017 and 2016.

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for the 6 months ended 30 June 2017 and 2016.

(i) Financial instruments in level 1

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

(ii) Financial instruments in level 2

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

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

Specific valuation techniques used to value financial instruments include:

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

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE (CONTINUED)

(1) Assets measured at fair value on a recurring basis (continued)

(iii) Financial instruments in level 3

The changes in Level 3 financial assets are analysed below:

	Available-for-sale financial assets
	Available-for-sale equity instruments
1 January 2017	190,649
Investment	22,800
Differences of foreign currency conversion	(774)
Gains or losses that are included in other comprehensive income	22,240
30 June 2017	234,915
1 January 2016	150,000
Investment	4,314
Gains or losses that are included in other comprehensive income	3,313
30 June 2016	157,627

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables, short-term borrowings, payables. The carrying amount of the financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE (CONTINUED)

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

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

- Accounts receivable
- Other receivables
- Interest receivable
- Other current assets
- Cash at bank and on hand
- Short-term borrowings
- Notes payable
- Accounts payable
- Interest payable
- Other payables

14 CAPITAL MANAGEMENT

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

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

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

As at 30 June 2017 and 31 December 2016, the Group's asset-liability ratio is as follows:

	30 June 2017	31 December 2016
Total liabilities	**786,000**	300,000
Total equity	**3,633,885**	3,510,218
Asset-liability ratio	**22%**	9%

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	30 June 2017	31 December 2016
Accounts receivable	**532,319**	905,113
Less: Provision for bad debts	**(21,161)**	(7,322)
	511,158	897,791

(a) The ageing of accounts receivable are analysed below:

	30 June 2017	31 December 2016
Within 90 days	**513,537**	893,498
90 days to 180 days	**6,246**	2,503
180 days to 360 days	**3,670**	–
Over 360 days	**8,866**	9,112
	532,319	905,113

As at 31 December 2016, accounts receivable of RMB4,293,000 were past due, but based on the analysis of the customers' financial status and credit record, the Group expected that the overdue amounts can be recovered, and the accounts receivable are not impaired, thus no provisions for bad debts are individually provided. As at 30 June 2017, there is no accounts receivable overdue but not impaired. The ageing analysis of these accounts receivable is set out as follows:

	30 June 2017	31 December 2016
90 days to 180 days	**–**	2,250
180 days to 360 days	**–**	–
Over 360 days	**–**	2,043
	–	4,293

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(1) Accounts receivable (continued)

(b) Accounts receivable are analysed by categories as follows:

	30 June 2017				31 December 2016			
	Accounts receivable		Provision for bad debts		Accounts receivable		Provision for bad debts	
	Amount	% of total balance	Amount	% of total provision	Amount	% of total balance	Amount	% of total provision
Amount of each item is significant and the provision for bad debts is accrued separately	**5,294**	**1%**	**(5,294)**	**100%**	3,035	1%	(3,035)	100%
Accrued provision for bad debts according to aging analysis	**216,919**	**41%**	**(11,869)**	**5%**	–	0%	–	0%
Accrued provision for bad debts according to group 1	**-**	**0%**	**-**	**0%**	897,791	99%	–	0%
Accrued provision for bad debts according to group 2	**-**	**0%**	**-**	**0%**	1,402	0%	(1,402)	100%
Accrued provision for bad debts according to group 3	**-**	**0%**	**-**	**0%**	–	0%	–	0%
Amount of each item is non significant while the provision for bad debts is accrued separately	**3,998**	**1%**	**(3,998)**	**100%**	2,885	0%	(2,885)	100%
Accounts receivable from subsidiaries	**306,108**	**58%**	**-**	**0%**	–	0%	–	0%
	532,319	**100%**	**(21,161)**	**4%**	905,113	100%	(7,322)	1%

(c) As at 30 June 2017, the account receivable amount of each item is significant and the provision for bad debts is accrued separately as follow:

	Amount	Provision for bad debts	Proportion of accrual	Reason
Accounts receivable 1	1,093	(1,093)	100%	(i)
Accounts receivable 2	968	(968)	100%	(ii)
Accounts receivable 3	751	(751)	100%	(iii)
Accounts receivable 4	686	(686)	100%	(iv)
Accounts receivable 5	649	(649)	100%	(v)
Others	1,147	(1,147)	100%	
	5,294	(5,294)	100%	

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(1) Accounts receivable (continued)

(c) As at 30 June 2017, the account receivable amount of each item is significant and the provision for bad debts is accrued separately as follow: (continued)

(i) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB1,093,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(ii) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB968,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(iii) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB751,000, since the mall had already gone into liquidation, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(iv) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB686,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(v) As at 30 June 2017, accounts receivable due from one shopping mall amounted to RMB649,000, since the mall had already gone into cashflow shortage, the Group deemed the recoverability of the receivables very low and full bad debt provision has been made accordingly.

(d) For the 6 months ended 30 June 2017, the Group accrued provision for bad debts of RMB14,144,000, and reversed provision for bad debts of RMB305,000.

(e) For the 6 months ended 30 June 2017, no accounts receivable have been written off in the Group.

(f) As at 30 June 2017, the top five balance of accounts receivable are summarized as below:

	Amount	Provision for bad debts	% of total accounts receivable balance
The top five balance of accounts receivable	303,506	(305)	57%

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(1) Accounts receivable (continued)

(g) As 30 June 2017, there is no accounts receivable derecognized due to the transfer of financial assets (31 December 2016: nil).

(2) Other receivables

	30 June 2017	31 December 2016
Other receivables from subsidiaries	**2,119,594**	1,532,762
Deposits	**43,535**	42,584
Staff advances	**2,967**	1,285
Others	**–**	1,457
	2,166,096	1,578,088
Less: Provision for bad debts	**(4,023)**	(2,888)
	2,162,073	1,575,200

(a) Other receivables are analysed below:

	30 June 2017	31 December 2016
Within 1 year	**2,162,014**	1,574,927
1 to 2 years	**1,324**	2,926
2 to 3 years	**2,758**	235
	2,166,096	1,578,088

As at 31 December 2016, other receivables of RMB373,000 were past due, but based on the analysis of the debtors' financial status and credit record the Group expected that the overdue amounts can be recovered, and the other receivables are not impaired, thus no provisions for bad debts are individually provided. As at 30 June 2017, there is no accounts receivable overdue but not impaired. The ageing analysis of these other receivables is set out as follows:

	30 June 2017	31 December 2016
1 to 2 years	**–**	278
2 to 3 years	**–**	95
	–	373

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) Other receivables (continued)

(b) Other receivables are analysed by categories as follows:

	30 June 2017				31 December 2016			
	Other receivables		**Provision for bad debts**		Other receivables		Provision for bad debts	
	Amount	**% of total balance**	**Amount**	**% of total provision**	Amount	% of total balance	Amount	% of total provision
Amount of each item is significant and the provision for bad debts is accrued separately	**516**	**0%**	**(516)**	**100%**	516	0%	(516)	100%
Accrued provision for bad debts according to aging analysis	**45,986**	**2%**	**(3,507)**	**8%**	–	0%	–	0%
Accrued provision for bad debts according to group 1	**-**	**0%**	**-**	**0%**	39,696	3%	–	0%
Accrued provision for bad debts according to group 2	**-**	**0%**	**-**	**0%**	2,372	0%	(2,372)	100%
Accrued provision for bad debts according to group 3	**-**	**0%**	**-**	**0%**	1,535,504	97%	–	0%
Amount of each item is non significant while the provision for bad debts is accrued separately	**-**	**0%**	**-**	**0%**	–	0%	–	0%
Other receivables from subsidiaries	**2,119,594**	**98%**	**-**	**0%**	–	0%	–	0%
	2,166,096	**100%**	**(4,023)**	**0%**	1,578,088	100%	(2,888)	0%

(c) As at 30 June 2017, the other receivables amount of each item is significant and the provision for bad debts is accrued separately as follow:

	Amount	**Provision for bad debts**	**Proportion of accrual**	**Reason**
Other receivables [1]	516	(516)	100%	(i)

(i) As at 30 June 2017, deposit receivable from one shopping mall amounted to RMB516,000. Since the shopping mall had already gone into liquidation, the Company deemed the recoverability of the receivables very low, therefore full bad debt provision has been made accordingly.

(d) For the 6 months ended 30 June 2017, the Company accrued provision for bad debts of RMB1,135,000, and no provision of bad debts reversed.

(e) For the 6 months ended 30 June 2017, no other receivables have been written off in the Company.

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(2) Other receivables (continued)

(f) As at 30 June 2017, the top five balance of accounts receivable are summarized as below:

	Nature	Amount	Ageing	% of total other receivables balance	Provision for bad debts
Shanghai Weile	Receivable from subsidiaries	883,327	Within 1 year	41%	–
Shanghai Xiawei	Receivable from subsidiaries	331,922	Within 1 year	15%	–
Shanghai Le'ou	Receivable from subsidiaries	276,465	Within 1 year	13%	–
Taicang Lacha	Receivable from subsidiaries	119,943	Within 1 year	6%	–
Lacha Xiuxian	Receivable from subsidiaries	90,188	Within 1 year	4%	–
		1,701,845		79%	–

(g) As at 30 June 2017, the Company has no government subsidy receivable.

(3) Long-term equity investments

	30 June 2017	31 December 2016
Subsidiary (a)	**863,650**	817,650
Less: Provision for impairment of long-term equity investments	**–**	–
	863,650	817,650

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term equity investments (continued)

(a) Subsidiary

	31 December 2016	Movement in the current period: Additional investment	Movement in the current period: Disinvestment	30 June 2017	Provision for impairment
Hangzhou Anshe (Note 5(1))	208,000	–	–	208,000	–
Enterprise Management	162,750	–	–	162,750	–
Shanghai Chongan	150,000	–	–	150,000	–
Taicang LaCha	95,000	–	–	95,000	–
Jack Walk	75,000	–	–	75,000	–
Shanghai Weile	50,000	–	–	50,000	–
Shanghai Youshi	20,000	–	–	20,000	–
Shanghai Le'ou	10,400	–	–	10,400	–
Tianjin LaCha	10,000	–	–	10,000	–
Chengdu Lewei	10,000	–	–	10,000	–
Fujian Lewei	10,000	–	–	10,000	–
Shanghai Xiawei	5,000	–	–	5,000	–
Shanghai Langhe	5,000	–	–	5,000	–
Lacha Xiuxian	5,000	–	–	5,000	–
Chengdu Lacha	500	–	–	500	–
Chongqin LeWei	500	–	–	500	–
Beijing Lacha	500	–	–	500	–
Jiatuo (Shanghai) Information Technology Co., Ltd.	–	1,000	–	1,000	–
Jiuwo	–	20,000	–	20,000	–
Fuzhou Badi Fashion Co., Ltd.	–	10,000	–	10,000	–
Shanghai Pincheng Industry Co., Ltd.	–	15,000	–	15,000	–
	817,650	46,000	–	863,650	–

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Long-term equity investments (continued)

(a) Subsidiary (continued)

	31 December 2015	Movement in the current period: Additional investment	Movement in the current period: Disinvestment	31 December 2016	Provision for impairment
Hangzhou Anshe(Note 5(1))	208,000	–	–	208,000	–
Enterprise Management	12,750	150,000	–	162,750	–
Shanghai Chongan	150,000	–	–	150,000	–
Taicang LaCha	95,000	–	–	95,000	–
Jack Walk	75,000	–	–	75,000	–
Shanghai Weile	1,000	49,000	–	50,000	–
Shanghai Youshi	–	20,000	–	20,000	–
Shanghai Le'ou	10,400	–	–	10,400	–
Tianjin LaCha	10,000	–	–	10,000	–
Chengdu Lewei	10,000	–	–	10,000	–
Fujian Lewei	–	10,000	–	10,000	–
Shanghai Xiawei	5,000	–	–	5,000	–
Shanghai Langhe	5,000	–	–	5,000	–
Lacha Xiuxian	5,000	–	–	5,000	–
Chengdu Lacha	500	–	–	500	–
Chongqin LeWei	500	–	–	500	–
Beijing Lacha	500	–	–	500	–
	588,650	229,000	–	817,650	–

(4) Revenue and cost of sales

Prime operating revenue and cost of sales

	For the 6 months ended 30 June 2017		For the 6 months ended 30 June 2016	
	Prime operating revenue	**Prime cost of sales**	Prime operating revenue	Prime cost of sales
Retail	**1,919,812**	**1,188,119**	1,566,305	645,724

(5) Investment income

There is no significant restriction on the remittance of investment income.

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Investment income from long-term equity investments using cost method	**583,277**	26,120

(All amounts in RMB'000 unless otherwise stated)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Losses from disposal of non-current assets	**(191)**	(767)
Government grants recognised in profits	**58,590**	31,843
Other non-operating income and expenses other than aforesaid items	**(2,928)**	69
Subtotal of non-recurring profit before tax	**55,471**	31,145
Impact of income tax expense	**(13,944)**	(7,815)
Impact on the minority interests, net of tax	**(4,469)**	(73)
Subtotal of non-recurring profit attributable to equity owners of the Company, net of tax	**37,058**	23,257

2 RECONCILIATION OF FINANCIAL STATEMENTS PREPARED USED CAS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS("IFRS")

Since the H Shares of the Company became listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has prepared its financial statements under both IFRS and CAS. The net assets as at 31 December 2016, and the net profit for the 6 months ended 30 June 2016 under IFRS and CAS are consistent. According to the approval of the shareholders' meeting on 28 July 2017, only one set of financial statement would be prepared under CAS for periods ending on or after 1 January 2017. There is no difference between the financial statements prepared used CAS and IFRS.

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)	
	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Net profit attributable to equity owners of the Company	**8.22**	8.91
Net profit attributable to equity owners of the Company after deducting non-recurring profit or loss	**7.14**	8.19

(All amounts in RMB'000 unless otherwise stated)

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

	Basic earnings per share (RMB Yuan)	
	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Net profit attributable to equity owners of the Company	**0.57**	0.58
Net profit attributable to equity owners of the Company after deducting non-recurring profit or loss	**0.50**	0.53

	Diluted earnings per share (RMB Yuan)	
	For the 6 months ended 30 June 2017	For the 6 months ended 30 June 2016
Net profit attributable to equity owners of the Company	**0.57**	0.58
Net profit attributable to equity owners of the Company after deducting non-recurring profit or loss	**0.50**	0.53