La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.

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

ANNUAL REPORT 2017

(Stock Code: 06116)

Contents

Corporate Profile

Corporate Profile

Shanghai La Chapelle Fashion Co., Ltd. (the "**Company**") was incorporated in the People's Republic of China (the "**PRC**" or "**China**") as a joint stock company on 23 May 2011 converting from its predecessor, Shanghai Xuhui La Chapelle Fashion Limited that was founded in 1998. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") since 9 October 2014 (the "**Hong Kong Listing Date**"), and the A shares of the Company have been listed on the Main Board of the Shanghai Stock Exchange since 25 September 2017.

The Company and its subsidiaries (the "**Group**") are a fast-growing multi-brand fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market ladies' casualwear. The Group strives to offer customers the latest fashions at competitive prices through a wide range of apparel products under ten proprietary brands (namely La Chapelle, Puella, 7m, Candie's, La Babité, JACK WALK, Pote, MARC ECKŌ, 8em and UlifeStyle) and several invested brands (OTHERMIX, O.T.R, Siastella, tanni, Kin, Mum Meet Me, Maria Luisa, NN and Gartine).

The Group sells apparel products directly to retail customers through both physical retail points and online platforms, 100% of which are directly controlled and operated by the Group (save as those retail points under the investing brands). As at 31 December 2017, the Group's extensive nationwide retail network comprised 9,448 retail points located in approximately 2,783 department stores and shopping malls across all 31 provinces, autonomous regions and municipalities in Mainland China.


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LA CHAPELLE

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Corporate Information

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

ENGLISH NAME
Shanghai La Chapelle Fashion Co., Ltd.

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

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

COMPANY'S WEBSITE
www.lachapelle.cn

DIRECTORS

Executive Directors
Mr. Xing Jiaxing *(Chairman)*
Mr. Yu Qiang

Non-executive Directors
Mr. Lu Weiming
Mr. Luo Bin

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

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

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

REMUNERATION AND APPRAISAL COMMITTEE
Mr. Zhang Zeping *(Chairman)*
Mr. Lu Weiming
Dr. Chen Jieping

BUDGET COMMITTEE
Dr. Chen Jieping *(Chairman)*
Mr. Luo Bin
Mr. Lu Weiming
Mr. Chan, Wing Yuen Hubert

STRATEGY AND DEVELOPMENT COMMITTEE
Mr. Xing Jiaxing *(Chairman)*
Mr. Yu Qiang
Mr. Luo Bin
Mr. Lu Weiming
Mr. Zhang Zeping

SUPERVISORS
Mr. Cheng Fangping *(Chairman)*
Mr. Wu Jinying
Ms. Liu Mei

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

AUTHORIZED REPRESENTATIVES
Ms. Fang Xian Li
Mr. Yu Qiang

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

AUDITOR
PricewaterhouseCoopers
Zhong Tian LLP (Special General Partnership)

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

PRINCIPAL BANKERS
Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking Corporation Ltd.

STOCK CODE
6116

* *for identification purpose only*

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Financial Highlights

FINANCIAL SUMMARY

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

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**8,998,709**	8,550,867	9,095,708	7,814,169	6,225,087
Gross profit	**5,627,804**	5,479,566	6,198,430	5,364,511	4,283,377
Gross profit margin	**62.5%**	64.1%	68.1%	68.7%	68.8%
Operating profit	**737,493**	686,972	828,396	733,560	589,530
Operating profit margin	**8.2%**	8.0%	9.1%	9.4%	9.5%
Profit for the year	**537,440**	572,267	658,398	511,211	413,373
Profit attributable to equity owners of the Company	**498,527**	531,963	615,251	503,452	407,298
Non-controlling interests	**38,913**	40,304	43,147	7,759	6,075

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**2,817,072**	2,224,927	1,538,487	1,095,561	957,731
Current assets	**5,054,640**	4,078,716	4,330,241	4,635,506	2,934,846
Total assets	**7,871,712**	6,303,643	5,868,728	5,731,067	3,892,577
EQUITY AND LIABILITIES					
Total equity	**4,069,228**	3,510,218	3,309,878	3,107,142	1,263,348
Non-current liabilities	**67,039**	68,939	57,573	51,042	6,725
Current liabilities	**3,735,445**	2,724,486	2,501,277	2,572,883	2,622,504
Total liabilities	**3,802,484**	2,793,425	2,558,850	2,623,925	2,629,229
TOTAL EQUITY AND LIABILITIES	**7,871,712**	6,303,643	5,868,728	5,731,067	3,892,577

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

The Company has prepared its financial statements in accordance with the China Accounting Standards for Business Enterprises (the "**CAS**") since 28 July 2017, in light of the then proposed listing of the A Shares of the Company and in order to improve the efficiency and reduce the cost of disclosures and audit expenses. The consolidated results for 2016 shown herein were adjusted in accordance with the CAS, while the consolidated results for 2015, 2014 and 2013 were still prepared in accordance with the International Financial Reporting Standards.


ATHLETICS
ATHLETICS
JACK WALK

Chairman's Statement

Dear Shareholders,

The Group was successfully listed on the A-share market in 2017, making it the first A+H dual listed apparel company in China.

China's economy maintained stable growth in 2017, with consumption remaining as its major driver. The apparel industry saw growth amid this stable environment and accelerated its industrial transformation and upgrading and its online-offline integration during the past year. Recovery gained pace in both the men's apparel and the mid-to high-end women's apparel segments, while the casual wear segment was still in the process of adjustment.

For the 12 months ended 31 December 2017 (the "**Reporting Period**"), the Group's revenue saw a year-on-year increase of 5.2% to RMB8,998.7 million and the net profit attributable to the shareholders of the Company had a year-on-year decrease of 6.3% to RMB498.5 million. The decrease in the net profit attributable to the shareholders of the Company was mainly due to i) the closure of more than 1,000 loss-making stores during 2017; ii) the effect caused by the adjustment of certain department stores; and iii) the fostering of newly invested brands, which has caused certain effects on profits. As at 31 December 2017, the Group had a total of 9,448 retail stores covering 31 provinces, municipalities and autonomous regions across China.

During the Reporting Period, the Group took a customer-orientated approach and provided consumers with quality services and products that represented good value for money.

To accurately meet consumer demands and respond to changes in the market, the Group initiated a "52-week product plan" during the Reporting Period. It executed product planning and design based on a 52-week timescale and prepared different products for different temperature zones to improve its performance and enhance utilization efficiency.

The Group also rolled out the radio frequency identification (RFID) system during the Reporting Period, enabling it to track the path of a single product or a single piece of clothing through the whole chain, from supplier to warehouse to store. Meanwhile, it increased the transparency of store inventories and refined the management of goods by deepening the application of the RFID system in stores.

On the e-commerce business front, the Group continuously strengthened its online product portfolio and increased integration online and offline. It also offered exclusive styles for e-commerce. During the Reporting Period, the Group's e-commerce maintained stable high growth.

The Group's stores maintained net growth in the number during the Reporting Period, and the proportion of stores in shopping centers continued to grow.

The year 2017 was the first year of adjustment for the Group. We went through the processes of all business departments in the previous year. 2018 will be a "year of reform" promoted through reshaping the Group's internal structure and improving the skills of its staff. I am convinced that the Group can achieve sustainable development through persistent learning, by embracing change, and by forging ahead with concentrated effort.

On behalf of the Company's board of directors, I would like to express my sincere gratitude to the Group's shareholders, business partners, customers and employees for their unstinting support. Going forward, the Group will continue to pursue robust growth and maximizing shareholder value.

Xing Jiaxing
Chairman of the Company

22 March 2018


Candie's.

Management Discussion and Analysis

INDUSTRY REVIEW

According to statistical data from the National Bureau of Statistics, China's gross domestic product (GDP) for the year 2017 increased by 6.9%, representing an increase of 0.2 percentage point in the growth rate compared to that of 2016, which is above market expectation. Total retail sales of consumer goods represented a year-on-year nominal growth of 10.2% compared to the increase of 10.4% in 2016. Online retail sales continued their rapid growth, with a year-on-year increase of 32.2% (2016: 26.2%). The year 2017 marked a new era for retail industry with online retailers seeking cooperation opportunities with offline retailers while offline retailers speeding up in the use of big data to facilitate sales.

According to statistical data from the China National Commercial Information Center, retail sales by the top 100 retail enterprises within the PRC in 2017 increased by 2.8% as compared to a decrease of 0.5% in 2016. Retail sales of apparel products increased by 4.5% in 2017, compared to a decrease of 1.8% during the same period in the previous year.

During the Reporting Period, the mid to high end women's apparel segment picked up its pace of recovery. The men's apparel segment also saw a new round of growth after a reform of products and channels, while the casual wear segment was still in the process of adjustment. Despite intensifying competition, e-commerce still maintained a relatively rapid growth.

The Group was successfully listed on the Shanghai Stock Exchange in 2017, making it the first A+H dual-listed apparel company in China. During the Reporting Period, the Group rolled out an RFID (radio frequency identification) system and deepened its application in stores to refine the management of goods. It also began the classification of its products and shops in the hope of improving the circulation of products and the effectiveness of shop management. Additionally, the Group continued to optimize its store network and to upgrade its store image.

FINANCIAL REVIEW

For the year 2017, the Group's revenue and operating profit reached RMB8,998.7 million and RMB737.5 million respectively, representing an increase of 5.2% in the Group's revenue and an increase of 7.4% in operating profit as compared with that of 2016. The net profit attributable to shareholders of the Company in 2017 amounted to RMB498.5 million, representing a decrease of 6.3% as compared with that of 2016.

Revenue

The revenue of the Group in 2017 saw a steady growth, increasing from RMB8,550.9 million in 2016 to RMB8,998.7 million in 2017, representing an increase of 5.2%. The growth in revenue was mainly attributable to sales growth from standalone retail outlets and online platforms. The number of retail points of the Group increased from 8,907 as at 31 December 2016 to 9,448 as at 31 December 2017.

Revenue by distribution channel

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

	Year ended 31 December			
	2017		2016	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
Concessionaire counters	**3,900,127**	**43.4**	4,388,648	51.4
Standalone retail outlets	**3,729,856**	**41.4**	3,217,499	37.6
Online platform	**1,340,806**	**14.9**	925,592	10.8
Franchise/Associate	**3,497**	**0.0**	18,510	0.2
Others	**24,423**	**0.3**	618	0.0
Total	**8,998,709**	**100.0**	8,550,867	100.0

The revenue from concessionaire counters decreased from RMB4,388.6 million in 2016 to RMB3,900.1 million in 2017, representing a decrease of 11.1% which was due to a customer traffic decline stemming from the ageing of sales channel in traditional department stores. The revenue from standalone retail outlets increased from RMB3,217.5 million in 2016 to RMB3,729.9 million in 2017, representing an increase of 15.9%. The growth was mainly attributable to the increase in number of standalone retail points from 3,175 as at 31 December 2016 to 3,728 as at 31 December 2017. The group's online businesses maintained a rapid growth in 2017, recording revenue of RMB1,340.8 million in 2017, representing a year-on-year increase of 44.9%. The increase was mainly attributable to improved operational capability in e-commerce business and the positive influence of the Group's multi-brand strategy. The revenue from Franchise/Associate decreased by 81.1% from RMB18.5 million in 2016 to RMB3.5 million in 2017, which was mainly attributable to the change of sales model of the menswear brand JACK WALK from franchising to direct selling. Others mainly comprises revenue from rendering services.

Revenue by brand

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

	Year ended 31 December			
	2017		2016	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
La Chapelle	**2,227,713**	**24.8**	2,251,331	26.3
Puella	**1,832,718**	**20.4**	2,037,124	23.8
Candie's	**575,761**	**6.4**	589,387	6.8
7m	**1,488,803**	**16.5**	1,312,995	15.4
La Babité	**1,320,810**	**14.7**	1,032,224	12.1
JACK WALK/Pote	**490,662**	**5.5**	418,080	4.9
MARC ECKŌ	**32,053**	**0.4**	20,822	0.2
La Chapelle Kids	**98,193**	**1.1**	91,138	1.1
UlifeStyle	**449,642**	**5.0**	458,147	5.4
O.T.R	**73,521**	**0.8**	9,589	0.1
Siastella	**27,772**	**0.3**	5,666	0.1
OTHERMIX	**353,400**	**3.8**	323,746	3.8
Mum Meet Me/Kin	**3,238**	**0.0**	–	–
Others	**24,423**	**0.3**	618	0.0
Total	**8,998,709**	**100.0**	8,550,867	100.0

In 2017, La Chapelle and Puella continued to be top two of the brands in terms of their revenue contribution to the Group. Sales from both brands accounted for 45.2% of the Group's total sales, representing a decrease by 4.9 percentage points from 50.1% in 2016. In particular, revenue from the brand Puella decreased by 10.0% compared to that from the corresponding period of 2016 as a result of the drop in revenue contributed by existing stores and slower expansion of new stores. In 2017, other major womenswear brands of the Group (7m, La Babité, etc.) continued to maintain good growing trend in revenue. Particularly, sales from La Babité witnessed a year-on-year increase of 28.0%, mainly due to expansion of store network and optimization of merchandizing. Menswear brands (JACK WALK, Pote, MARC ECKŌ), which are still in development phase, experienced an increase of 19.1% in revenue as compared to the corresponding period of last year with the contribution to the Group's sales from 5.1% in 2016 to 5.8% in 2017. Revenue from the brand UlifeStyle decreased 1.9% as compared to 2016, mainly attributable to the decrease in store numbers.

Revenue by tier of cities

The following table sets out the revenue breakdown by tier of cities (including revenue from online platform) during the years indicated:

	Year ended 31 December			
	2017		2016	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
First-tier cities	**1,132,647**	**12.6**	1,111,146	13.0
Second-tier cities	**3,829,223**	**42.6**	3,595,485	42.0
Third-tier cities	**2,231,023**	**24.8**	2,118,777	24.8
Other cities	**1,805,816**	**20.0**	1,725,459	20.2
Total	**8,998,709**	**100.0**	8,550,867	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 2017, mainly attributable to the stable expansion of retail network of the Group nationwide. During the Reporting Period, there is no material change in the contribution of each tier of cities to the Group's 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) during the years indicated:

	Year ended 31 December			
	2017		2016	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
Tops	**6,174,489**	**68.6**	5,857,536	68.5
Bottoms	**1,014,228**	**11.3**	863,410	10.1
Dresses	**1,743,119**	**19.3**	1,762,487	20.6
Accessories	**42,450**	**0.5**	66,816	0.8
Others	**24,423**	**0.3**	618	0.0
Total	**8,998,709**	**100.0**	8,550,867	100.0

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

In 2017, revenue from both tops and bottoms, from perspective of product classification, experienced a year-on-year increase. Sales from tops grew by 5.4% and the sales from bottoms increased by 17.5%. Sales from dresses decreased by 1.1%.

Cost of Sales

The cost of sales of the Group increased by 9.8% from RMB3,071.3 million in 2016 to RMB3,370.9 million in 2017.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased from RMB5,479.6 million in 2016 to RMB5,627.8 million in 2017, up by 2.7%, mainly attributable to a drastic growth in online business, revenue of which increased by RMB415.2 million and gross profit of which increased by RMB267.0 million.

The gross profit margin of the Group decreased to 62.5% in 2017 from 64.1% in 2016, mainly due to a year-on-year decrease in average unit selling price in 2017 and an increase in share of sales from online platforms which has a lower gross margin compared with that of brick-and-mortar outlets.

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses in 2017 amounted to RMB4,354.9 million (2016: RMB4,045.3 million), consisting primarily of employee benefits expenses amortization of long-term prepaid expenses and rental fees, marketing and promotional expenses, travelling and communication expenses and other expenses relating to selling and marketing activities. Selling and distribution expenses accounted for 48.4% (2016: 47.3%) of the total revenue in 2017, of which the share of expenditures regarding employee benefits expenses amortization of long-term prepaid expenses and e-commerce increased compared to that of 2016. Administrative expenses for 2017 amounted to RMB389.3 million (2016: RMB391.7 million), consisting primarily of administrative employee benefit expenses, rental fees for offices, amortization of intangible assets and travelling and communication expenses. Administrative expenses as a percentage of total revenue of the Group in 2017 was 4.3% (2016: 4.6%), mainly attributable to an increase in the Group's sales while the administrative expense remaining stable as compared to those of the last year.

Asset impairment losses

Asset impairment losses amounted RMB236.0 million in 2017(2016: RMB264.1 million), of which RMB189.6 million was provision for inventories (2016: RMB260.7 million), and RMB46.3 million was provision for bad debts of accounts receivable and other receivables (2016: RMB3.4 million). The Group has changed its method of accounting estimate regarding provision for bad debts of accounts receivable and other receivables to align with the market practice of other A-share listed companies in the same industry effective from 1 January 2017, which led to an increase of RMB38.1 million as asset impairment losses for the year of 2017.

Other Income — Net

The Group's other income amounted to RMB129.3 million (2016: nil) in 2017, mainly from the financial subsidies of RMB129.1 million received during 2017. This form of governmental subsidy, which was recorded as non-operating income in 2016, was recorded as other income in 2017 based on the revised CAS.

Finance Expenses/Income — Net

Net finance expenses of the Group amounted to RMB16.6 million in 2017 (2016: net expenses of RMB1.6 million). The increase in net finance expenses was mainly a result of a year-on-year increase in interest expense on borrowings and a decrease in foreign exchange income.

Total Profit

Total profit of the Group amounted at RMB730.2 million in 2017 (2016: RMB768.7 million), representing a year on year decrease of 5.0%. The decrease in the total profit of the Group was primarily due to an increase in selling and distribution expense as a percentage of revenue.

Income Tax Expense

Income tax expense amounted to RMB192.8 million in 2017 (2016: RMB196.5 million). The effective income tax rate in 2017 was 26.4% (2016: 25.6%).

Net Profit and Net Profit Margin

Based on the combined factors set out above, the Group recorded a net profit of RMB537.4 million in 2017, representing a decrease by 6.1% as compared to RMB572.3 million in 2016. In particular, profit attributable to the Shareholders of the Company was RMB498.5 million, representing a decrease by 6.3% from RMB532.0 million in 2016. Net profit margin of the Group was 6.0% for the year 2017, compared to 6.7% in 2016.

Capital Expenditure

Capital expenditure of the Group primarily consisted of long-term prepaid expenditure, amounts and deposits paid for construction in progress as well as those paid for the acquisition of fixed assets and intangible assets. In 2017, the capital expenditure incurred by the Group was RMB946.2 million (2016: RMB845.5 million), which was mainly due to an increase in expenditure in construction in progress.

Cash and Cash Flow

In 2017, net cash generated from operating activities amounted to an inflow of RMB557.2 million (2016: net cash inflow of RMB705.1 million). The decrease in net cash inflow from operating activities was mainly due to increases in expenditure related to procurement and rental deposits in 2017 as compared to the corresponding period of 2016.

In 2017, net cash outflow in investing activities was RMB1,097.0 million (2016: net cash outflow of RMB1,136.1 million). Major investment activities were: 1) cash outflow of RMB946.2 million for purchase of properties, warehouses, equipment and intangible assets; and 2) net cash outflow of RMB161.1 million for investment in subsidiaries, affiliates available-for-sale financial assets and other investment. In 2016, cash used for purchase of properties, warehouses and equipment was RMB845.5 million.

In 2017, net cash inflow from financing activities was RMB774.1 million (2016: net cash outflow of RMB106.0 million). Major financing activities were: 1) obtaining bank loans of RMB706.0 million; 2) cash inflow of RMB405.3 million as proceed from A-share initial public offering; and 3) net cash outflow of RMB342.5 million for payment of dividends on share and interests.

As at 31 December 2017, the Group held cash and cash equivalents totalling RMB815.6 million (31 December 2016: RMB581.4 million).

In 2017, the average inventory turnover of the Group was 216.7 days (2016: 203.4 days), and the average receivables turnover was 42.1 days (2016: 44.1 days). The decrease in the inventory turnover was mainly due to the stock-up on winter clothes for 2018 spring festival, which is one calendar month later than that of 2017, as well as an increase in unit cost of winter products as a result of stricter environmental policy.

The Group's financial position remained solid. As at 31 December 2017, net current assets of the Group amounted to RMB1,319.2 million. Total assets less current liabilities amounted to RMB4,136.3 million, and gearing ratio (total liabilities/total assets) was 48.3%.

As the Group carries out its operations in mainland China, most of the transactions are settled in Renminbi. 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 31 December 2017, bank borrowings of the Group amounted to RMB1,006.0 million (31 December 2016: borrowing balance of RMB300.0 million), which was credit borrowings repayable within one year.

Pledge of assets

As at 31 December 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 31 December 2017, the Group had no material contingent liabilities.

Human Resources

As at 31 December 2017, the Group had 37,554 full-time employees in total (31 December 2016: 39,289). The Group offers competitive compensation package for its employees, including statutory social insurance, housing fund, commercial insurance, paid holiday and other benefits, etc. The Group also set up a union fund which aims at helping the employees with family difficulties or to whom accidents occurred. Meanwhile, the Group is dedicated to building itself a learning organization by emphasizing employee training, individual development and team spirit.

BUSINESS REVIEW

Retail Network

The map below shows the geographical distribution of the Group's retail points in the PRC as at 31 December 2017.

Tibet	0
Hainan	31
Qinghai	54
Gansu	75
Ningxia	103
Guizhou	107
Tianjin	166
Jiangxi	167
Yunnan	185
Hei longjiang	208
Inner Mongolia	210
Jiling	219
Chongqing	225
Xinjiang	227
Shanxi	230
Guangxi	242
Hunan	251
Anhui	284
Shanghai	288
Shaanxi	294
Beijing	363
Zhejiang	370
Hebei	377
Liaoning	389
Hubei	453
Fujian	482
Jiangsu	563
Sichuan	703
Guangdong	710
Shandong	720
Henan	752

For the year ended 31 December 2017, the retail network of the Group continued to expand, with the number of retail points increasing from 8,907 as at 31 December 2016 to 9,448 as at 31 December 2017. These retail points were situated at approximately 2,783 physical locations.

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

	As at 31 December 2017		As at 31 December 2016	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
First-tier cities	**845**	**8.9**	814	9.1
Second-tier cities	**3,505**	**37.1**	3,286	36.9
Third-tier cities	**2,677**	**28.4**	2,459	27.6
Other cities	**2,421**	**25.6**	2,348	26.4
Total	**9,448**	**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 by type of the retail points in the PRC as at 31 December 2017 and as at 31 December 2016.

	As at 31 December 2017		As at 31 December 2016	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
Concessionaire counters	**5,707**	**60.4**	5,730	64.3
Standalone retail outlets	**3,728**	**39.5**	3,175	35.6
Franchise/Associate	**13**	**0.1**	2	0.1
Total	**9,448**	**100.0**	8,907	100.0

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

	As at 31 December 2017		As at 31 December 2016	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
La Chapelle	**1,975**	**20.9**	1,855	20.8
Puella	**2,116**	**22.4**	2,090	23.4
Candie's	**944**	**10.0**	940	10.6
7m	**1,716**	**18.2**	1,610	18.1
La Babité	**1,562**	**16.5**	1,298	14.6
JACK WALK/Pote	**638**	**6.8**	700	7.9
MARC ECKŌ	**37**	**0.4**	32	0.4
La Chapelle Kids	**202**	**2.1**	171	1.9
UlifeStyle	**152**	**1.6**	191	2.1
O.T.R	**51**	**0.5**	7	0.1
Siastella	**36**	**0.4**	13	0.1
Mum Meet Me/Kin	**19**	**0.2**	–	–
Total	**9,448**	**100.0**	8,907	100.0

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

	As at 31 December			
	2017		2016	
	Number of net additional retail points	**Percentage of total (%)**	Number of net additional retail points	Percentage of total (%)
La Chapelle	**120**	**22.2**	22	2.2
Puella	**26**	**4.8**	110	10.8
Candie's	**4**	**0.7**	108	10.7
7m	**106**	**19.6**	278	27.4
La Babité	**264**	**48.8**	368	36.3
JACK WALK/Pote	**-62**	**-11.5**	167	16.5
MARC ECKŌ	**5**	**0.9**	-2	-0.2
La Chapelle Kids	**31**	**5.7**	-107	-10.6
UlifeStyle	**-39**	**-7.2**	92	9.1
O.T.R	**44**	**8.2**	-35	-3.5
Siastella	**23**	**4.3**	13	1.3
Mum Meet Me/Kin	**19**	**3.5**	–	–
Total	**541**	**100.0**	1,014	100.0

Same store sales

With the adjustment to the market structure, a portion of customer traffic in department stores was absorbed by the rapidly expanding shopping malls and online platforms. Accordingly, the same store sales growth of traditional apparel companies, which relied on department stores as their major sales channel, continued to be affected by such diversion of customer flow. Despite the Group has strategically reduced the proportion of revenue from department stores, sales proportion from concessionaire counters currently remained at 43.4% of the Group's total revenue. Despite of the fact that the Group has taken a series of measures on sales channel management and stores operation, the same store sales in 2017 decreased by 8% compared to that in 2016.

Multi-brand strategy

The Group strives to be a fashion group through the operation of a range of brands.

Through internal development, external investment or equity participation, the Group has come to own nearly 20 fashion brands covering a market spectrum from mass leisure men's and women's wear, designer brands, high-end men's and women's to children's wear.

The Group's scale maintained its stable growth in 2017. Two burgeoning womenswear brands 7m and La Babité achieved high growth. Menswear also saw growth after years of nurturing.

In 2018, the Group will focus on improving its brands' rapid response to customer demands, and will provide customers with quality products and services. The Group will increase external investment and continue to introduce new brands on its way to building a fashion group.

E-commerce business

The Group operates its womenswear online business through Hangzhou Anshe E-Commerce Company Limited ("**Hangzhou Anshe**"), a non-wholly-owned subsidiary of the Company. In 2017, the Group's e-commerce business maintained rapid growth and became a major driver in the expansion of the Group's scale. During the Reporting Period, the Group recorded online revenues of RMB1,340 million, representing an increase of 44.9% from the corresponding period of the previous year and accounting for 14.9% of the Group's total revenue.

During the Reporting Period, the Group consistently optimized its online product portfolio and the logistic efficiency of offline goods delivery to improve the shopping experience. In terms of product portfolio, the Group increased the online and offline integration and offered exclusive collections for e-commerce. For goods delivery, the Group continued to optimize the allocation of online orders and improve the delivery efficiency of e-commerce by utilizing its extensive store network and three logistical bases.

In 2017, the Group launched its online menswear business in 2017 through Shanghai Bercent Industrial Co., Ltd.* (上海品呈實業有限公司), an e-commerce menswear company into which the Group has invested. This business is still in its early development.

In 2018, the Group will continue to optimize online products and focus on flow operation and brand marketing to increase brand activity.

Information system

Information-driven operation has always been the Group's long-term strategy.

The Group rolled out a RFID scanner system in 2017, enabling it to track single products or articles of clothing through the whole supplier, warehouse and store chain. This not only raised the logistical efficiency of goods delivery, but also improved stocktaking efficiency and accuracy in stores.

During the Reporting Period, the Group extended the application of the RFID system in stores. Through RFID, the Group can monitor the inventory and display of each store and better manage store inventories.

In 2018, the Group will make an effort to establish the "52-week" product life management information system to achieve informationization of the full process from budget to product introduction and establish a comprehensive database to improve the accuracy of the research and development of products. In addition, the Group will further extend the application of the RFID system to product management, such as collecting try-on rate and display data, and strive to establish "smart" shops.

Warehouse logistics center

As of 31 December 2017, the Group had three warehouse logistic centers respectively located in Taicang, Chengdu and Tianjin responsible for nationwide goods allocation. Taicang Phase II has entered into official operation; while Tianjin Phase I and Chengdu Center have entered into trial operation.

In 2017, the Group began trials for the "52-week" delivery of goods. It conducted small-batch deliveries on a weekly basis and prepared different products for different temperature zones to control inventories within a reasonable range. Currently, it is still at the testing stage. In addition, the automatic stereoscopic warehouse of the Gorup's Taicang Phase II has put into use, improving the storage capacity of the unit area.

During the Reporting Period, the Group consistently consolidated its warehouse logistical operations capability through refining and optimizing fundamental processes.

In 2018, the Group will increase the automation of its warehouse logistics centers. It will attempt to use AGV (automated guided vehicle) transfer robots to raise labor efficiency and reduce labor costs in the product-to-person sorting of products.

Continue to entrench established sales areas and focus on improving end-employees' sales capabilities

During the Reporting Period, the Group launched an online learning platform and a grading appraisal system for store staff/managers to help improve store staff members' customer service capabilities. The Group offers systematic business knowledge and skills training for all store staff/managers, and regularly conducts graded appraisals of business skills to create a basis for targeted professional development plans and performance incentives for staff.

The online learning and appraisal grading system improved the efficiency of staff training on mobile terminals and enhanced the Group's ability to identify and retain outstanding store staff. This is significant for improving the operational efficiency and performance of the Group's stores.

The Group began the process of consolidating sales zones and establishing sales areas since 2016. Sales areas were granted authorities of store development, product management and human resources management, and they gradually improved regional management structure with the aim of enhancing decision-making efficiency, strengthening decision-making effectiveness in frontline sales, improving in-area resource sharing, and consolidating marketing capabilities.

Business outlook

In short term, the Group will still face certain pressures. In response to the changing consumer market, the Group will continue to follow customer demand trends and make reforms to improve the customers' shopping experience. In 2018, the Group will endeavour to carry out the followings:

- continue to promote the "52-week" plan, establish the product life management information system, improve the accuracy of product R&D, and efficiency in the operation of products;
- establish a standardized operations system of terminal retail points and enhance retail service capabilities;
- continue extending RFID system applications in stores and enhance refined management capabilities;
- reinforce the efforts in investment and merger and acquisition, and enhance post-investment management capabilities; and
- continue to expand the store network and improve the proportion of stores in shopping centers.

Pursuant to a resolution of Board dated 22 March 2018, the Board has approved the financial budget report of the Company for the year ending 31 December 2018. Subject to the approval of the Shareholders at the annual general meeting of the Company to be held on 15 May 2018 (the "**2017 AGM**"), taking into account the overall market condition and the competitive landscape in the industry, the Company has set the following two operation targets for 2018, being targeted sales of RMB10 billion (representing a year-on-year increase of 11.13%) and targeted operation profit of RMB 800 million (representing a year-on-year increase of 8.5%). The financial budget targets disclosed above are subject to uncertainties and risks in the industry, market and the operation of the Company, and are not intended, and do not purport, to be an indication of the Group's future performance or profitability, therefore investors should not rely on the above financial budget targets in deciding whether to invest in the shares of the Company.

Profiles of Directors, Supervisors and Senior Management

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

CHAIRMAN, EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Xing Jiaxing (邢加興), aged 45, established the Group in March 2001. Mr. Xing has been an executive Director of the Company since 9 May 2011 and is currently chief executive officer, chairman of the Board, chairman of the strategy and development committee of the Board (the "**Strategy and Development Committee**") and a member of the nomination committee (the "**Nomination Committee**").

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

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

EXECUTIVE DIRECTOR

Mr. Yu Qiang (于強), aged 44, has been serving as the chief financial officer of the Company since 3 May 2016. Mr. Yu was elected as an executive Director of the Company on 5 February 2018 and became a member of the Strategy and Development Committee on 22 March 2018 upon approval of the Board.

He was previously a finance director, director and vice general manager at Nantong Jiangshan Agrochemical & Chemical Co., Ltd.* (南通江山農藥化工股份有限公司) from January 2010 to April 2016.

He also previously served various roles at Sinochem International Corporation* (中化國際（控股）股份有限公司) from December 1998 to January 2010, including as manager of the accounting department, general manager of the analysis and appraisal department, general manager of the fund settlement department, assistant to the general manager of the finance headquarters, vice general manager and general manager of the finance headquarters.

Mr. Yu holds a bachelor degree in professional accounting from Renmin University of China (中國人民大學) and a master degree in professional accounting from the Chinese University of Hong Kong.

NON-EXECUTIVE DIRECTORS

Mr. Lu Weiming (陸衛明), aged 47, is a member of remuneration and appraisal committee of the Board (the "**Remuneration and Appraisal Committee**"), budget committee of the Board (the "**Budget Committee**"), Strategy and Development Committee and a non-executive Director, a position which he has held since 9 May 2011. Mr. Lu joined the Group in January 2008 as a non-executive director of the Company.

Mr. Lu is currently a partner of Boxin (Tianjin) Equity Investment Management Partnership (Limited Partnership)* (博信（天津）股權投資管理合夥企業（有限合夥）), which is involved in private equity investment and is a general partner of one of the shareholders of the Company, Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership)* (博信一期（天津）股權投資基金合夥企業（有限合夥）).

Mr. Lu was a director at Dalian East New Energy Development Co., Ltd.* (大連易世達新能源發展股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 300125) from November 2008 to February 2012 and at Shenzhen Tat Fook Technology Co., Ltd.* (深圳市大富科技股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 300134) from December 2009 to January 2013, and at Wuxi Xuelang Environment Technology Co., Ltd* (無錫雪浪環境科技股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 300385) from February 2011 to December 2015.

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

Mr. Luo Bin (羅斌), aged 46, was appointed as a non-executive Director of the Company on 5 May 2015. He is currently a member of the audit committee of the Board (the "**Audit Committee**"), Budget Committee and Strategy and Development Committee.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chen Jieping (陳杰平), aged 64, is the chairman of the Audit Committee and Budget Committee and a member of the Remuneration and Appraisal Committee, and an independent non-executive Director, a position which he has held since 29 April 2016.

Dr. Chen held positions of Assistant Professor, Associate Professor, vice head and head of the Department of Accountancy of the City University of Hong Kong from 1991 to 2008. He has been the Associate Dean, Director of the EMBA programme and a professor at the China Europe International Business School since 2008.

Dr. Chen was an independent non-executive director of Industrial Securities Co., Ltd., (興業證券股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 601377) from 2011 to August 2017. He has been an independent non-executive director of Shenzhen Worldunion Properties Consultancy Incorporated, (深圳世聯行地產顧問股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 2285) since 2013; an independent non-executive director of iOne Holdings Limited, (now known as HJ Capital (International) Holdings Company Limited (華金國際資本控股有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 0982) since 2014; an independent non-executive director of Jinmao (China) Investments Holdings Limited (金茂(中國)酒店投資管理有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 0817) since 2014; and independent non-executive director of Zhuo Lang intelligent technology Limited (卓郎智能技術股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 600545) from September 2017.

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

Mr. Chan, Wing Yuen Hubert (陳永源), aged 60, has been an independent non-executive Director of the Company since 25 July 2016. He is currently the chairman of the Nomination Committee and a member of the Audit Committee and the Budget Committee.

Profiles of Directors, Supervisors and Senior Management

Mr. Chan is currently the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司) and the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司). Mr. Chan, Wing Yuen Hubert has held various positions with a number of companies listed on the Hong Kong Stock Exchange for over 10 years, including an executive director of China Pipe Group Limited (中國管業集團有限公司) (now known as "Softpower International Limited" (冠力國際有限公司)) (a company listed on the Hong Kong Stock Exchange, stock code: 0380) and Interchina Holdings Company Limited (國中控股有限公司) (now known as "EverChina Int'l Holdings Company Limited" (潤中國際控股有限公司)) (a company listed on the Hong Kong Stock Exchange, stock code: 0202), an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (now known as "China Smarter Energy Group Holdings Limited" (中國智慧能源集團控股有限公司)) (a company listed on the Hong Kong Stock Exchange, stock code: 1004) and a director of Guangdong Investment Limited (粵海投資有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 0270). Mr. Chan has been the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司)(a company listed on the Hong Kong Stock Exchange, stock code: 0475) since November 2011, the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 8246) since August 2014 and an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 1980) since June 2014; an independent non-executive director of FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 6088) since November 2016.

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

Mr. Zhang Zeping (張澤平), aged 44, has been an independent non-executive Director of the Company since 12 May 2017. He is currently the chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee. Mr. Zhang obtained a doctoral degree in International Economic Law from East China University of Political Science and Law and a post doctorate degree in Law from Xiamen University. He was a visiting scholar at New York University.

Mr. Zhang Zeping worked as an English teacher at School of Fundamental Studies of Shanghai University of Engineering Science from July 1997 to September 2000. From May 2003 until now, he has served as a lecturer, associate professor and professor at School of International Law of East China University of Political Science and Law. He has also served as a director and professor at Centre for International Tax Law of East China University of Political Science and Law since September 2008. Mr. Zhang was also the person-in-charge of the consular section of the Embassy of the People's Republic of China in the Republic of Macedonia from June 2006 to July 2008. He has been a part-time lawyer in Shanghai Jintiancheng Law Firm since October 2008 and an independent non-executive director of Kunshan Xiefu New Material Co., Ltd. (昆山協孚新材料股份有限公司) since March 2015. Mr. Zhang has been the arbitrator of Shanghai International Arbitration Center since May 2016 and an independent non-executive director of Bulls Group Co., Ltd. since December 2017.

SUPERVISORS

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

Mr. Cheng Fangping (程方平), aged 42, is a Supervisor of the Company since 16 March 2017. He has joined the Company on 1 March 2017 and has been serving as the chief manager of the human resources department of the Company since then. Before joining the Company, he had served as human resources director of Shanghai Hotmed Sciences Company Limited from September 2012 to February 2017. He also worked at Sinochem International Corporation as human resources deputy general manager from February 2011 to August 2012, general manager assistant from March 2009 to January 2011, and human resources manager and salaries and benefits manager from July 2006 to February 2009. In addition, he had served as human resources deputy manager from April 2004 to March 2006 and salary and benefit manager from November 2000 to March 2004 at China Construction Eighth Engineering Division Corp. Ltd, and served as human resources specialist at the Dalian branch from July 1998 to October 2000.

Mr. Cheng obtained his bachelor degree in investment and economic management from Dongbei University of Finance & Economics in 1998 and he obtained an EMBA degree from Fudan University in June 2017.

Mr. Wu Jinying (吳金應), aged 44, is a Supervisor of the Company (since 8 November 2015) and senior technical manager (software development) of the IT department of the Company. He is a system analyst in the IT department of the Company and subsequently promoted to the system R&D manager.

Mr. Wu graduated from senior high school in 1995.

Ms. Liu Mei (劉梅), aged 32, is a Supervisor of the Company since 18 December 2017 and is also serving as a deputy director of the legal department of the Company. She joined the Company in February 2008 and has served in the legal department as an officer from February 2008 to August 2010, manager from September 2010 to May 2015 and has been serving as a deputy director of the legal department since June 2015. Ms. Liu obtained her bachelor degree in law from East China University of Political Science and Law (華東政法大學) in January 2014.

SENIOR MANAGEMENT

Mr. Yin Xinzai (尹新仔), aged 46, was appointed as vice president of sales and marketing of the Company on 1 September 2013. He joined the Company in June 2013 and was designated as a general manager of sales and marketing in August 2013. Mr. Yin is responsible for the overall sales and marketing. Prior to joining the Company, Mr. Yin worked at Joeone Co., Ltd. (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd. (杭州九軒服飾有限公司) from June 2012 to May 2013. Both companies are in the PRC fashion industry. Mr. Yin is pursuing an EMBA degree at Xiamen University.

Mr. Chen Bin (陳賓), aged 39, was appointed as vice president of the Company on 22 March 2018. Prior to joining the Group, Mr. Chen had held position of technical sales in Duokenshengte International Trading (Shanghai) Co., Ltd. (多墾升特國際貿易（上海）有限公司) from September 2004 to November 2005. He also served as product sales manager at 3M (China) Co., Ltd. (3M（中國）有限公司) from December 2005 to March 2007. Mr. Chen was a business development manager at Askland (China) Co., Ltd. (亞什蘭（中國）有限公司) from April 2007 to August 2010 and deputy general manager at the business development department of Sinochem International (holding) Limited (中化國際（控股）股份有限公司) from September 2010 to February 2018.

Mr. Chen obtained a diploma in Chemical Engineering from Tsinghua University in 2001. He obtained a master degree of polymer materials from Tsinghua University in 2004.

Ms. Fang Xian Li (方先麗), aged 45, secretary of board of directors of the Company since June 2016. Prior to joining the Group, Ms. Fang Xian Li had held the positions of financial officer, head of external cooperation department, assistant to general manager of the Jinqiao Project, assistant to head of the organization and personnel department, assistant to general manager cum office director and assistant to executive director of capital operation department of SAIC Motor Corporation Limited (上海汽車集團股份有限公司) from August 2003 to December 2011. She has served as an executive director of Shanghai Homeland Asset Management Co., Ltd (上海嘉合明德資產管理有限公司) since August 2011. Ms. Fang was a deputy general manager and secretary of the board of directors of Kailong High Technology Co., Ltd (凱龍高科技股份有限公司) from January 2014 to November 2015. She has been a director of Zhengtai Engineering Machinery Co., Ltd. (鄭泰工程機械股份有限公司) since November 2015.

Ms. Fang obtained a diploma in heating, gas supply, ventilating and air conditioning engineering from Huazhong University of Science and Technology in 1994. She obtained a master degree, a doctoral degree in economics from Fudan University in 2000 and 2003 respectively and an Executive Master of Business Administration degree from China European International Business School in 2017.

JOINT COMPANY SECRETARIES

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

Ms. Wong Wai Ling (黃慧玲), one of the Joint Company Secretaries, is assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SW Corporate Services Group Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. Ms. Wong has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Wong has approximately 13 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Group designs, markets and sells apparel products with a focus on mass-market ladies' casual wear in the PRC. Principal activities and other particulars of the Company's subsidiaries are set out in note 6 of the consolidated financial statements.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the section headed "Management Discussion and Analysis" on pages 13 to 25 of this report. The descriptions of the financial risk management of the Group are set out in note 12 to the consolidated financial statements. Five-year financial summary of the Group is set out on page 9 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 48 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2017 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements on pages 70 to 192 of this report.

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

CAS14 – Revenue (revised in 2017) and CAS22 – Financial instruments: recognition and measurement (revised in 2017) are effective for annual reporting periods beginning on or after 1 January 2018, the Group is still evaluating the impact of the new standards.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 4(29) to the consolidated financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company are set out in note 4(28) to the consolidated financial statements.

FINAL DIVIDENDS

For the year ended 31 December 2017, the Board has proposed a final dividend of RMB0.22 (tax inclusive) per ordinary share (the "**2017 Final Dividends**") to H shareholders whose names appear on the register of members of the Company at the close of business on 24 May 2018, subject to approval by the shareholders of the Company at the 2017 AGM. Dividends on A shares will be paid in Renminbi and dividends on H shares will be paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for five business days immediately prior to the date of 2017 AGM). The payment of proposed 2017 Final Dividends is expected to be made on or about 28 June 2018 subject to shareholders' approval at 2017 AGM.

PROFIT DISTRIBUTION FOR INVESTORS OF NORTHBOUND TRADING

For investors investing in the A shares listed on the Shanghai Stock Exchange (the "**Northbound Trading**") through the Hong Kong Stock Exchange (including enterprises and individuals), their dividends will be distributed in Renminbi by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for such withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded. The record date and the date of appropriation of cash dividends and other arrangements for the investors of Northbound Trading will be the same as those for the holders of A shares of the Company.

PROFIT DISTRIBUTION FOR INVESTORS OF SOUTHBOUND TRADING

For investors investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) (the "**Southbound Trading**"), the Company has entered into the Agreement on Appropriation of Cash Dividends of H Shares for Southbound Trading (《港股通H股股票現金紅利派發協議》 with China Securities Depository and Clearing Corporation Limited, pursuant to which, China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H shares of Southbound Trading through its depositary and clearing system. The cash dividends for the investors of H shares of Southbound Trading will be paid in Renminbi. Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》)（財稅[2014]81號）and Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127) (關於深港通股票市場交易互聯互通機制試點有關稅收政策的通知)（財稅[2016]127號）: for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the H shares company shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H shares company will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves. The record date and the date of appropriation of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H shares.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES

On 15 May 2018, the Company will hold the 2017 AGM for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2017 AGM. Relevant details of the resolutions are set out in the circular and notice of the 2017 AGM dated 28 March 2018.

In order to determine the H shareholders who are entitled to attend the 2017 AGM, the register of members of the Company for H shares will be closed from 15 April 2018 to 14 May 2018 (both days inclusive), during which period no transfer of H shares of the Company can be registered. In order to be qualified to attend and vote at the 2017 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 13 April 2018.

H Shareholders whose names appear on the register of members of the Company at the close of business on 13 April 2018 are entitled to attend and vote at the 2017 AGM. Please refer to the A Share announcement published on the Shanghai Stock Exchange for the information for A Shareholders who are entitled to attend the 2017 AGM.

In order to determine the H shareholders who are entitled to receive the 2017 Final Dividends, the register of members of the Company for H shares will be closed from 19 May 2018 to 24 May 2018 (both days inclusive), during which period no transfer of H shares can be registered. In order to be qualified to receive the 2017 Final Dividends, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 18 May 2018.

H Shareholders whose names appear on the register of members of the Company at the close of business on 24 May 2018 are entitled to receive the 2017 Final Dividends. The dividend payment date and other arrangements for A Shares will be announced separately.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note 4(10) to the consolidated financial statements.

BANK LOANS AND BORROWINGS

Bank loans and other borrowings of the Company and the Group as at 31 December 2017 are set out in note 4(18) to the consolidated financial statements.

DONATIONS

As a corporate citizen, the Company is driven by its wish to create maximum value for the community where its operation is located and participated in social welfare activities. During the year ended 31 December 2017, the Group and its staff made direct donations to a number of charity organizations.

Clothing Donation of the Group in 2017:

Beneficiary	Time	Quantity (piece)
China Foundation for Disabled Persons	March 2017	977,402
Red Cross Society of Qingdao	March 2017	7,833
Red Cross Society of Chefoo,Yantai	March 2017	2,996
Red Cross Society of Anhui	March 2017	2,963
Shanghai Disabled Persons' Federation	April 2017	154,964
Total		**1,146,158**

The Group and Mr. Xing Jiaxing, the Chairman of the Board, always pay close attention to and support the career of disabled persons in China and the development of China Foundation for Disabled Persons. Since 2009, the Company has actively donated clothes to different levels of disability foundations and Red Cross Society in China. During the Reporting Period, the Group has donated a total of 1,146,158 clothes to disadvantaged persons.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2017 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Xing Jiaxing (邢加興)	Chairman, Executive Director and chief executive officer	Overall management of the Group, strategic planning and decision making	9 May 2011	March 2001
Mr. Yu Qiang[1] (于強)	Executive Director and CFO	Accounting	5 February 2018	May 2016
Mr. Wang Yong[2] (王勇)	Executive Director and executive vice president	Strategic planning and investment business	9 November 2012	April 2012
Mr. Wang Wenke[3] (王文克)	Executive Director and administrative vice president	marketing and administrative affair	17 July 2015	February 2015
Mr. Li Jiaqing[4] (李家慶)	Non-executive Director	As a non-executive Director	9 May 2011	April 2010
Mr. Lu Weiming (陸衛明)	Non-executive Director	As a non-executive Director	9 May 2011	January 2008
Mr. Cao Wenhai[5] (曹文海)	Non-executive Director	As a non-executive Director	9 May 2011	March 2010
Ms. Wang Haitong[6] (王海桐)	Non-executive Director	As a non-executive Director	31 July 2014	July 2014
Mr. Luo Bin (羅斌)	Non-executive Director	As a non-executive Director	5 May 2015	May 2015
Mr. Mao Jianong[7] (毛嘉農)	Independent non-executive Director	As an independent Director	9 May 2011	May 2011
Mr. Chen Wei[8] (陳巍)	Independent non-executive Director	As an independent Director	9 May 2011	May 2011
Dr. Chen Jieping (陳永源)	Independent non-executive Director	As an independent Director	29 April 2016	April 2016
Mr. Chan, Wing Yuen Hurbert (陳永源)	Independent non-executive Director	As an independent Director	25 July 2016	July 2016
Mr. Zhang Yi[9] (張毅)	Independent non-executive Director	As an independent Director	12 May 2017	May 2017
Mr. Zhang Zeping[10] (張澤平)	Independent non-executive Director	As an independent Director	12 May 2017	May 2017

1. The nomination of Mr. Yu Qiang as an executive Director of the third session of the Board was approved by the shareholders at the 2018 first extraordinary general meeting held on 5 February 2018. Mr. Yu joined as a member of the Strategy and Development Committee on 22 March 2018 upon approval by the Board.

2. Mr. Wang Yong resigned as an executive Director, the chairman of the Budget Committee and a member of the Strategy and Development Committee with effect from 11 December 2017, due to his commitment in his own business which requires more of his dedication.

3. Mr. Wang Wenke resigned as an executive Director, with effect from 11 December 2017, due to his commitment in his own business which requires more of his dedication.

4. Mr. Li Jiaqing ceased to be a non-executive Director, a member of the Remuneration and Appraisal Committee, a member of Budget Committee and Strategy and Development Committee of the Company with effect from 18 December 2017 as a result of a change of composition of the Board.

5. Mr. Cao Wenhai resigned as a non-executive Director and a member of the Remuneration and Appraisal Committee, with effect from 18 December 2017, due to his commitment in his own business which requires more of his dedication.

6. Ms. Wang Haitong ceased to be a non-executive Director, a member of the Budget Committee and the Strategy and Development Committee of the Company with effect from 18 December 2017 as a result of a change of composition of the Board.

7. Mr. Mao Jianong's six-year service expired on 8 May 2017. According to the Articles of Association, he no longer served as an independent non-executive Director, the chairman of the Nomination Committee, a member of the Audit Committee and the Strategy and Development Committee and a Director from the conclusion of the 2016 annual general meeting held on 12 May 2017 (the "**2016 AGM**").

8. Mr. Chen Wei's six-year service expired on 8 May 2017. According to the Articles of Association, he no longer served as an independent non-executive Director, the chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee and a Director from the conclusion of the 2016 AGM.

9. Mr. Zhang Yi had been elected as an independent non-executive Director of the third session of the Board on 12 May 2017, and subsequently ceased to be an independent non-executive Director, the Chairman of Nomination Committee, a member of the Audit Committee and the Strategy and Development Committee as a result of a change of composition of the Board with effect from 18 December 2017.

10. Mr. Zhang Zeping has been appointed as an independent non-executive Director of the third session of the Board, the Chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and the Strategy and Development Committee on 12 May 2017.

The Supervisors during the year ended 31 December 2017 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Mr. Cheng Fangping[1] (程方平)	Chairman of the Supervisory Committee and general manager of human resources	Supervision of the Board and management of the Group's human resources	16 March 2017	March 2017
Ms. Xie Hong[2] (謝宏)	Chairperson of the Supervisory Committee and general manager of human resources	Supervision of the Board and management of the Group's human resources	9 May 2011	August 2010
Ms. Yang Lin[3] (楊琳)	Supervisor	Supervision of the Board and Senior Management	9 May 2011	May 2011
Mr. Zhang Xueqing[4](張學慶)	Supervisor	Supervision of the Board and Senior Management	13 January 2014	January 2014
Mr. Wu Jinying (吳金應)	Supervisor and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001
Mr. Zhang Tao[5] (張濤)	Supervisor	Supervision of the Board and Senior Management	13 January 2014	January 2014
Ms. Liu Mei[6] (劉梅)	Supervisor and deputy director of legal department	Supervision of the Board and Senior Management	18 December 2017	February 2008

1. Mr. Cheng Fangping has been elected as the employee representative Supervisor on 10 March 2017, and has been elected as the chairperson of the Supervisory Committee on 16 March 2017.

2. Ms. Xie Hong resigned as an employee representative Supervisor and the chairperson of the Supervisory Committee to devote more time to her other personal commitments with effect from 16 March 2017 upon approval by the Supervisory Committee.

3. Ms. Yang Lin ceased to be a shareholder representative Supervisor as a result of a change of composition of the Supervisory Committee with effect from 18 December 2017.

4. Mr. Zhang Xueqing ceased to be an independent Supervisor as a result of a change of composition of the Supervisory Committee with effect from 18 December 2017.

5. Mr. Zhang Tao ceased to be an independent Supervisor as a result of a change of composition of the Supervisory Committee with effect from 18 December 2017.

6. Ms. Liu Mei has been appointed as the shareholder representative Supervisor of the third session of the Supervisory Committee to fill the vacancy of Ms. Yang Lin, with effect from 18 December 2017.

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

CONFIRMATION OF INDEPENDENCE OF INDEPDENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Save as disclosed below, each of the Directors and Supervisors has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration, which is for a period of three years from May 2017. Ms. Liu Mei has entered into a service contract for a term commencing from her appointment on 18 December 2017 and ending on the expiry of the third session of the Supervisory Committee. The appointment of Mr. Yu Qiang as an executive Director has been approved by the shareholders at the 2018 first extraordinary general meeting held on 5 February 2018. Mr. Yu has entered into a service contract for a term commencing from his appointment on 5 February 2018 and ending on expiry of the third session of the Board.

For the year ended 31 December 2017, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

None of the Director or Supervisor had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2017.

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

As at 31 December 2017, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and the 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 Listing Rules (the "**Model Code**") were as follows:

Interests and short position in the shares of the Company

Name of Director, Supervisor and Chief Executive	Nature of interest and capacity	Number of shares interested[2]	Approximate percentage of shareholding A shares as at 31 December 2017	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2017
Mr. Xing Jiaxing[1]	Beneficial owner, interest in a controlled corporation, deemed interest pursuant to section 318 of the SFO	187,078,815 A Shares (L)	56.20%	34.16%
	Beneficial owner	75,000,000 A Shares (S)	22.53%	13.69%

1. Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.90% of the total issued share capital of the Company as at 31 December 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 A Shares), which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 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 A Shares mentioned above), which represents approximately 8.25% of the total issued share capital of the Company as at 31 December 2017.

   Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017 and 7 December 2017, respectively, pursuant to which 75,000,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 35,000,000 A Shares will be repurchased on 27 November 2020, and 40,000,000 A Shares will be repurchased on 4 December 2020. All the pledged shares represent approximately 13.69% of the total issued capital of the Company as at 31 December 2017.

2. The letter "L" denotes the person's long position in Shares, while the letter "S" denotes the person's short position in Shares.

Save as disclosed above, as at 31 December 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 executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 since the Hong Kong Listing Date.

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

As at 31 December 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[6]	Approximate percentage of shareholding in the relevant class of shares as at 31 December 2017	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2017
Shanghai Hexia[1]	Beneficial owner, deemed interest pursuant to section 318 of the SFO	187,078,815 A Shares (L)	56.20%	34.16%
	Deemed interest pursuant to section 318 of the SFO	75,000,000 A Shares (S)	22.53%	13.69%
The Goldman Sachs Group, Inc[2]	Interest in controlled corporation	18,236,842 A Shares (L)	5.48%	3.33%
Haitong Securities Co., Ltd.	Person having a security interest in shares	75,000,000 A Shares (L)	22.53%	13.69%
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 (L)	10.31%	4.04%
Gabriel Li[4]	Interest in controlled corporation	21,655,200 H Shares (L)	10.08%	3.95%
Lam Lai Ming[4]	Interest in controlled corporation	21,655,200 H Shares (L)	10.08%	3.95%
Zhejiang Longsheng Group Co., Ltd.[5]	Interest in controlled corporation	20,396,400 H Shares (L)	9.50%	3.72%
Senda International Capital Limited	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%

1. Shanghai Hexia was interested in 45,204,390 A Shares, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 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 or having short positions in the Company's shares in which Mr. Xing Jiaxing is interested or having short positions (being the 141,874,425 A Shares (L) and 75,000,000 A Shares (S) held by Mr. Xing Jiaxing as at 31 December 2017), representing approximately 25.90% and 13.69% respectively of the total issued share capital as at 31 December 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 Kuanjie Bohua 2011 Investment Center (Limited Partnership), which was beneficially interested in 18,236,842 A 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. As of 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 then. Good Factor Limited has had no interest in the Shares of the Company since then.

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.

6. The letter "L" denotes the person's or entity's long position in Shares, while the letter "S" denotes the person's or entity's short position in Shares.

Other than as disclosed above, as at 31 December 2017, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

The Directors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments and the five highest paid individuals are set out in notes 8(6) and 8(7) to the consolidated financial statements respectively.

EMOLUMENT POLICY

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

PENSION SCHEMES

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

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2017 were RMB217,761,000.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2017, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases; and the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

SUSTAINABLE DEVELOPMENT

The Group is committed to promoting the sustainable development of the environment and society. We recognize the inevitable impacts on the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificate in compliance with the national and international environmental standards, safety standards and health for workers. The Group conducts performance assessment of its suppliers on environment and social responsibility regularly. Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2017" (the "**ESG Report 2017**"), which is available on the websites of the Hong Kong Stock Exchange and the Company.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

We firmly believe that our suppliers are equally important in developing high-quality products. The Group has signed a bona-fide agreement for cooperation with every supplier at arms' length. Through open procedures for tender invitation and submission, the requirements of anti-corruption and anti-bribery are strictly followed, and various reporting channels are provided (including the mailbox and hotline made available to the public for reporting set up by the Audit Department). This agreement is an important legally binding attachment to any procurement cooperation agreement. In addition, we engaged a third-party inspection entity and adopted an "order management system" to strictly control the production process and product quality. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2017.

CONNECTED TRANSACTIONS

For the year ended 31 December 2017, the Group entered into the following non-exempted connected transactions and continuing connected transactions:

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF PREFERRED SHARES IN BECOOL

LaCha Fashion I Limited ("**LaCha Fashion**", a wholly-owned subsidiary of the Company), together with several other investors, entered into a share purchase agreement dated 17 February 2017 (the "**Share Purchase Agreement**") for the subscription of new preferred shares to be issued by BeCool (Cayman) Limited ("**BeCool**"). Pursuant to the Share Purchase Agreement, subject to satisfaction of conditions precedent, LaCha Fashion agreed to subscribe for 2,631,579 new preferred shares issued by BeCool for a consideration of US$731,732.00, the subscription price for each new preferred share being US$0.278058275 (the "**Subscription of New Preferred Shares**"). According to the Share Purchase Agreement, BeCool has also agreed to issue a warrant to LaCha Fashion on the date of the completion of the Subscription of the New Preferred Shares, pursuant to which LaCha Fashion shall be entitled, but not obliged, to purchase an additional 2,631,579 new preferred shares to be issued by BeCool in accordance with the terms and conditions of the warrant document. The aggregate exercise price of the warrant is US$731,732.00, being US$0.278058275 per new preferred share. The Group is principally engaged in designing, marketing and selling apparel products with a focus on mass-market ladies' casual wear in the PRC. The Dora Dream Entities (i.e. Chengdu BeCool Technology Co., Ltd (成都必酷科技有限公司), Chengdu Dora Dream Technology Co., Ltd. (成都多啦衣夢科技有限公司) and Chengdu Dora Dream Brand Management Co., Ltd. (成都多啦衣夢品牌管理有限公司)) to be held by BeCool through its variable interest entity structure mainly engage in rental services for a wide selection of ladies' apparel products ranging from casual wear to formal costumes. Entering into the Share Purchase Agreement will help the Group benefit from the development of Dora Dream, participate in the possible new opportunity and new business model in the apparel industry, and leverage on Dora Dream's integrated online leasing platform for the future growth of the Group. For details of the terms and conditions of the Share Purchase Agreement, please refer to the announcement of the Company dated 17 February 2017.

As at the date of the Share Purchase Agreement, LaCha Fashion is a wholly-owned subsidiary of the Company. Since LC Fund VII, L.P. and LC Parallel Fund VII, L.P. are associates of LC Fund IV, L.P., and LC Fund IV, L.P. indirectly controls Good Factor Limited, a substantial shareholder of the Company until it disposed of all its H shares in the Company on 12 April 2017, and therefore LC Fund VII, L.P. and LC Parallel Fund VII, L.P. were connected persons of the Company as at the date of the Share Purchase Agreement. As such, the transactions contemplated under the Share Purchase Agreement constituted connected transactions of the Company under Rule 14A.23 of the Listing Rules.

As disclosed in the announcements of the Company dated 7 July 2017 and 6 February 2018, LaCha Fashion and BeCool have agreed in writing to extend the long-stop date for the completion of the subscription by LaCha Fashion to 16 February 2018. In view of the fact that certain government approvals have not been obtained and additional time is required for the satisfaction of such condition precedent, LaCha Fashion and BeCool have agreed in writing to further extend the long-stop date for the completion of the subscription by LaCha Fashion to 16 August 2018.

Subsequent to the date of the Share Purchase Agreement, Good Factor Limited disposed all of its H shares in the Company on 12 April 2017. Accordingly, Good Factor Limited has ceased to be a substantial shareholder of the Company and hence LC Fund VII, L.P. and LC Parallel Fund VII, L.P. have ceased to be connected persons of the Company.

CONNECTED TRANSACTION IN RELATION TO THE STRATEGIC INVESTMENT IN BEIJING MINGTONG

Shanghai La Chapelle Enterprise Management Co. Ltd ("**LCEM**", a wholly-owned subsidiary of the Company) entered into a share purchase agreement with Beijing Mingtongsiji Technology Co. Ltd* (北京明通四季科技股份有限公司) ("**BMT** or "**Beijing Mingtong**") on 5 April 2017 (the "**Mingtong Share Purchase Agreement**"), pursuant to which LCEM agreed to subscribe for 1,074,495 new shares issued by BMT in accordance with the terms and conditions of the Mingtong Share Purchase Agreement for an aggregate consideration of RMB14,999,950.20, being RMB13.96 per new share as the subscription price. For details of the terms and conditions of the Mingtong Share Purchase Agreement, please refer to the announcement of the Company dated 5 April 2017. BMT has entered into or will enter into separate share purchase agreements with other investors respectively (including Legend Minzhi (Tianjin) Enterprise Management and Consultancy Partnership (L.P.) *(天津君聯敏智企業管理諮詢合夥企業(有限合夥)), ("**Legend Minzhi**")), pursuant to such share purchase agreements, BMT should issue new shares to Legend Minzhi and other investors, respectively, at a price of RMB13.96 per share. After entering into the Mingtong Share Purchase Agreement, the Group will benefit from the development of BMT and will allow the Group to enter into the eyewear market which is of high gross profit margin and to improve its product mix through the resources of BMT and the Inmix brand. The Group may also use its existing retail channels to increase the offline retail market penetration of the Inmix brand.

As at the date of the Mingtong Share Purchase Agreement, LCEM is a wholly-owned subsidiary of the Company. Since Legend Minzhi is a subsidiary of Legend Xinhai (Beijing) Equity Investment Partnership (L.P.) *(北京君聯新海股權投資合夥企業(有限合夥)) ("**Legend Xinhai**"), and Legend Xinhai is an associate of LC Fund IV, L.P. LC Fund IV, L.P. indirectly controls Good Factor Limited, a substantial shareholder of the Company until it disposed of all its H Shares in the Company on 12 April 2017, and therefore Legend Minzhi was a connected person of the Company as at the date of the Mingtong Share Purchase Agreement. As such, the transaction contemplated under the Mingtong Share Purchase Agreement constituted a connected transaction of the Company under Rule 14A.23 of the Listing Rules.

Subsequent to the date of the Mingtong Share Purchase Agreement, Good Factor Limited disposed all of its H Shares in the Company on 12 April 2017. Accordingly, Good Factor Limited has ceased to be a substantial shareholder of the Company and hence Legend Minzhi ceased to be a connected person of the Company until it disposed of all of its H Shares in the Company on 12 April 2017.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group entered into or participated in certain transactions with Hangzhou Anshe. Since the Company is interested in 54.05% equity interest of Hangzhou Anshe, Hangzhou Anshe is a non wholly-owned subsidiary of the Company. As Aibo Technology Company Limited, which is interested in 14.32% equity interest of Hangzhou Anshe, is owned as to 90.5% by LC Fund IV, L.P., which in turn controls Good Factor Limited, a substantial shareholder of the Company until it disposed of all its H Shares in the Company on 12 April 2017, and therefore Hangzhou Anshe was a connected subsidiary of the Company as at the respective dates of the transactions. As such, the transactions entered into between the Group and Hangzhou Anshe constituted continuing connected transactions of the Company as defined under the Listing Rules as at the respective dates of the transactions. Details of the continuing connected transactions carried out between the Group and Hangzhou Anshe during the Reporting Period are as follows:

1. The Company entered into a new service agreement (the "**New Service Agreement**") with Hangzhou Anshe on 29 April 2016, pursuant to which Hangzhou Anshe agreed to operate various E-commerce platforms for the sale of the Group's products and the provision of services to the Group, which included but was not limited to the establishment and operation of webstores, marketing and promotion, customer services and platform resources management. Entering into the New Service Agreement with Hangzhou Anshe was part of the Company's strategy to capitalize on the talents of Hangzhou Anshe to further strengthen the Company's online sales channels and to improve its online sales capabilities. Additionally, by entering into the New Service Agreement, the Company and Hangzhou Anshe were able to further align both parties' interests with the actual operation results of the Group's business through further usage of the e-commerce platforms. The New Service Agreement had a term commencing from 1 May 2016 until 31 December 2016. After the initial period, as agreed between the parties and subject to the Company's compliance with the Listing Rules, the New Service Agreement was extended for a further two years ending on 31 December 2018. Pursuant to the New Service Agreement, the service fee payable to Hangzhou Anshe was 50% of the profit derived from the Group's sales through e-commerce platforms, plus the actual cost incurred by Hangzhou Anshe for operating the e-commerce platform in relation to the Group's business and the applicable PRC value added tax. For details of the terms and conditions, please refer to the announcement of the Company dated 29 April 2016.

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

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

   For the period from 1 January 2017 to 31 December 2017, the proposed cap for the total amount payable by the Group to Hangzhou Anshe under the New Service Agreement was RMB200,000,000. For the year ended 31 December 2017, the total amount payable by the Company to Hangzhou Anshe under the New Service Agreement was RMB154,260,000, which was within the proposed annual cap under the New Service Agreement for the period 1 January 2017 to 31 December 2017.

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

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

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

For the period from 1 January 2017 to 31 December 2017, the licensing fees in total payable by Hangzhou Anshe to CSF was RMB2,496,000. As the proposed cap for transactions contemplated under the Licensing Agreement for that period was RMB6,000,000, the licensing fees payable did not exceed the relevant proposed cap under the Licensing Agreement.

3. On 5 April 2017, CSF (a non-wholly-owned subsidiary of the Company) entered into a supply framework agreement with Hangzhou Anshe ("**Supply Framework Agreement**"), pursuant to which Hangzhou Anshe agreed to supply apparel products to CSF for the period commencing from 5 April 2017 until 31 December 2017. The quotation of the purchase price for the supply of apparel products will be determined after arm's length negotiations between CSF and Hangzhou Anshe with reference to unit price and costs of labour, design, raw materials, packaging, inventory storage, insurance and delivery. Entering into the Supply Framework Agreement is a cost-effective and efficient way for the Group to source apparel products, as *Candie's*, a brand owned by CSF, is accelerating the integration of its online and offline products style to improve its product system and to build a brand model with better product competitive advantage that conform with the new retail business trend. For details of the Supply Framework Agreement, Please refer to the announcement of the Company dated 5 April 2017. For the period from 5 April 2017 to 31 December 2017, the proposed cap of the Supply Framework Agreement (i.e. the total amount payable by CSF to Hangzhou Anshe) was RMB40,000,000.00. For the year ended 31 December 2017, the total amount payable by the Group to Hangzhou Anshe under the Supply Framework Agreement was RMB2,384,000, and such amount did not exceed the relevant proposed cap under the Supply Framework Agreement.

Good Factor Limited disposed of all of its H shares in the Company on 12 April 2017. Accordingly, Good Factor Limited has ceased to be a substantial shareholder of the Company and hence Hangzhou Anshe has ceased to be a connected person of the Company, and therefore the above continuing connected transactions between the Group and Hangzhou Anshe ceased to be continuing connected transactions of the Company as at 12 April 2017.

Confirmations from the Directors and auditor

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

(a) had been entered into in the ordinary and usual course of business of the Group;

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

(c) were carried out in accordance with the agreements governing them, on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 44 to page 46 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

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

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

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

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

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

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

Save as disclosed above, for the year ended 31 December 2017, the Group has not entered into any connected transactions (as defined under the Listing Rules). Save for the strategic investment in Beijing Mingtong as contemplated under the Mingtong Share Purchase Agreement as disclosed above, the related party transactions as set out in note 8(4) to the consolidated financial statements do not constitute connected transactions under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of the Mingtong Share Purchase Agreement and the transactions contemplated thereunder as disclosed above.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2017 or as at the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 31 December 2017.

AUDIT COMMITTEE

During the year ended 31 December 2017, the Audit Committee met three times to review the annual financial results in respect of the year ended 31 December 2016, the interim financial results in respect of the six months ended 30 June 2017 and the third quarter results in respect of the nine months ended 30 September 2017, appointment of auditors and significant issues on internal control and risk management systems, respectively. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2017.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2017 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2017, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, review the policy and structure of the remuneration of Directors and Senior Management and other related matters, and make recommendations to the Board accordingly.

NOMINATION COMMITTEE

During the year ended 31 December 2017, the Nomination Committee met three times to nominate Senior Management for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (the "**PwC Zhong Tian**") was appointed as the domestic and international auditors of the Company for the year ended 31 December 2017. The resolution regarding the re-appointment of PwC Zhong Tian as the domestic and international of the Company will be tabled at the 2017 AGM.

The Company has adopted CAS to prepare its financial statements since 28 July 2017. In light of the change of accounting standard, shareholders of the Company approved to change the Company's international auditors from PricewaterhouseCoopers to PwC Zhong Tian at the 2017 first extraordinary general meeting held on 28 July 2017.

The remuneration paid to PwC Zhong Tian in respect of the audit services rendered for the year ended 31 December 2017 was RMB2,150,000.

POST BALANCE SHEET EVENTS

Details of the events after the Reporting Period are set out in note 10 to the consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2017 interim report of the Company.

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

Shanghai, PRC, 22 March 2018

Report of the Supervisory Committee

In 2017, the Supervisory Committee of the Company continued to carry out its duties to safeguard the interests, and the rights of the Company and the shareholders and performed its function by monitoring all aspects of the Company in 2017 in accordance with the relevant provisions of the Company Law and other applicable laws and regulations of the PRC, the Articles of Association, and the Rules of Procedure of the Supervisory Committee. The Supervisory Committee is of the opinion that during the year ended 31 December 2017, all Board members of the Company have performed their duties diligently and implemented fully the resolutions passed at general meetings, and no act prejudicial to the interests of shareholders occurred. The report of the Supervisory Committee for the year ended 31 December 2017 is as follows:

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

During the Reporting Period, the Company convened four meetings of the Supervisory Committee: namely the ninth meeting of the second session of the Supervisory Committee, and the first meeting of the third session of the Supervisory Committee, the second meeting of the third session of the Supervisory Committee and the third meeting of the third session of the Supervisory Committee. The convening and voting procedures of the meetings complied with the relevant provisions of the Company Law of the PRC and the Articles of Association. Specific details are as follows:

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

On 16 March 2017, the Company convened the ninth meeting of the second session of the Supervisory Committee in Shanghai. The meeting was convened and chaired by the chairperson of the Supervisory Committee. The meeting considered and approved the resolutions in relation to the Group's audited international financial statements for the year ended 31 December 2016, the Group's audited domestic financial statements for 2014, 2015 and 2016 and three special reports that required to be submitted to the China Securities Regulatory Commission, the Group's proposal on the validation of the effectiveness of internal control in relations to the accounting statements as at 31 December 2016, the annual results announcement of the Group for the year ended 31 December 2016 prepared and audited in accordance with the International Financial Reporting Standards, the 2016 final accounting report of the Company, the Company's budget plan for 2017, the renewal of appointment of independent external auditors and domestic auditors for 2017, the proposal on the application for credit lines from banks by Shanghai La Chapelle Fashion Co., Ltd. and the proposal in relation to the provision of guarantee for holding subsidiaries by Shanghai La Chapelle Fashion Co., Ltd..

(II) The first meeting of the third session of the Supervisory Committee

On 12 May 2017, the Company convened the first meeting of the third session of the Supervisory Committee in Shanghai. The meeting considered and approved the resolution in relation to the election of chairman of the third session of the Supervisory Committee. Mr. Cheng Fangping was elected as the chairman of the third session of the Supervisory Committee.

(III) The second meeting of the third session of the Supervisory Committee

On 24 August 2017, the Company convened the second meeting of the third session of the Supervisory Committee in Shanghai. The meeting considered and approved the resolutions in relation to the proposal on change of accounting policies of the Group, the proposal on change of accounting estimates for bad debts provisions of the Group, the internal control audit report of the Group as of 30 June 2017, the Group's financial statements and audit reports for 2014, 2015,2016 and the six months ended 30 June 2017, the interim results announcement of the Group for the six months ended 30 June 2017 and the authorization of any executive director for making changes to the interim results announcement (if necessary), and the publication of the interim results announcement on the websites of the Stock Exchange and the Company in accordance with requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the proposal on proceeds utilization system (applicable after the listing the A shares) of the Company.

(IV) The third meeting of the third session of the Supervisory Committee

On 26 October 2017, the Company convened the third meeting of the third session of the Supervisory Committee in Shanghai. The meeting considered and approved the resolution in relation to the change of the composition of the Supervisory Committee, the resolution in relation to the election of Ms. Liu Mei as a supervisor of the third session of the Supervisory Committee, the resolution in relation to the 2017 third quarterly report and the resolution in relation to the replacement of capital invested with the raised proceeds; among which, the resolution in relation to the change of the composition of the Supervisory Committee and the resolution in relation to the election of Ms. Liu Mei as a supervisor of the third session of the Supervisory Committee were proposed to and passed at the 2017 extraordinary general meeting.

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

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

During 2017, in accordance with the relevant laws and regulations, the members of the Supervisory Committee of the Company took part in the Company's major work by attending the Board meetings and the shareholders' general meetings and effectively supervised meeting agendas, voting procedures, the implementation of resolutions and the performance of duties by directors and senior management of the Company, etc. The Supervisory Committee is of the view that the Company has established a sound internal control system, and the decision-making procedures are lawful and valid. The directors and senior management of the Company discharged their duties in the Company diligently and dutifully, with no acts of violation of any laws, regulations and or prejudice to the Company's interests were discovered in performing their duties.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee was responsible to all shareholders, supervised and reviewed the full-year financial status and operation of the Company, performed serious supervision and examination on the Company's periodic reports and annual financial reports. The Supervisory Committee believes that the Company's has established a standardized financial management system and a sound accounting system, its financial reports for each periods objectively and truly reflected the Company's financial position and operating results. The Company's 2017 annual report was a true, lawful and integrity reflection on its profile, which was beneficial to the shareholder's correct understanding of the Company's financial position and operating results. Meanwhile, the 2017 Annual Audit Report issued by PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) is objective and fair, and the Supervisory Committee has no objection to it.

4. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON ACQUISITION, DISPOSAL OF ASSETS OF THE GROUP

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

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2017.

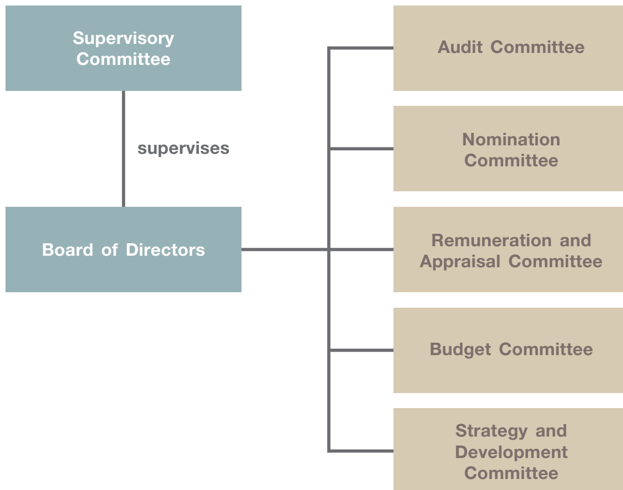
During the year ended 31 December 2017, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below, making corporate governance rules and recommendations with respect to Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Joint Company Secretaries, communication between the Company and Shareholders.

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

CORPORATE GOVERNANCE PRACTICES

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

As of 31 December 2017, the governance structure of the Company is as follow:



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

In the opinion of the Board, the Company has been in compliance with the Code Provisions as set out in the CG Code during the year ended 31 December 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. Mr. Xing Jiaxing is the founder of the Group and has extensive experience in the industry. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of three independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing taking up both roles for continuous effective management and business development of the Group. In addition, the division of responsibilities between the chairman and chief executive officer has been clearly established and set out in writing.

BOARD OF DIRECTORS

Responsibilities

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

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

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

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

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

Board Composition

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

Executive Directors

Xing Jiaxing *(Chairman and chief executive officer)*
Yu Qiang (appointed on 5 February 2018)

Non-executive Directors

Lu Weiming
Luo Bin

Independent Non-executive Directors

Chen Jieping
Chan, Wing Yuen Hubert
Zhang Zeping (appointed on 12 May 2017)

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

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

During the year ended 31 December 2017, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

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

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

Induction and Continuous Professional Development

Directors confirmed that they have complied with Code Provision A.6.5 relating to the director training. In the year 2017, all Directors have participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to develop and refresh their knowledge and skills. All Directors have provided their training record to the Company.

Name of Directors	Corporate Governance	Rules and Regulations	Financial Management	Business Management
Mr. Xing Jiaxing	√	√	√	√
Mr. Wang Yong (resigned on 11 December 2017)	√	√	√	√
Mr. Wang Wenke (resigned on 11 December 2017)	√	√	√	√
Mr. Li Jiaqing (stepped down on 18 December 2017)	√	√	√	√
Mr. Lu Weiming	√	√	√	
Mr. Cao Wenhai (resigned on 18 December 2017)	√	√	√	
Ms. Wang Haitong (stepped down on 18 December 2017)	√	√	√	
Mr. Luo Bin	√	√	√	√
Mr. Mao Jianong (retired on 12 May 2017)	√	√	√	√
Mr. Chen Wei (retired on 12 May 2017)	√	√		
Dr. Chen Jieping	√	√	√	√
Mr. Chan, Wing Yuen Hubert	√	√	√	
Mr. Zhang Zeping	√	√	√	
Mr. Zhang Yi (stepped down on 18 December 2017)	√	√	√	

Chairman and Chief Executive Officer

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

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

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Save as disclosed below, each of the Directors has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration, which is for a period of three years from May 2017. The appointment of Mr. Yu Qiang as an executive Director has been approved by the shareholders at the 2018 first extraordinary meeting held on 5 February 2018. Mr. Yu has entered into a service contract for a term commencing from his appointment on 5 February 2018 and ending on expiry of the third session of the Board.

Board Professional Committees

Audit Committee

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

The Audit Committee currently consists of three non-executive Directors, two of whom are independent. The members of the Audit Committee are currently Mr. Luo Bin, Dr. Chen Jieping and Mr. Chan, Wing Yuen Hubert. It is currently chaired by Dr. Chen Jieping, an independent non-executive Director.

During the year ended 31 December 2017, the Audit Committee met three times to review the annual financial results in respect of the year ended 31 December 2016, the interim financial results in respect of the six months ended 30 June 2017 and the third quarter financial results in respect of the nine months ended 30 September 2017, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2017.

Nomination Committee

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

The Nomination Committee currently consists of one executive Director and two independent non-executive Directors. The members of the Nomination Committee are currently Mr. Xing Jiaxing, Mr. Chan, Wing Yuen Hubert and Mr. Zhang Zeping. It is chaired by Mr. Chan, Wing Yuen Hubert, who is an independent non-executive Director and assumed the position to replace Mr. Zhang Yi on 18 December 2017 upon the approval by the Board. Mr. Zhang Zeping joined the Board and the Nomination Committee upon the approval by the 2016 AGM.

During the year ended 31 December 2017, the Nomination Committee met three times to nominate senior management member for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

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

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

Remuneration and Appraisal Committee

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

The Remuneration and Appraisal Committee currently consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Remuneration and Appraisal Committee are currently Mr. Lu Weiming, Dr. Chen Jieping and Mr. Zhang Zeping. It is currently chaired by Mr. Zhang Zeping, an independent non-executive Director. Mr. Zhang Zeping joined the Remuneration and Appraisal Committee upon the approval of the Board and the shareholders' approval at the 2016 AGM. Mr. Lu Weiming joined the Remuneration and Appraisal Committee on 18 December 2017 upon the approval of the Board.

During the year ended 31 December 2017, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

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

The Budget Committee currently consists of two non-executive Directors and two independent non-executive Directors. The members of the Budget Committee are currently Mr. Lu Weiming, Mr. Luo Bin, Dr. Chen Jieping and Mr. Chan, Wing Yuen Hubert. It is chaired by Dr. Chen Jieping with effect from 18 December 2017 upon the approval of the Board, to replace Mr. Wang Yong who had resigned. Mr. Chan, Wing Yuen Hubert joined the Budget Committee on 18 December 2017 upon the approval of the Board.

During the year ended 31 December 2017, the Budget Committee met once to review and make recommendations to the Board on budgeting for the upcoming financial year.

Strategy and Development Committee

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

The Strategy and Development Committee currently consists of two executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Strategy and Development Committee are currently Mr. Xing Jiaxing, Mr. Yu Qiang, Mr. Lu Weiming, Mr. Luo Bin and Mr. Zhang Zeping. It is chaired by Mr. Xing Jiaxing, an executive Director. Mr. Zhang Zeping joined the Strategy and Development Committee on 12 May 2017 upon the approval of the Board and the shareholders' approval at the 2016 AGM. Mr. Lu Weiming and Mr. Yu Qiang joined the Strategy and Development Committee on 18 December 2017 and 22 March 2018, respectively, upon approval by the Board.

During the year ended 31 December 2017, the Strategy and Development Committee met twice to review and make recommendations to the Board on the Group's latest strategy plans and development.

Corporate Governance Function

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

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

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

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

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

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

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

During the year ended 31 December 2017, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of no less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

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

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

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

DIRECTORS' ATTENDANCE RECORDS AT BOARD MEETINGS, BOARD PROFESSIONAL COMMITTEES' MEETINGS AND GENERAL MEETINGS

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2017 are set out below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Budget Committee meeting	Strategy and Development Committee meeting	General meeting
Mr. Xing Jiaxing	12/12		3/3			2/2	6/7
Mr. Wang Yong (resigned on 11 December 2017)	11/11				1/1	2/2	7/7
Mr. Wang Wenke (resigned on 11 December 2017)	10/11						7/7
Mr. Li Jiaqing (stepped down on 18 December 2017)	8/8			3/3	1/1	2/2	5/7
Mr. Lu Weiming	12/12		3/3		1/1		7/7
Mr. Cao Wenhai (resigned on 18 December 2017)	9/10	3/3					5/7
Ms. Wang Haitong (stepped down on 18 December 2017)	10/11				1/1	2/2	5/7
Mr. Luo Bin	12/12	3/3			1/1	2/2	5/7
Mr. Mao Jianong (retired on 12 May 2017)	4/4	1/1	1/1			1/1	0/7
Mr. Chen Wei (retired on 12 May2017)	4/4		1/1	1/1		1/1	0/7
Dr. Chen Jieping	12/12	3/3		3/3	1/1		5/7
Mr. Chan, Wing Yuen Hubert	12/12	3/3	3/3				7/7
Mr. Zhang Zeping (appointed on 12 May 2017)	8/8		2/2	2/2		1/1	7/7
Mr. Zhang Yi (appointed on 12 May 2017, stepped down on 18 December 2017)	7/7	2/2	2/2			1/1	6/7

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the controlling shareholders of the Company as defined in the Listing Rules) has confirmed to the Company and declared that he/it has complied with the non-compete undertaking given by them to the Company on 10 September 2014 during the year ended 31 December 2017. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2017.

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remunerations paid to a total of 9 Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2017 is set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	2
RMB1,000,001 to RMB 2,000,000	5
RMB2,000,001 to RMB3,000,000	2

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and the Supervisors, and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2017.

RISK MANAGEMENT AND INTERNAL CONTROLS

As a public company listed both in Shanghai and Hong Kong, the Company strives to improve its internal governance and build favorable corporate risk monitoring environment by strictly abiding by laws and regulations and other regulatory requirements within and without the borders.

Continue to improve and optimize risk monitoring system

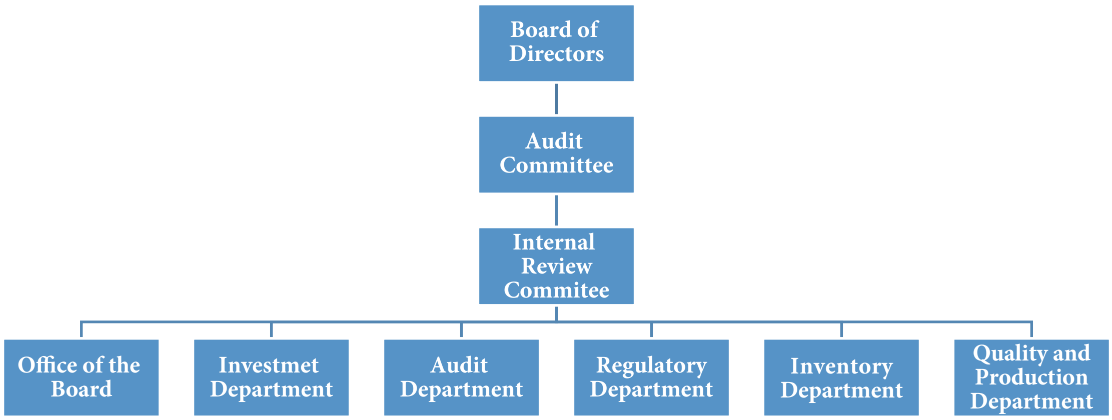
During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, Fundamental Norms on Corporate Internal Control, Application Guidance on Corporate Internal Control, Guidance on Corporate Internal Control and Assessment, Audit Guidance on Corporate Internal Control as well as the relevant requirements with regard to self-criticism on risk management and internal control systems by the Hong Kong Stock Exchange, the Company, along with its subsidiaries and relevant departments, carried out a comprehensive check-up of its existing system and procedures in light of organizational structure, development strategy, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, merchandizing, financial reports, comprehensive budget, contract management, internal communications and information system and formed a benign cycle of detecting risk, identifying risk and facilitating business development through risk identification, risk assessment and gradual optimization, so as to further strengthen and standardize internal corporate monitoring, enhance operational management and risk control capability as well as guarantee stakeholders' legal interests and facilitate the realization of the Company's strategic role and sustainable development.

Effectively prevent operational risks to strengthen corporate control

The Company further normalized and perfected its internal control system to enhance the efficiency and effectiveness of construction and implementation of the internal control system. The Company further improved its management and control measures with regard to strategic risk, financial risk, operational risk and market risk to prevent all kinds of risks, lay a solid foundation for corporate development as well as facilitate sustainable development. The Company further increased employee involvement in study and training to realize recognition and identification. The Company continued to enhance staff's competency and skills by urging them to learn new management concepts and internal control methods through external and internal trainings, thus forming a benign atmosphere within the Company that everyone learns internal control, everyone emphasizes risk and everyone is checked, and consequently facilitating the building of internal control and management mechanism and risk prevention mechanism that are systematic, normative and efficient.

The Company has established a scientific and efficient internal control system to identify, assess and manage the significant risks of the Company. The Board of Directors has confirmed its responsibility to supervise the Company's risk management and internal control systems and review the effectiveness at least annually through the Audit Committee. The Audit Committee generally supervises the effective implementation and self-evaluation of internal control, and is responsible for reviewing risk management and internal control systems and supervision. Besides annual reports by external auditors, the Audit Committee also reviews periodic internal audit reports with regard to the Company's core businesses formulated by the audit department to check the effectiveness of the internal control system and risk management mechanism as well as resolves material inadequacies found in internal control. The Internal Review Committee manages and supervises the internal risk management system within relevant departments of the Company, guarantees the implementation and perfection of risk management system and measures, and manages disclosure of inside information. The Internal Review Committee, led by the Audit Committee, reports to the Audit Committee.

The management is responsible for the daily operation of the internal control within the Company. The Office of the Board, Investment Department, Audit Department, Regulatory Department and Inventory Department constitute functioning departments within the Company to take charge of the implementation of internal control and the assessment of the soundness and effectiveness of all the internal systems within the Company. As the implementation units of the internal control, the Company's functioning departments, affiliates, wholly-owned and holding subsidiaries appoint certain persons to improve and evaluate the internal control system. The Company's internal risk management organizational structure is illustrated below:



In 2017, the Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of corporate risk management and internal control systems. During the Reporting Period, the Internal Audit Department initiated over ten ad hoc audit projects concerning regional management, logistics operations and disposal of obsolete inventories, and actively assessed the plausibility, effectiveness and completeness of various aspects of management activities and thereby formulated several rules and regulations, namely Administrative Measures on Donations, Administrative Measures on Inventory-taking in Logistics Warehouse and Administrative Measures on Disposal of Obsolete Inventories, in an effort to improve corporate internal system and avoid operational risk. The Company's Regulatory Department handled 110 reports and complaints, 100 of which had been successfully tackled. The department also organized 80 anti-corruption campaigns, involving a total of 160,000 person times. Meanwhile, it opened a WeChat subscription account named La Chapelle with Integrity, which now has accumulated 35,000 followers. All the efforts above have formed a comprehensive network for anti-corruption and internal control.

For the year ended 31 December 2017, the Board had carried out annual review on the effectiveness of the Company's risk management system, procedures and internal control system, and continuously advised on various means of improvement. The review involved all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and corporate budget on accounting and financial reporting function. There was no major failure in the risk management and internal control system that could have negative impact on shareholders' interests. The Company's risk management and internal control systems were deemed effective and sufficient.

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

Strengthen insider filing to improve insider information management

During the Reporting Period, the Company carried out the management of insider information in strict accordance with the regulatory requirements both in Shanghai and Hong Kong and the internal system. The Company strengthened the management of confidentiality policy of insider information and seriously performed the duty with respect to confidentiality and filing of persons with knowledge of insider information, making truly, accurately and completely the recording of persons with knowledge of insider information during the processes of counseling and planning, argumentation and consultation and compiling and reviewing. The Company timely performed filing of directors, supervisors and senior management, relevant staff and intermediary agents as well as irregularly carried out self-examination on insider trading, so as to make sure that the relevant information is legally collected, delivered, organized and disclosed in accordance. During the Reporting Period, no person with knowledge of insider information was found using insider information to buy and sell the Company's shares.

Perfect corporate governance system to improve corporate governance

In order to enhance corporate governance and build a favorable internal control environment, the Company further perfected rules of procedure regarding General Meeting, the Board of Directors and the Supervisory Committee, and terms of reference of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. The Company's General Meeting, the Board of Directors, the Supervisory Committee, senior management and board secretary were able to operate independently and legally as well as performed rights and duties based on the authority endowed by the Articles of Association and relevant regulations. No violation of law and regulations had been found. All Board Professional Committees performed duties in accordance with the Articles of Association and corresponding terms of reference. Each Board Professional Committee has its own meeting system and submits written resolutions regarding reviewed matters to the Board, which act as important foundation for decision-making for the Board and the General Meeting and thus play a positive role in corporate governance.

The Company will continue to perfect its internal control and improve self-assessment in the follow-up. It will also continue to establish and improve its risk management and internal control systems that meet the demand of its development and management so as to make sure that the Company's operational management is legal, asset is reliable, financial reports and relevant information are true and complete, thus providing reasonable guarantee for realizing the Company's strategic goals.

JOINT COMPANY SECRETARIES

During the year ended 31 December 2017, Ms. Fang Xian Li and Ms. Wong Wai Ling, the Joint Company Secretaries, have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Ms. Wong Wai Ling is the vice president of SW Corporate Services Group Limited and Ms. Fang Xian Li is her primary contact person at the Company. The biographical details of the Joint Company Secretaries are set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017 in accordance with statutory requirements and applicable accounting standards.

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

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2017. The Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 65 to 69.

AUDITORS

PwC Zhong Tian was appointed as the domestic and international auditors of the Company for the year ended 31 December 2017. The resolution regarding the re-appointment of PwC Zhong Tian as the domestic and international auditors of the Company will be tabled at the 2017 AGM.

The Company has adopted CAS to prepare its financial statements since 28 July 2017. In light of the change of accounting standard, shareholders of the Company approved to change the Company's international auditors from PricewaterhouseCoopers to PwC Zhong Tian at the 2017 first extraordinary general meeting held on 28 July 2017.

The remuneration paid to PwC Zhong Tian in respect of the audit services rendered for the year ended 31 December 2017 was RMB2,150,000.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting or Class Meeting by Shareholders

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

If the Company is to convene a general meeting, it shall deliver written notices in 45 to 50 days before the time designated for the meeting, informing shareholders whose names appear on the register of the Company of matters to be considered and the time and venue for the meeting to be convened. Shareholders who intend to make their presence at the general meeting shall return written replies for the meeting in 20 days before the meeting is convened.

Putting Forward Proposals at General Meetings

When the Company decides to convene an annual general meeting, any shareholders that severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company, and may raise interim proposals and submit them in writing to the Board ten days prior to the general meeting. The Board shall, within two days after receipt of such proposal issue a supplemental notice of the general meeting and announce the contents of the ad hoc proposals.

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

CONSTITUTIONAL DOCUMENTS

The Company continuously made some amendments to the Articles of Association A Shares (Draft) during the Reporting Period to facilitate the listing of A Shares. Relevant resolutions had been passed by the shareholders at the extraordinary general meeting held on 16 October 2017. The Articles of Association A Shares (Draft) has come into effect on 25 September 2017 when A Shares of the Company were listed on the Shanghai Stock Exchange. For details, please refer to the circular dated 31 August 2017 published by the Company.

The Company also made certain amendments to the existing Articles of Association during the Reporting Period on account of changes of accounting standards and composition of the Board and the Supervisory Committee. Relevant resolutions had been passed by the shareholders at the extraordinary general meetings held on 28 July 2017, 18 December 2017 and 5 February 2018. For details, please refer to the Company's circulars dated 12 June 2017, 1 November 2017 and 20 December 2017. The revised Articles of Association has been published on both the websites of the Hong Kong Stock Exchange and the Company.

Independent Auditor's Report

PwC ZT ShenZi (2018) No. 10016

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

OPINION

What we have audited

We have audited the accompanying financial statements of Shanghai La Chapelle Fashion Co., Ltd. (hereinafter the "Company"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

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

A Key audit matter identified in our audit is determination of the net realizable value (the "NRV") of finished goods inventories.

Key Audit Matter	How our audit addressed the Key Audit Matter
Determination of the NRV of finished goods inventories Refer to Note 2(31)(a)(i) "Critical accounting estimates and key assumptions – Net realizable value of inventories" and Note 4(6) "Inventories" to the consolidated financial statements. The inventories of the Company and its subsidiaries (the "Group") primarily consisted of finished goods. As at 31 December 2017, after making a provision of approximately RMB235,503 thousand, the Group held finished goods inventories of approximately RMB2,319,723 thousand. Inventories are carried at the lower of cost and NRV on each balance sheet date. Management categorises the finished goods inventories items to different seasons and different years, and determines the NRV by category. Management exercised significant judgement in determining the NRV of each category of finished goods inventories, taking into consideration of historical experience, current market condition, customer demands and fashion trends. We focused on this area due to the significance of finished goods inventories balance and complexity of the judgements involved in determining the NRV.	Our work on the valuation of finished goods inventories included: — obtained an inventory provision calculation sheet as at 31 December 2017 and compared the inventory cost, the related provision amount, and the carrying amount in the calculation sheet with those in general ledger; — recalculated the inventory provision based on the Group's inventory provision policy to test the mathematical accuracy; — tested appropriateness of finished goods categorisation on a sample basis by checking the specification and ageing information to the related purchase orders and goods receipt notes; — challenged the reasonableness of management's methodology of determining the sufficiency of NRV provision for finished goods inventories of different categories by performing independent research of market information and making reference to our industry knowledge; — compared, on a sample basis, the NRV of finished goods inventories for which provisions were made as of 31 December 2016 with the net value realised in the sales incurred during the year of 2017; and — compared, on a sample basis, the NRV of the finished goods inventories as of 31 December 2017, with the net value realised in the sales incurred subsequent to 31 December 2017. We found that management's judgements in determining the NRV of finished goods inventories are supportable by available evidences.

OTHER INFORMATION

Management of the Group is responsible for the other information. The other information comprises all of the information included in 2017 annual report of the Company other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Independent Auditor's Report

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

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

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

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

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

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

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

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA
Toby Xu
(Engagement Partner)

Shanghai, the People's Republic of China

Signing CPA
Fanny Yang

22 March 2018

Consolidated Balance Sheet

As at 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2017 Consolidated**	31 December 2016 Consolidated
ASSETS			
Current assets			
Cash at bank and on hand	4(1)	**930,580**	701,914
Accounts receivable	4(2),4(17),8(5)	**1,053,436**	1,052,184
Advances to suppliers	4(3)	**243,098**	324,590
Interests receivable	4(4)	**2,281**	2,695
Other receivables	4(5),4(17)	**323,536**	276,271
Inventories	4(6),4(17)	**2,344,639**	1,713,576
Other current assets	4(7)	**157,070**	7,486
Total current assets		**5,054,640**	4,078,716
Non-current assets			
Available-for-sale financial assets	4(8)	**67,544**	190,649
Long-term equity investments	4(9)	**428,465**	130,381
Fixed assets	4(10)	**455,482**	230,664
Construction in progress	4(11)	**577,675**	365,331
Intangible assets	4(12)	**202,517**	218,322
Goodwill	4(13)	**113,555**	105,722
Long-term prepaid expenses	4(14)	**711,780**	776,640
Deferred tax assets	4(16)	**246,449**	192,149
Other non-current assets	4(15)	**13,605**	15,069
Total non-current assets		**2,817,072**	2,224,927
TOTAL ASSETS		**7,871,712**	6,303,643

Consolidated Balance Sheets

As at 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2017 Consolidated	31 December 2016 Consolidated
Current liabilities			
Short-term borrowings	4(18)	**1,006,000**	300,000
Notes payable	4(19)	**534,504**	395,292
Accounts payable	4(20),8(5)	**988,084**	638,910
Advances from customers	4(21)	**363**	320
Employee benefits payable	4(22)	**220,842**	281,872
Taxes payable	4(23)	**253,538**	344,946
Interests payable	4(24)	**3,036**	381
Dividends payable	4(25)	**168,729**	—
Other payables	4(26),8(5)	**530,356**	728,133
Current portion of non-current liabilities	4(27)	**29,993**	34,632
Total current liabilities		**3,735,445**	2,724,486
Non-current liabilities			
Deferred tax liabilities	4(16)	**20,590**	14,566
Other non-current liabilities	4(27)	**46,449**	54,373
Total non-current liabilities		**67,039**	68,939
Total liabilities		**3,802,484**	2,793,425
Equity			
Share capital	1,4(28)	**547,672**	492,902
Capital surplus	4(29)	**1,894,097**	1,537,825
Other comprehensive (losses)/income	4(30)	**(723)**	11,973
Surplus reserve	4(31)	**219,154**	148,768
Undistributed profits	4(32)	**1,215,356**	1,115,817
Total equity attributable to shareholders of the Company		**3,875,556**	3,307,285
Minority interests		**193,672**	202,933
Total equity		**4,069,228**	3,510,218
TOTAL LIABILITIES AND EQUITY		**7,871,712**	6,303,643

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Company Balance Sheet

As at 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2017 Company**	31 December 2016 Company
ASSETS			
Current assets			
Cash at bank and on hand		**561,359**	388,337
Accounts receivable	15(1)	**1,675,090**	897,791
Advances to suppliers		**56,342**	92,094
Interests receivable		**79**	1,245
Other receivables	15(2)	**1,483,384**	1,575,200
Inventories	15(3)	**2,037,181**	413,816
Other current assets		**115,814**	6,495
Total current assets		**5,929,249**	3,374,978
Non-current assets			
Available-for-sale financial assets		**18,200**	—
Long-term equity investments	15(4)	**863,083**	817,650
Fixed assets		**11,102**	11,269
Construction in progress		**5,444**	5,277
Intangible assets		**10,610**	14,345
Long-term prepaid expenses		**61,522**	78,428
Deferred tax assets		**52,177**	31,846
Other non-current assets		**—**	10,000
Total non-current assets		**1,022,138**	968,815
TOTAL ASSETS		**6,951,387**	4,343,793

Company Balance Sheet

As at 31 December 2017

(All amounts in RMB'000 unless otherwise stated)

	Notes	31 December 2017 Company	31 December 2016 Company
Current liabilities			
Short-term borrowings		**1,006,000**	300,000
Notes payable		**343,726**	150,256
Accounts payable		**1,721,782**	492,631
Employee benefits payable		**52,920**	72,486
Taxes payable		**57,150**	109,097
Interests payable		**3,036**	381
Dividends payable		**168,729**	—
Other payables		**479,238**	882,888
Current portion of non-current liabilities		**2,192**	3,721
Total current liabilities		**3,834,773**	2,011,460
Non-current liabilities			
Other non-current liabilities		**366**	2,387
Total liabilities		**3,835,139**	2,013,847
Equity			
Share capital	1,4(28)	**547,672**	492,902
Capital surplus	4(29)	**1,894,097**	1,537,825
Surplus reserve	4(31)	**219,154**	148,768
Undistributed profits		**455,325**	150,451
Total equity		**3,116,248**	2,329,946
TOTAL LIABILITIES AND EQUITY		**6,951,387**	4,343,793

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Consolidated Income Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	**Year ended 31 December 2017 Consolidated**	Year ended 31 December 2016 Consolidated
Revenue	4(33),8(4)	**8,998,709**	8,550,867
Less: Cost of sales	4(33),4(38),8(4)	**(3,370,905)**	(3,071,301)
Taxes and surcharges	4(34)	**(83,008)**	(87,962)
Selling and distribution expenses	4(35),4(38)	**(4,354,874)**	(4,045,266)
General and administrative expenses	4(36),4(38),8(4)	**(389,289)**	(391,662)
Financial expenses – net	4(37),8(4)	**(16,581)**	(1,628)
Asset impairment losses	4(39)	**(235,957)**	(264,119)
Investment income/(losses)	4(40)	**60,684**	(1,000)
Including: share of profit/(losses) of associates		**18,426**	(1,099)
Losses on disposals of assets	4(41)	**(632)**	(957)
Other income	4(42)	**129,346**	—
Operating profit		**737,493**	686,972
Add: Non-operating income	4(43)	**4,009**	82,384
Less: Non-operating expenses	4(44)	**(11,274)**	(637)
Total profit		**730,228**	768,719
Less: Income tax expenses	4(45)	**(192,788)**	(196,452)
Net profit		**537,440**	572,267
Classified by continuity of operations			
Net profit from continuing operations		**537,440**	572,267
Net profit from discontinued operations		**—**	—
Classified by ownership of the equity			
Attributable to shareholders of the Company		**498,527**	531,963
Minority interests		**38,913**	40,304
Other comprehensive (losses)/income, net of tax	4(30)	**(12,696)**	11,973
Attributable to shareholders of the Company		**(12,696)**	11,973
Changes in fair value of available-for-sale financial assets		**(10,949)**	10,949
Translation differences on translation of foreign currency financial statements		**(1,747)**	1,024
Total comprehensive income		**524,744**	584,240

Consolidated Income Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	**Year ended 31 December 2017 Consolidated**	Year ended 31 December 2016 Consolidated
Attributable to shareholders of the Company		**485,831**	543,936
Attributable to minority interests		**38,913**	40,304
Earnings per share			
Basic earnings per share (RMB)	4(46)	**0.98**	1.08
Diluted earnings per share (RMB)		**0.98**	1.08

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Company Income Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	Year ended 31 December 2017 Company	Year ended 31 December 2016 Company
Revenue	15(5)	**4,651,907**	3,160,244
Less: Cost of sales	15(5)	**(2,887,403)**	(1,623,782)
Taxes and surcharges		**(14,506)**	(20,952)
Selling and distribution expenses		**(1,092,265)**	(994,829)
General and administrative expenses		**(195,502)**	(220,396)
Financial (expenses)/income-net		**(22,229)**	2,172
Asset impairment losses		**(287,054)**	(84,931)
Investment income	15(6)	**582,710**	26,120
Including: share of losses of associates		**(567)**	—
Losses on disposals of assets		**(69)**	(36)
Other income		**26,803**	—
Operating profit		**762,392**	243,610
Add: Non-operating income		**1,610**	24,976
Less: Non-operating expenses		**(8,874)**	(7)
Total profit		**755,128**	268,579
Less: Income tax expenses		**(51,266)**	(64,599)
Net profit		**703,862**	203,980
Classified by continuity of operations			
Net profit from continuing operations		**703,862**	203,980
Net profit from discontinued operations		**—**	—
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**703,862**	203,980

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Consolidated Cash Flow Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	31 December 2017 Consolidated	31 December 2016 Consolidated
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**10,541,316**	9,936,344
Cash received relating to other operating activities	4(47)	**162,925**	143,883
Sub-total of cash inflows		**10,704,241**	10,080,227
Cash paid for goods and services		**(6,152,765)**	(5,667,977)
Cash paid to and on behalf of employees		**(2,319,649)**	(2,126,089)
Payments of taxes and surcharges		**(986,084)**	(985,916)
Cash paid relating to other operating activities	4(47)	**(688,582)**	(595,109)
Sub-total of cash outflows		**(10,147,080)**	(9,375,091)
Net cash flows from operating activities	4(48)	**557,161**	705,136
2. Cash flows from investing activities			
Cash received from returns on investments		**—**	99
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**1,142**	684
Cash received relating to other investing activities	4(47)	**14,221**	3,630
Sub-total of cash inflows		**15,363**	4,413
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(946,165)**	(845,508)
Net cash paid to acquire associates	4(9)	**(87,400)**	(131,480)
Cash paid relating to other investing activities	4(47)	**(78,805)**	(163,551)
Sub-total of cash outflows		**(1,112,370)**	(1,140,539)
Net cash flows used in investing activities		**(1,097,007)**	(1,136,126)

Consolidated Cash Flow Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	31 December 2017 Consolidated	31 December 2016 Consolidated
3. Cash flows from/(used in) financing activities			
Cash received from capital contributions		**406,404**	2,000
Including: cash received from capital contributions by minority shareholders		**1,150**	2,000
Cash received from borrowings		**1,256,000**	780,000
Cash received relating to other financing activities		**6,495**	—
Sub-total of cash inflows		**1,668,899**	782,000
Cash repayments of borrowings		**(550,000)**	(480,000)
Cash payments for distribution of dividends, profits or interest expenses		**(342,511)**	(407,150)
Cash payments relating to other financing activities	4(47)	**(2,310)**	(881)
Sub-total of cash outflows		**(894,821)**	(888,031)
Net cash flows from/(used in) financing activities		**774,078**	(106,031)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(41)**	—
5. Net increase/(decrease) in cash and cash equivalents	4(48)	**234,191**	(537,021)
Add: Cash and cash equivalents at beginning of year		**581,389**	1,118,410
6. Cash and cash equivalents at end of year		**815,580**	581,389

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Company Cash Flow Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	31 December 2017 Company	31 December 2016 Company
1. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		**4,755,720**	3,823,192
Cash received relating to other operating activities		**51,513**	49,997
Sub-total of cash inflows		**4,807,233**	3,873,189
Cash paid for goods and services		**(4,691,781)**	(2,689,937)
Cash paid to and on behalf of employees		**(531,293)**	(564,752)
Payments of taxes and surcharges		**(227,962)**	(266,092)
Cash paid relating to other operating activities		**(200,599)**	(306,185)
Sub-total of cash outflows		**(5,651,635)**	(3,826,966)
Net cash flows (used in)/from operating activities		**(844,402)**	46,223
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**388**	174
Cash received relating to other investing activities		**593,876**	715,350
Sub-total of cash inflows		**594,264**	715,524
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(68,430)**	(86,547)
Net cash paid to acquire subsidiaries and other business units		**(45,433)**	(237,000)
Cash paid relating to other investing activities		**(295,785)**	(819,229)
Sub-total of cash outflows		**(409,648)**	(1,142,776)
Net cash flows from/(used in) investing activities		**184,616**	(427,252)

Company Cash Flow Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

ITEM	Notes	**31 December 2017 Company**	31 December 2016 Company
3. Cash flows from/(used in) financing activities			
Cash received from capital contributions	4(28)	**405,254**	—
Cash received from borrowings		**1,256,000**	780,000
Cash received relating to other financing activities		**6,495**	—
Sub-total of cash inflows		**1,667,749**	780,000
Cash repayments of borrowings		**(550,000)**	(480,000)
Cash payments for distribution of dividends, profits or interest expenses		**(282,631)**	(388,738)
Cash payments relating to other financing activities		**(2,310)**	(883)
Sub-total of cash outflows		**(834,941)**	(869,621)
Net cash flows from/(used in) financing activities		**832,808**	(89,621)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—
5. Net increase/(decrease) in cash and cash equivalents		**173,022**	(470,650)
Add: Cash and cash equivalents at beginning of year		**388,337**	858,987
6. Cash and cash equivalents at end of year		**561,359**	388,337

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Item	Notes	**Share capital**	**Capital surplus**	**Other comprehensive income/ (losses)**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' 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 year ended 31 December 2016								
Total comprehensive income								
Net profit	4(32)	—	—	—	—	531,963	40,304	572,267
Other comprehensive income	4(30)	—	—	11,973	—	—	—	11,973
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders		—	—	—	—	—	2,000	2,000
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	15,840	—	—	—	—	15,840
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(31), 4(32)	—	—	—	20,398	(20,398)	—	—
Profit distribution to shareholders	4(32)	—	—	—	—	(379,534)	(22,206)	(401,740)
Balance at 31 December 2016		492,902	1,537,825	11,973	148,768	1,115,817	202,933	3,510,218

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Item	Notes	**Share capital**	**Capital surplus**	**Other comprehensive income/(losses)**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' equity**
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 year ended 31 December 2017								
Total comprehensive income								
Net profit	4(32)	—	—	—	—	**498,527**	**38,913**	**537,440**
Other comprehensive losses	4(30)	—	—	**(12,696)**	—	—	—	**(12,696)**
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	4(28), 4(29)	**54,770**	**350,484**	—	—	—	**3,460**	**408,714**
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	**5,788**	—	—	—	—	**5,788**
Minority interests from business combination	5(1)	—	—	—	—	—	**8,111**	**8,111**
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(31), 4(32)	—	—	—	**70,386**	**(70,386)**	—	—
Profit distribution to shareholders	4(32)	—	—	—	—	**(328,602)**	**(59,745)**	**(388,347)**
Balance at 31 December 2017		**547,672**	**1,894,097**	**(723)**	**219,154**	**1,215,356**	**193,672**	**4,069,228**

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

Item	Note	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' 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 year ended 31 December 2016						
Total comprehensive income						
Net profit		—	—	—	203,980	203,980
Capital contribution and withdrawal by shareholders						
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	15,840	—	—	15,840
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(31),4(32)	—	—	20,398	(20,398)	—
Profit distribution to shareholders	4(32)	—	—	—	(379,534)	(379,534)
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 year ended 31 December 2017						
Total comprehensive income						
Net profit		**—**	**—**	**—**	**703,862**	**703,862**
Capital contribution and withdrawal by shareholders						
Capital contribution by shareholders	4(28),4(29)	**54,770**	**350,484**	**—**	**—**	**405,254**
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	**—**	**5,788**	**—**	**—**	**5,788**
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(31),4(32)	**—**	**—**	**70,386**	**(70,386)**	**—**
Profit distribution to shareholders	4(32)	**—**	**—**	**—**	**(328,602)**	**(328,602)**
Balance at 31 December 2017		**547,672**	**1,894,097**	**219,154**	**455,325**	**3,116,248**

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	**Yu Qiang**	**Zhang Haiyun**

Notes to the Financial Statements

For the year ended 31 December 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 and its subsidiaries (together the "Group") are principally engaged in designing, marketing and selling apparel products in the PRC. The registered office of the Company is at Room 3300, Block 1, Level 3, 270 Cao Xi Road, Shanghai, the PRC.

In October 2014, 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 by issuing 138,643 thousands of overseas-listed shares ("H Shares") at par value of RMB1 (including the Over-Allotment Option of 17,064 thousands H Shares). Stock code: 06116, stock short name:"La Chapelle".

On 25 September 2017, the Company was listed on the Main Board of the Shanghai Stock Exchange by issuing 54,770 thousands of RMB-denominated ordinary shares ("A Shares") at par value of RMB1. Stock code: 603157, stock name "La Chapelle".

As at 31 December 2017, the share capital of the company was RMB547,672 thousand and the total number of the Company's shares was 547,672 thousands of shares, including 332,882 thousands of A Shares and 214,790 thousands of H Shares respectively.

Subsidiaries which are included in the scope of consolidation in this year are disclosed in Note 6. Subsidiares newly included in the scope of consolidation are Shanghai Jiuwo Fashion Co., Ltd. ("Jiuwo") (Note 5(1)), Dongguan Dianlan Xinlong Fashion Co. Ltd. ("Dianlan Xinlong") (Note 5(3)) and LaCha Apparel I Ltd (BVI) ("Apparel") (Note 5(3)). Subsidiares excluded from the scope of consolidation is Hangzhou Zhuolv Fashion Co., Ltd. ("Hangzhou Zhuolv") (Note 5(2)).

The financial statements have been approved and authorised for issue by the Company's Board of Directors on 22 March 2018.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applied the accounting policies and accounting estimates based on its business operating characteristics, including provision of bad debts of receivable (Note 2(10)), valuation of inventories (Note 2(11)), impairment of available-for-sale equity instrument (Note 2(9(a(iii)))), depreciation of fixed assets (Note 2(13)), amortation of intangible assets (Note 2(16)), revenue recognition (Note 2(23)),etc.

The areas including significant judgements to determine the critical accounting policies are disclosed in Note 2(31).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

Certain disclosures in the financial statements have been included to reflect the requirements under the new HongKong Company Ordinance.

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

The financial statements of the Company for the year ended 31 December 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position as at 31 December 2017 and their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

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

(4) Recording currency

The Company's recording currency of the is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment where they incorporated and operated. The recording currency of LaCha Fashion I Limited ("LaCha Fashion") and Apparel is Hong Kong Dollar (HKD) and United States Dollar (USD) respectively. The consolidated financial statements of the Group are represented in 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 year. Costs directly attributable to the combination are included in profit or loss in the year in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 statement.

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.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' 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 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 shareholders 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 shareholders 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 shareholders 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency 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 recording currency 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.

(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 shareholders' 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification of financial assets (continued)

Receivables

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

Available-for-sale financial assets

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.

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 year. 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Recognition and measurement (continued)

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 year 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 year.

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 year. 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 as investment income, which is recognised in profit or loss for the period.

(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.

The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of the financial asset, and such one or more events must have a reliably measurable effect on the present value of estimated future cash flows of the financial assets.

The objective evidence which indicates impairment in fair value of available-for-sale equity instruments includes the significant and prolonged decline in fair value. The Group has separately tested various available-for-sale equity instruments at the balance sheet date. It will be defined as impairment if the fair value is lower than the original cost at initial recognition by more than 50%(including 50%) or the period in which the fair value of the investment has been below that original cost has lasted for no less than 1 year. While if the fair value is between 20%(including 20%) to 50% lower than the original cost, the Group will take other factors such as price fluctuation into consideration to estimate whether the equity instrument has impaired or not. The basis for measuring the original cost of available-for-sale equity instruments is determined by using weighted average method.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Impairment of financial assets (continued)

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of 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.

When an impairment loss on an available-for-sale financial asset measured at fair value has occurred, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have 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 in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

When an impairment loss on an available-for-sale financial asset carried at cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows using the market yield of similar financial assets. The loss which has already occurred will not be reversed in subsequent period.

(iv) De-recognition 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 expire; 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 de-recognition 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(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 and borrowings.

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

Borrowings 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 is derecognised or partly derecognized when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(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 when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximize the use of relevant observable inputs. When related observable inputs can't be acquired or are not feasible to be acquired, then use unobservable inputs.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

(a) Receivables with amounts that are individually significant and subject to separate assessment for provision of bad debts

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 determining "individually significant" is that any individual amount is more than RMB500,000.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(b) Receivables that are subject to provision for bad debts on the grouping basis

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and no provision has been made are classified into certain groupings based on their credit risk characteristics. 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 has been improving its management of receivables continuously according to accumulative knowledge and experience. The Group had an accounting estimate change regarding the provision ratios used for receivables after considering the industry characteristic and the accounting treatment of other listed companies within the same industry. The change mentioned above has become effective since 1 January 2017.

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (continued)

(b) Receivables that are subject to provision for bad debts on the grouping basis (continued)

The provision ratio used under the aging analysis method are as follows:

	Provision ratio used for accounts receivable	Provision ratio used for other receivables
Current (90 days)	2%	5%
Overdue (over 90 days) to one year	5%	5%
One year to two years	20%	20%
Two years to three years	50%	50%
Above three years	100%	100%

The policy on provision for bad debts used for the year ended 31 December 2016 is as follows:

Basis for grouping is as follows:

Group 1	Accounts receivable from shops in normal operation; Accounts receivable from shops or e-commerce customers that have deposits or receivables collected from; Deposits in exclusive shops in normal operation
Group 2	Accounts receivable and deposits from shops and e-commerce customers that are of discontinued operation
Group 3	Advances to employees and other receivables

The provision ratios used for the above groupings are as follows:

Group 1	Based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, the provision ratio used for the group is 0% in the year of 2016.
Group 2	100%
Group 3	Based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, the provision ratio used for the group is 0% in the year of 2016.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Receivables (continued)

(c) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts:

The reason for making separate assessment for provision for bad debts is that there exists objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

A provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(11) Inventories

(a) Classification

Inventories comprise raw materials, finished goods and low value consumables, and are measured at the lower of cost and net realizable value.

(b) Costing of inventories

Cost is determined using the weighted average method.

(c) Basis for determining net realizable 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 realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the 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 written off once used.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 by participating in the 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 associates are accounted for using the equity method.

(a) Determination of investment cost

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 shareholders' 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, and cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment 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 acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Long-term equity investments (continued)

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

For long-term equity investments accounted for using the equity method, the Group recognizes the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee 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. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus other comprehensive income, and profit distribution. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profit or loss arising from the intra-group transactions amongst the Group and its investees is eliminated in proportion to the Group's equity interests in the investees, and then based on which the investment income is recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(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) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note2(19)).

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Fixed assets

(a) Recognition and 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 acquisition date.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the related 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 in the period in which they are incurred.

(b) Depreciation method of fixed assets

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.

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 residual values**	**Annual depreciation rates**
Buildings	10 to 20 years	0%	5% to 10%
Machinery and equipment	5 to 10 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 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 fixed assets is reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(19)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(13) Fixed assets (continued)

(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 year.

(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)).

(15) Borrowing costs

The borrowing costs that are directly attributable to acquisition and construction of an asset that needs a substantially long year 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 year. Capitalisation of borrowing costs is suspended during years 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 year.

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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(16) Intangible assets

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

(a) Land use rights

Land use rights are initially measured at historical cost and are amortised on the straight-line basis over their approved useful year of 50 years.

(b) Trademark

Trademarks are initially measured at historical cost and are amortised on the straight-line basis over the expected useful lives.

(c) Purchased software

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

(d) Brands

Brands acquired in a business combination involving enterprises not under common control are initially measured at fair value based on the results from external valuation reports, and are amortised on the straight-line basis over the expected useful lives.

(e) Favorable contracts

Favorable contracts acquired in a business combination involving enterprises not under common control are initially measured at fair value based on the results from external valuation reports, and are amortised on the straight-line basis over the expected useful lives.

(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) Impairment of intangible assets

The carrying amount of intangible assets 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)

(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 expected beneficial period ranging from 2 to 5 years and are presented at actual expenditure net of accumulated amortisation.

(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. 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits provided in various forms of remuneration in exchange for service rendered by employees.

(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 employee benefits liabilities are recognised 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. Employee benefits which are non-monetary benefits are measured at fair value.

(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 year, the Group's post-employment benefits mainly include the 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) Dividends distribution

Cash dividend is recognised as a liability in the year in which it is approved by the shareholders' meeting.

(22) Provisions

Provisions for sales returns etc. 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Provisions (continued)

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.

(23) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown 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 sale 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 the products have been delivered 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's distribution mainly includes concessionaire counters, standalone retail outlets and online platforms. The revenue of the standalone retail outlets is recognized when the product has been delivered to the customer and the customer has confirmed the acceptance of the product. The revenue of the concessionaire counters is recognized when the product has been delivered to the ultimate customer and the ultimate customer has recognized the acceptance of the product. The revenue from the online platform is recognized when the product has been delivered to the ultimate customer and the ultimate customer has confirmed the acceptance of the product. The Group has recognized revenue with a corresponding provision against revenue for the estimated return based on the accumulated experiences.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Revenue recognition (continued)

(b) Sale of goods – wholesale and distribution

Revenue from sale of products – wholesale distribution is recognised when the risk and reward of the products has been transferred to the distributor, and the distributor has confirmed the acceptance of the products. Upon delivery of the products, the distributor has the right to sell the products and takes the risks of any obsolescence and loss of the products.

(c) Rendering of services

The Group provides online platform operation service to its related parties. Revenue is recognized in accounting period in which the service is rendered.

(24) Government grants

Government grants refer to the monetary assets obtained by the Group from the government, including financial subsidy, specific fund for modern service industry and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. It will be measured at the amount received or receivable.

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 is recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favourable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favourable interest rates. The interest subsidies directly received from government are recorded as a reduction of interest expenses.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

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,

- 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 year of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current year.

Certain lessors provide incentives to enter into the agreements. Such incentives are generally in the form of granting rent-free for the initial years of the lease term. Total rental is recognized on a straight-line basis over the year of the lease, without excluding the rent-free year, rental fee and the corresponding liabilities are recognised during the rent-free year.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Operating leases (continued)

Deferred income is recognized when a rental subsidy is received, and is deferred against rental fee over the lease term on a straight-line basis. The deferred income is classified as current liabilities when the lease term is within one year; those expected to be deferred within one year since the balance sheet date are classified as current portion of non-current liabilities; others are classified 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 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 the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service period. 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.

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. The share-based compensation charges were pushed down to the Group during the vesting period and recorded as an expense in the consolidated statement of profit or loss, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Group.

(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 year, 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.

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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.

(29) Significant changes in accounting policies

In 2017, the Ministry of Finance released the 'Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations', revised 'Accounting Standard for Business Enterprises No. 16—Government Grants' and the 'Circular on Amendment to Formats of Financial Statements of General Industry' and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular. The change of No. 42 has no impact to the Group financial statements for both 2017 and 2016. The current year impact of the change of No. 16 please refer to Note 4(42), and the comparatives as at 31 December 2016 were not restated. The impact of the change of No. 30 is as follows:

The nature and the reasons of the changes in accounting policies	**The line items affected**	**The amounts affected For the year ended 31 December 2016**
The Group recorded the gains or losses on disposals of fixed assets and intangible assets, occurred in 2017, in losses on disposals of assets. The comparatives as at 31 December 2016 were restated accordingly.	Losses on disposals of assets	(637)
	Non-operating income	(87)
	Non-operating expenses	1,044

(30) Change in accounting estimates

The Group has been improving its management of receivables continuously according to accumulative knowledge and experience. The Group had an accounting estimate change regarding the provision ratios used for receivables after considering the industry characteristic and the accounting treatment of other listed companies within the same industry. The change mentioned above has become effective since 1 January 2017. The change in the accounting estimate resulted in the decrease in the net profit for the year ended 31 December 2017 by RMB28,597,000, and please refer to Note 4(2) and Note 4(5) for the impacts on other accounts.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 expectations of future events that are believed to be reasonable.

(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) Net realizable value of inventories

Net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes. The estimate is based on current market conditions and historical experience in selling similar products and will vary depending on customer preferences and changes in competitors' marketing strategies.

At the end of each year, the Group reviews and makes appropriate adjustments (if applicable) to the net realizable value of inventories.

(ii) Estimated useful lives and net residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements)

The Group's management determines the estimated useful lives and net residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements). The estimate is based on the historical experience of the actual useful lives and residual values of fixed assets, intangible assets and long-term deferred expenses (leasehold improvements) with similar nature and functions. The Group will increase the depreciation rate, directly dispose or technically update an asset where the useful life or net residual value is less than previous estimation.

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

(iii) Long-term impairment losses

The assets are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. The recoverable amount of the asset and asset group is determined based on value-in-use calculation. The calculation requires the use of judgements and estimates.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Critical accounting estimates and judgements (continued)

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

(iii) Long-term impairment losses (continued)

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

(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 initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

(v) Provision for bad debts of accounts receivable

The Group's management determines the provision for bad debts of receivable based on an assessment of these receivables. This assessment is based on the credit history of department stores and other debtors and the current market condition, and requires the use of judgements and estimates. The Group has been improving its management of receivables continuously according to accumulative knowledge and experience. The Group had an accounting estimate change regarding the provision ratios used for receivables after considering the industry characteristic and the accounting treatment of other listed companies within the same industry (Note 2(30)). The change mentioned above has become effective since 1 January 2017, and please refer to Note 4(2) and Note 4(5) for the impacts to other accounts.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Critical accounting estimates and judgements (continued)

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

(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. 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 CAS 22 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 base	Tax rate
Enterprise 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 year)	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%
River 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 decoration service 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

	31 December 2017	31 December 2016
Cash on hand	**11,438**	13,311
Cash at bank	**804,142**	568,078
Other cash balances	**115,000**	120,525
	930,580	701,914
Including: cash at bank and on hand overseas	**579**	632

As at 31 December 2017 and 31 December 2016, other cash balances are deposites held in separate bank accounts with more than three months to maturity when placed.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable

	31 December 2017	31 December 2016
Accounts receivable	**1,110,215**	1,080,280
Less: Provision for bad debts	**(56,779)**	(28,096)
	1,053,436	1,052,184

The Group's accounts receivable are mainly derived from sales through concessionaire stores, which will be mainly collected within 90 days after issuance of invoices.

(a) The aging of accounts receivable based on the invoice date are analysed below:

	31 December 2017	31 December 2016
Within credit period (90 days)	**975,248**	1,021,207
Overdue (90 days) to one year	**92,217**	26,411
One year to two years	**10,649**	14,075
Two years to three years	**13,576**	14,795
Above three years	**18,525**	3,792
	1,110,215	1,080,280

As at 31 December 2017, the Group has no accounts receivable that were past due but not individually provided for impairment. As at 31 December 2016, accounts receivable of RMB32,686,000 were past due but not impaired. Based on the past experience, management believes that no additional allowance for impairment is necessary in respect of these pass-due trade receivables as there has not been a significant change in their credit position and the balances are considered fully recoverable, thus no provisions for bad debts are individually or fully provided. The aging of these accounts receivable is analysed as follows:

	31 December 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 by categories are analysed as follows:*

	31 December 2017				31 December 2016			
	Carrying amount before provision		**Provision for bad debts**		Carrying amount before provision		Provision for bad debts	
	Amount	**% of total balance**	**Amount**	**% of total provision**	Amount	% of total balance	Amount	% of total provision
Individually significant and subject to separate assessment for provision	**11,448**	**1%**	**(11,448)**	**100%**	13,073	2%	(13,073)	100%
Subject to provision on aging analysis	**1,085,393**	**98%**	**(31,957)**	**3%**	—	0%	—	0%
Subject to provision on grouping 1	**—**	**0%**	**—**	**0%**	1,052,184	97%	—	0%
Subject to provision on grouping 2	**—**	**0%**	**—**	**0%**	4,487	0%	(4,487)	100%
Individually not significant and subject to separate assessment for provision	**13,374**	**1%**	**(13,374)**	**100%**	10,536	1%	(10,536)	100%
	1,110,215	**100%**	**(56,779)**	**5%**	1,080,280	100%	(28,096)	3%

Effective from 1 January 2017, the Group changed the accounting estimate of the bad debt ratios. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB23,535,000 and the decrease in accounts receivable of RMB23,535,000 for the year ended 31 December 2017.

(c) *As at 31 December 2017, accounts receivable with amounts that are individually significant and subject to separate assessment for provision are analysed as follow:*

	Amount	**Provision for bad debts**	**Proportion of accrual**	**Reason**
Accounts receivable 1	1,755	(1,755)	100%	(i)
Accounts receivable 2	1,612	(1,612)	100%	(ii)
Accounts receivable 3	984	(984)	100%	(iii)
Accounts receivable 4	802	(802)	100%	(iv)
Accounts receivable 5	686	(686)	100%	(v)
Other	5,609	(5,609)	100%	Expected to be uncollectible
	11,448	(11,448)	100%	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (continued)

(c) *(continued)*

(i) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB1,755,000, since the mall had already gone into cashflow shortage, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(ii) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB1,612,000, since the mall had already gone into liquidation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(iii) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB984,000, since the mall had already gone into liquidation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(iv) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB802,000, since the mall had already gone into liquidation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(v) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB686,000, since the mall had already gone into cashflow shortage, management of the Company is of the view that it is difficult to collect the receivable amount 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 aging analysis method are analysed as follows:*

	31 December 2017		
	Carrying amount before provision	**Provision for bad debts**	
	Amount	**Amount**	**Ratio**
Within credit period (90 days)	**975,248**	**(19,365)**	**2%**
Overdue (90 days) to one year	**92,113**	**(4,606)**	**5%**
One year to two years	**8,707**	**(1,741)**	**20%**
Two years to three years	**6,159**	**(3,079)**	**50%**
Above three years	**3,166**	**(3,166)**	**100%**
	1,085,393	**(31,957)**	**3%**

(e) *For the year ended 31 December 2017, the Group accrued provision for bad debts of RMB33,746,000, and reversed provision for bad debts of RMB5,063,000.*

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Accounts receivable (continued)

(f) *For the year ended 31 December 2017, no accounts receivable has been written off.*

(g) *As at 31 December 2017, the top five accounts receivable are analysed as follows:*

	Amount	**Provision of bad debts**	**% of total balance**
Total amount of the top five accounts receivable	151,346	3,752	14%

(h) *As at 31 December 2017, there are no accounts receivable derecognised due to the transfer of financial assets.*

(3) Advances to suppliers

(a) *As at 31 December 2017 and 31 December 2016, the Group's advances are mainly advances for inventories and rental fees, which are within one year.*

(b) *As at 31 December 2017, the total amount of the top five advances to suppliers are analysed as follows:*

	Amount	**% of total advances to suppliers balance**
Total amount of the top five advances to suppliers	102,385	42%

(4) Interests receivable

	31 December 2017	31 December 2016
Interests receivable from term deposit	**2,281**	2,695

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables

	31 December 2017	31 December 2016
Deposits	**338,239**	277,337
Staff advance	**9,081**	6,957
Others	**2,389**	490
	349,709	284,784
Less: Provision for bad debts	**(26,173)**	(8,513)
	323,536	276,271

(a) The aging of other receivables is analysed below:

	31 December 2017	31 December 2016
Within one year	**318,327**	276,820
One year to two years	**24,242**	6,592
Two years to three years	**6,255**	1,372
Above three years	**885**	—
	349,709	284,784

As at 31 December 2017, there is no other receivables overdue but not impaired. 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 was of the view that the overdue amounts could be fully recovered, thus no provisions for bad debts are individually provided. The aging analysis of these other receivables is analysed as follows:

	31 December 2017	31 December 2016
One year to two years	**—**	882
Two years to three years	**—**	339
	—	1221

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

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

	31 December 2017				31 December 2016			
	Carrying amount before provision		**Provision for bad debts**		Carrying amount before provision		Provision for bad debts	
	Amount	**% of total balance**	**Amount**	**% of total provision**	Amount	% of total balance	Amount	% of total provision
Individually significant and subject to separate assessment for provision	**2,291**	**1%**	**(2,291)**	**100%**	2,291	1%	(2,291)	100%
Subject to provision on aging analysis	**347,418**	**99%**	**(23,882)**	**7%**	—	0%	—	0%
Subject to provision on grouping 1	**—**	**0%**	**—**	**0%**	267,867	94%	—	0%
Subject to provision on grouping 2	**—**	**0%**	**—**	**0%**	6,222	2%	(6,222)	100%
Subject to provision on grouping 3	**—**	**0%**	**—**	**0%**	8,404	3%	—	0%
	349,709	**100%**	**(26,173)**	**8%**	284,784	100%	(8,513)	3%

Effective from 1 January 2017, the Group changed the accounting estimate of bad debt ratios. The change in the accounting estimate resulted in the increase in asset impairment loss of RMB14,594,000 and the decrease in other receivables of RMB14,594,000 for the year ended 31 December 2017.

(c) As at 31 December 2017, other receivables that are individually significant and subject to separate assessment for provision are analysed as follows:

	Amount	**Provision for bad debts**	**Ratio**	**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%	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(c) As at 31 December 2017, other receivables that are individually significant and subject to separate assessment for provision are analysed as follows: (continued)

(i) As at 31 December 2017, deposit receivable from one shopping mall amounted to RMB1,000,000. Since the mall has ceased operation, and been involved in several lawsuits, with ineffective communication, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(ii) As at 31 December 2017, deposit receivable from one shopping mall amounted to RMB775,000. Since the mall has ceased operation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(iii) As at 31 December 2017, deposit receivable from one shopping mall amounted to RMB516,000. Since the Group ceased all the transactions with the shop, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(d) Other receivables that are subject to provision for bad debts on the grouping basis using the aging analysis method are analysed as follows:

	31 December 2017		
	Carrying amount before provision	Provision for bad debts	
	Amount	Amount	Ratio
Within 1 year	**318,327**	**(15,935)**	**5%**
1 to 2 years	**23,467**	**(4,693)**	**20%**
2 to 3 years	**4,739**	**(2,369)**	**50%**
Above three years	**885**	**(885)**	**100%**
	347,418	**(23,882)**	**7%**

(e) For the year ended 31 December 2017, the accrual of provision for bad debts are RMB17,660,000, and no reversal of provision for bad debts.

(f) For the year ended 31 December 2017, no other receivables have been written off.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(g) *As at 31 December 2017, the top five other receivables are analysed as follows:*

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Shanghai Cloud Nine Stores Limited	Deposits	4,722	Within 1 year	1%	236
Shanghai Zizhu Technology Park Wujing Town Development Department	Deposits	3,437	1 to 2 years	1%	687
Shanghai Xinsheng Development Co., Ltd.	Deposits	3,406	Within 1 year	1%	170
Hangzhou Century Co., Ltd.	Deposits	2,909	Within 1 year	1%	145
Shanghai Meiluo City Commercial Management Co., Ltd.	Deposits	2,409	Within 1 year	1%	120
		16,883		5%	1,358

(h) *As at 31 December 2017, the government subsidies were recognized as government grant when received. The Group had no government grant receivable.*

(6) Inventories

(a) *Classification of inventories is as follows:*

	31 December 2017			31 December 2016		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**9,399**	**(588)**	**8,811**	8,041	—	8,041
Finished goods	**2,555,226**	**(235,503)**	**2,319,723**	1,959,973	(269,466)	1,690,507
Low value consumables	**16,105**	**—**	**16,105**	15,028	—	15,028
	2,580,730	**(236,091)**	**2,344,639**	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 (continued)

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

	31 December 2016	Increase in the current year		Decrease in the current year		**31 December 2017**
		Business combination	Accrual	Reversed	Resold	
Raw materials	—	—	(588)	—	—	**(588)**
Finished goods	(269,466)	—	(189,026)	—	222,989	**(235,503)**
	(269,466)	—	(189,614)	—	222,989	**(236,091)**

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

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

	Basis for NRV	**Reason for resold**
Raw materials	Market price	Not applicable
Finished goods	Market price	Sold/donated

(7) Other current assets

	31 December 2017	31 December 2016
Dividends and related deposits for the third quarter of 2017 (a)	**105,747**	—
Input VAT to be certified	**29,323**	—
Available-for-sale financial assets (Note 4(8))	**17,000**	—
Entrusted loan	**5,000**	—
Prepaid corporate income tax	**—**	991
A Shares listing expense	**—**	6,495
	157,070	7,486

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Other current assets (continued)

(a) Pursuant to the resolution of Shareholders' General Meeting Resolution on 18 December 2017, the Company approved a cash dividend for the third quarter of 2017 of RMB0.33 per share to the shareholders of the Company, representing a total amount of RMB180,731,000 (before tax) based on a total number of 547,672,000 shares. As at 31 December 2017, the Group paid the dividends to the A Shares shareholders of RMB103,436,000 (excluding the dividends to be paid to Boxin China Growth Fund I L.P. of RMB6,414,000), the deposit of RMB2,212,000 and the service charge of RMB99,000 to China Securities Depository and Clearing Corporation Limited. The dividends to A Shares shareholders were subsequently paid to the shareholders on 3 January 2018.

As of the date of the financial statements, the dividends to Boxin China Growth Fund I L.P. of RMB6,414,000 and the dividends to H Shares shareholders amounted to RMB70,881,000 have not been paid.

(8) Available-for-sale financial assets

	31 December 2017	31 December 2016
Measured at fair value (a)		
– Available-for-sale equity instruments	**67,544**	190,649
– Bank wealth management products	**17,000**	—
Less: provisions for impairment	**—**	—
	84,544	190,649
Less: available-for-sale financial assets included in other current assets (Note 4(7))	**(17,000)**	—
	67,544	190,649

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

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

	31 December 2017	31 December 2016
Available-for-sale equity instruments		
– Fair value	**84,544**	190,649
– Cost	**85,226**	175,026
– Other comprehensive (losses)/income	**(682)**	15,623
– Provisions for impairment	**—**	—

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

In 2017, the Group invested in Hangzhou Zhitou Investment Partnership (Limited Partnership) (杭州智投股權投資合夥企業(有限合夥)) as a limited partner by acquiring 19.96% interests with a total consideration of RMB10,000,000. Shanghai Yuanji Asset Management Limited (上海元吉資產管理有限公司) contributed RMB100,000 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 31 December 2017, the fair value of this financial equity instrument was RMB10,000,000.

In 2017, the Group invested in Ningbo Langsheng Qianhui Investment Partnership (Limited Partnership) (寧波朗盛千匯投資合夥企業(有限合夥)) as a limited partner by acquiring 11.89% interests with a total consideration of RMB18,200,000. Ningbo Zhenhai Langsheng Baihui Investment Management Co., Ltd. (寧波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 31 December 2017, the fair value of this financial equity instrument was RMB18,200,000.

In 2017, the Group acquired 1,075,000 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 Equities Exchange and Quotations with a 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 31 December 2017, the fair value of this financial equity instrument was RMB15,000,000.

In 2017, the Group purchased the RMB wealth management products "Harvest • Benjiali" through Zhejiang Hangzhou Yuhang Rural Commercial Bank Company Limited, with the consideration of RMB17,000,000. The wealth management products are with principal guaranteed, floating interest rate and current maturity, which are included in other current assets-available-for-sale financial assets. As at 31 December 2017, the fair value of the financial asset was RMB17,000,000.

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 31 December 2017, the fair value of this financial equity instrument was RMB24,344,000 (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)

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

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. The Group has no voting power in operational and financial decision before 30 September 2017, thus has no significant influence over the Company, therefore, the investment was accounted for as an available-for-sale financial asset. As at 30 September 2017, it was agreed with partners that the Group dispatched one member to the Investment Committee of the Company, who would be involved in the investments and played significant influence on the partnership business. Therefore, the investment was transferred from available-for-sale financial asset to long-term equity investment (Note4(9(a))), with the fair value of RMB192,258,000, and the accumulated fair value adjustments amounted to RMB42,258,000 (net of the income tax expense of RMB31,693,000) was transferred from other comprehensive income to investment income (Note4(40)), and the accumulated deferred tax expenses amounted to RMB10,565,000 was transferred from other comprehensive income to income tax expenses.

(9) Long-term equity investments

	31 December 2017	31 December 2016
Associates(a)	**428,465**	130,381
Less: Provision for impairment of long-term equity investments	**—**	—
	428,465	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 year									
	31 December 2016	Additions	Transferred from available-for-sale financial assets	Share of net profit or loss using the equity method (Note 4(40))	Share of other comprehensive income	Changes in other equity	Cash dividends declared	Provision for impairment	Others	**31 December 2017**	Balance of provision for impairment at the end of year
Tibet Baoxin Equity Investment Partnership Enterprise	60,000	45,000	–	2,712	–	–	–	–	–	**107,712**	–
Hong Che Industrial (Shanghai) Co., Ltd.	48,901	16,500	–	(9,160)	–	–	–	–	–	**56,241**	–
Beijing Ao Ni Trading Co., Ltd.	20,000	–	–	–	–	–	–	–	–	**20,000**	–
Hangzhou Mixin E-commerce Co., Ltd.	960	–	–	275	–	–	–	–	–	**1,235**	–
Hangzhou KaiHui E-Commerce Co., Ltd.	520	–	–	2,062	–	–	–	–	–	**2,582**	–
Hangzhou Jianing E-Commerce Co., Ltd.	–	900	–	(161)	–	–	–	–	–	**739**	–
Shanghai Pincheng Industry Co., Ltd.	–	15,000	–	775	–	–	–	–	–	**15,775**	–
Fuzhou Badi Fashion Co., Ltd.	–	10,000	–	(1,342)	–	–	–	–	–	**8,658**	–
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership)	–	–	192,258	23,265	–	–	–	–	–	**215,523**	–
	130,381	87,400	192,258	18,426	–	–	–	–	–	**428,465**	–

Details of equity interests in the associates are disclosed in Note 6(2).

(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
Original cost					
31 December 2016	178,728	30,038	8,569	108,038	325,373
Increases in the current year					
Purchase	—	3,116	2,596	22,986	28,698
Transferred from construction in progress (Note 4(11))	212,234	8,211	—	11,553	231,998
Acquired from business combination (Note 5(1))	—	—	—	545	545
Decrease in the current year					
Disposal	—	(15)	(2,045)	(7,042)	(9,102)
31 December 2017	390,962	41,350	9,120	136,080	577,512
Accumulated depreciation					
31 December 2016	(20,963)	(6,949)	(3,269)	(63,528)	(94,709)
Increases in the current year					
Accrual	(8,999)	(3,362)	(785)	(21,503)	(34,649)
Decrease in the current year					
Disposal	—	14	1,110	6,204	7,328
31 December 2017	(29,962)	(10,297)	(2,944)	(78,827)	(122,030)
Provision for impairment					
31 December 2016	—	—	—	—	—
Increases in the current year					
Accrual	—	—	—	—	—
Decrease in the current year					
Disposal	—	—	—	—	—
31 December 2017	—	—	—	—	—
Carrying amount					
31 December 2017	361,000	31,053	6,176	57,253	455,482
31 December 2016	157,765	23,089	5,300	44,510	230,664

For the year ended 31 December 2017, accrued depreciation are RMB34,649,000 (2016: RMB32,167,000), of which RMB23,011,000 and RMB11,638,000 (2016: RMB23,967,000 and RMB8,200,000) have been charged to selling expenses, general and administrative expenses respectively.

As at 31 December 2017, there are no fixed assets are temporarily idle, or without ownership certificates.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Construction in progress

	31 December 2017			31 December 2016		
	Carrying amount before provision	**Provision for impairment**	**Carrying amount**	Carrying amount before provision	Provision for impairment	Carrying amount
Wu Jing headquarter project	**380,343**	**—**	**380,343**	76,401	—	76,401
Tianjin logistics center project	**114,263**	**—**	**114,263**	82,364	—	82,364
Chengdu logistics center project	**77,625**	**—**	**77,625**	41,427	—	41,427
ERP system upgrade	**4,867**	**—**	**4,867**	4,867	—	4,867
Taicang logistics center project phase II and III	**—**	**—**	**—**	159,394	—	159,394
CBA air conditioning project	**—**	**—**	**—**	468	—	468
Others	**577**	**—**	**577**	410	—	410
	577,675	**—**	**577,675**	365,331	—	365,331

(a) Movement in significant construction in progress

Project	Budget	31 December 2016	Increase in the current year	Transferred to intangible assets (Note4(12))	Other decrease	31 December 2017	Investment percentage of budget	Completion percentage	Accumulative capitalization of borrowing costs	Capitalization of borrowing costs in this year	Interest rate of capitalized borrowing costs	Sources of funds
Wu Jing headquarter project	1,065,260	76,401	303,942	–	–	380,343	35%	35%	8,970	7,709	4.18%	borrowing and working capital
Taicang logistics center project phase II and III	228,428	159,394	71,769	–	(231,163)	–	96%	96%	11,621	7,954	4.18%	borrowing and working capital
Tianjin logistics center project	190,464	82,364	31,899	–	–	114,263	57%	57%	5,638	3,639	4.18%	borrowing and working capital
Chengdu logistics center project	139,430	41,427	36,198	–	–	77,625	53%	53%	3,060	2,447	4.18%	borrowing and working capital
ERP system upgrade	5,898	4,867	–	–	–	4,867	83%	83%	–	–	–	working capital
CBA air conditioning project	835	468	367	–	(835)	–	100%	100%	–	–	–	working capital
Others	1,939	410	948	(781)	–	577			–	–	–	working capital
		365,331	445,123	(781)	(231,998)	577,675			29,289	21,749		

For the year ended 31 December 2017, the Group did not provide for or write off provision for impairment of construction in progress (2016: nil).

(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
Original cost						
31 December 2016	1,776	63,464	162,818	48,130	9,203	285,391
Increase in current year						
Purchase	—	5,173	—	—	—	5,173
Minority shareholder investment	2,310	—	—	—	—	2,310
Transferred from construction in progress (Note 4(11))	—	781	—	—	—	781
Acquired from business combination (Note 5(1))	—	6	—	—	—	6
Decrease in current year						
Disposal	—	—	—	—	(7,653)	(7,653)
31 December 2017	4,086	69,424	162,818	48,130	1,550	286,008
Accumulated amortisation						
31 December 2016	(1,072)	(46,739)	(6,811)	(9,448)	(2,999)	(67,069)
Increase in current year						
Accrual	(413)	(9,574)	(3,275)	(5,666)	(5,147)	(24,075)
Decrease in current year						
Disposal	—	—	—	—	7,653	7,653
31 December 2017	(1,485)	(56,313)	(10,086)	(15,114)	(493)	(83,491)
Provision for impairment loss						
31 December 2016	—	—	—	—	—	—
Increase in current year						
Accrual	—	—	—	—	—	—
Decrease in current year	—					
Disposal	—	—	—	—	—	
31 December 2017	—	—	—	—	—	—
Carrying amount						
31 December 2017	2,601	13,111	152,732	33,016	1,057	202,517
31 December 2016	704	16,725	156,007	38,682	6,204	218,322

For the year ended 31 December 2017, amortisation amount of the Group is RMB24,075,000 (2016: RMB24,585,000), of which RMB14,633,000 and RMB9,442,000 (2016: RMB11,017,000 and RMB13,568,000) are charged to selling expenses and general and administrative 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 year	Decrease in the current year	**31 December 2017**
Goodwill–				
Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	92,339	—	—	**92,339**
Jack Walk (Shanghai) Fashion Limited ("Jack Walk")	13,383	—	—	**13,383**
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**

Goodwill increased in the current year arose from acquisition of 60% of the equity interests in Jiuwo (Note 5(1)).

(a) Impairment

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

The recoverable amount is calculated using the estimated cash flows determined according to the five-year financial budget approved by management, together with the constant growth rates thereafter. The latter are set out in the following table:

Growth rate	0%
Gross margin	64%
Discount rate	15%

The above growth rate is the weighted average growth rates applied by the Group to forecast five-year cash flow, which 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 previous experience and forecast on future market. The discount rates used by management are the pre-tax interest rate that is 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.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(14) Long-term prepaid expenses

	31 December 2016	Increase in the current year		Amortisation in the current year	**31 December 2017**
		Business combination	Accrual		
Leasehold improvement	776,640	740	354,080	(419,680)	**711,780**

For the year ended 31 December 2017, amortisation amount was RMB419,680,000 (2016: RMB335,858,000), of which RMB413,506,000 and RMB6,174,000 (2016: RMB332,543,000 and RMB3,315,000) were charged to selling expenses and general and administrative expenses respectively.

(15) Other non-current assets

	31 December 2017	31 December 2016
Prepayments for long-term equity investment (a)	**13,605**	10,000
Deposit for construction in progress	**—**	5,069
	13,605	15,069

(a) As at 31 December 2017, the balance was the prepayments for long-term equity investment in Shanghai Yanghe Culture Communication Co., Ltd. The transaction was still in the progress as at the balance sheet date.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities

(a) Deferred tax assets before offsetting:

	31 December 2017		31 December 2016	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Tax losses carried forward	**453,691**	**113,420**	148,367	37,090
Provision for inventories impairments	**236,091**	**59,023**	269,466	67,366
Rental incentives recognized on a straight-line basis	**136,513**	**34,128**	151,860	37,965
Elimination of intra-group unrealised profit	**114,763**	**28,691**	133,300	33,325
Provision for bad debt	**82,952**	**20,738**	36,609	9,152
Differences in amortization of long-term prepaid expense between tax and accounting	**11,188**	**2,797**	5,056	1,264
Employee benefits payable	**7,338**	**1,834**	36,356	9,091
	1,042,536	**260,631**	781,014	195,253
Including:				
Expected to be reversed within one year (inclusive)	**114,735**		132,612	
Expected to be reversed after one year	**145,896**		62,641	
	260,631		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 tax liabilities before offsetting:*

	31 December 2017		31 December 2016	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Business combination involving enterprises not under common control	**34,073**	**8,519**	44,886	11,222
Capitalized borrowing costs	**36,778**	**9,194**	11,192	2,798
Fair value changes in available-for-sale financial assets	**—**	**—**	14,599	3,650
Other fair value changes	**68,235**	**17,059**	—	—
	139,086	**34,772**	70,677	17,670
Including:				
Expected to be reversed within one year (inclusive)	**817**		1,999	
Expected to be reversed after one year	**33,955**		15,671	
	34,772		17,670	

(c) *All deductible temporary differences and tax losses are recognized as deferred tax assets.*

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

	31 December 2017		31 December 2016	
	Offsetting amount	**Net amount**	Offsetting amount	Net amount
Deferred tax assets	**(14,182)**	**246,449**	(3,104)	192,149
Deferred tax liabilities	**14,182**	**20,590**	3,104	14,566

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Provision for asset impairment

	31 December 2016	Increase in the current year	Decrease in the current year		**31 December 2017**
		Accrual	Reversal	Resold	
Provision for bad debts	(36,609)	(51,406)	5,063	—	**(82,952)**
Include: provision for bad debts of accounts receivable	(28,096)	(33,746)	5,063	—	**(56,779)**
provision for bad debts of other receivables	(8,513)	(17,660)	—	—	**(26,173)**
Decline in the value of inventories	(269,466)	(189,614)	—	222,989	**(236,091)**
	(306,075)	(241,020)	5,063	222,989	**(319,043)**

(18) Short-term borrowings

	Currency	**31 December 2017**	31 December 2016
Unsecured loan	RMB	**1,006,000**	300,000

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

	31 December 2017	31 December 2016
Interest rate range	**4.13%-4.57%**	4.13%-4.26%

(19) Notes payable

	31 December 2017	31 December 2016
Trade acceptance notes	**398,728**	352,981
Bank acceptance notes	**135,776**	42,311
	534,504	395,292

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Accounts payable

	31 December 2017	31 December 2016
Payable for purchase	**988,084**	638,910

(a) The aging of accounts payable are analysed below:

	31 December 2017	31 December 2016
Within 30 days	**139,759**	122,764
30 days to 60 days	**310,679**	167,190
60 days to 90 days	**393,666**	175,805
90 days to 180 days	**128,297**	145,009
180 days to 365 days	**2,821**	18,311
Above 365 days	**12,862**	9,831
	988,084	638,910

Accounts payable over 1 year are mainly payables for the final payment which has not yet been settled due to delay in issuance of the invoice by the suppliers.

(21) Advances from customers

As at 31 December 2017 and 31 December 2016, advances from customers are all within 1 year.

(22) Employee benefits payable

	31 December 2017	31 December 2016
Short-term employee benefits (a)	**197,566**	249,691
Defined contribution plans (b)	**23,276**	32,181
	220,842	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

	31 December 2016	Business combination	Increase in the current year	Decrease in the current year	**31 December 2017**
Wages and salaries, bonus, allowances and subsidies	223,311	182	1,828,144	(1,871,103)	**178,534**
Staff welfare	2,844	2	20,722	(21,366)	**2,202**
Social security contributions	13,959	11	104,359	(108,156)	**10,173**
Including: medical insurance	8,683	7	65,847	(68,116)	**6,421**
others	5,276	4	38,512	(40,040)	**3,752**
Housing funds	9,577	8	68,383	(71,311)	**6,657**
Labour union funds and employee education funds	—	—	452	(452)	**—**
	249,691	203	2,020,060	(2,072,388)	**197,566**

(b) Defined contribution plans

	31 December 2016	Business combination	Increase in the current year	Decrease in the current year	**31 December 2017**
Basic pension	29,608	24	217,761	(226,130)	**21,263**
Unemployment insurance	2,573	2	20,569	(21,131)	**2,013**
	32,181	26	238,330	(247,261)	**23,276**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Taxes payable

	31 December 2017	31 December 2016
Corporate income tax payable	**166,471**	197,980
Unpaid VAT	**53,745**	125,522
Withholding tax	**15,096**	2,334
City maintenance and construction tax payable	**9,892**	10,149
Educational surcharge payable	**7,963**	7,378
Others	**371**	1,583
	253,538	344,946

(24) Interests payable

	31 December 2017	31 December 2016
Interest payable for borrowings	**3,036**	381

(25) Dividends payable

	31 December 2017	31 December 2016
Common stock dividends payable	**168,729**	—

(26) Other payables

	31 December 2017	31 December 2016
Payables for purchase of property, plant and equipment and store decoration	**203,128**	338,659
Payable for rental fees	**137,275**	220,264
Suppliers' deposits	**78,533**	55,945
Customers' deposits	**40,927**	43,275
Payables for logistic expense	**24,327**	43,313
Payables for promotion expense	**16,032**	9,474
Payables for software purchase	**691**	—
Others	**29,443**	17,203
	530,356	728,133

As at 31 December 2017, other payables over 1 year with carrying amount of RMB61,856,000 (31 December 2016: RMB35,455,000) are mainly deposits payables to vendors and shopping malls which has not been finally settled.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Other non-current liabilities – deferred income

	31 December 2017	31 December 2016
Incentive to compensate the costs for leasehold improvements (a)	**69,822**	82,348
Government grants (b)	**6,620**	6,657
	76,442	89,005
Less: due within one year	**(29,993)**	(34,632)
	46,449	54,373

(a) Incentive to compensate the costs for leasehold improvements

	31 December 2017	31 December 2016
Incentive to compensate the costs for leasehold improvements	**69,822**	82,348
Less: due within one year	**(29,956)**	(34,595)
	39,866	47,753

	For the year ended 31 December 2017	For the year ended 31 December 2016
Beginning balance	**82,348**	68,805
Increase in the current year	**35,091**	57,546
Decrease in the current year	**(47,617)**	(44,003)
Ending balance	**69,822**	82,348

The Group recognised the aggregate benefit of incentives as a reduction of rental fees over the lease term on a straight-line basis. The current portion of incentives, which was estimated based on the expected reduction of rental fees to be recognised within the next 12 months from the reporting date, was recorded as current liabilities. The remaining balance was recorded as non-current liabilities.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Government grants

	31 December 2017	31 December 2016
Government grants	**6,620**	6,657
Less: due within one year	**(37)**	(37)
	6,583	6,620

	31 December 2016	Changes in accounting policies	**31 December 2017**	Increase in the current year	Decrease in the current year: Deduction in the costs of fixed assets	Recorded as other income	Recorded as selling expenses	Recorded as financial expenses	Recorded as non-operating income	Recorded as non-operating expenses	**31 December 2017**	Related to assets or income
Tianjin logistics project grants	6,000	–	**6,000**	–	–	–	–	–	–	–	**6,000**	Related to assets
Taicang logistics project grants	657	–	**657**	–	–	–	(37)	–	–	–	**620**	Related to assets
	6,657	–	**6,657**	–	–	–	(37)	–	–	–	**6,620**	

The government grants mainly includes: the special funds granted by the Jiangsu Yixing District Administration Office of Wall Material Innovation and Energy Saving in Buildings and the project construction support fund granted by the Dasi Town People's Government of Tianjin Xiqing District. The Group recognized the deferred income after receiving the special funds. After achieving the pre-specified conditions and completing the inspection by relevant regulators, the subsidy is recorded as a deduction to the relevant expense item, the remaining amount is included in the deferred income. The portion that is expected to meet the criteria within the 12 months is classified as current liabilities; the remaining balance is classified as non-current liabilities.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Share capital

	31 December 2016	Movement in the current year	**31 December 2017**
RMB-denominated ordinary shares/A Shares (i)	278,112	54,770	**332,882**
H Shares	214,790	—	**214,790**
Total share capital	492,902	54,770	**547,672**

	31 December 2015	Movement in the current year	**31 December 2016**
RMB-denominated ordinary shares	278,112	—	**278,112**
H Shares	214,790	—	**214,790**
Total share capital	492,902	—	**492,902**

(i) In September 2017, the A Share listing application of the Company was approved by the China Securities Regulatory Commission, under which the Company was approved to issue A Shares at a price of RMB8.41 per share with a maximum share number of 54,770,000 shares. The Company completed its A Shares offering and listed on Shanghai Stock Exchange on 25 September 2017. The gross listing proceeds, netting of listing expenses of RMB55,362,000, were RMB405,254,000, including RMB54,770,000 recorded in share capital and RMB350,484,000 in share premium.

(29) Capital surplus

	31 December 2016	**Increase in the current year**	**Decrease in the current year**	**31 December 2017**
Share premium (Note 4(28(ii)))	**1,500,224**	**350,484**	**—**	**1,850,708**
Other capital surplus (a)	**37,601**	**5,788**	**—**	**43,389**
	1,537,825	**356,272**	**—**	**1,894,097**

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Capital premium	1,500,224	—	—	1,500,224
Other capital surplus (a)	21,761	15,840	—	37,601
	1,521,985	15,840	—	1,537,825

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus

(i) Contribution from Shanghai He Xia by awarding its equity instruments to the employees

Shanghai Hexia, a company which 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% 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 shareholders 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 equivalent to certain discount to the H Shares price at that time 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 equivalent to certain discount to the H Shares price at that time as management incentive.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus (continued)

(i) Contribution from Shanghai He Xia by awarding its equity instruments to the employees (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 year ended 31 December 2017	For the year ended 31 December 2016
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	**6.21%**	5.73%

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

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.

As at 31 Decmber 2017, the fair value as of the grant dates of each of the share-based compensation plans are summarised as follows:

	RMB'000
Granted to the 1st Batch Employees by Mr. Xing Jiaxing on 2 April 2010	24,226
Granted to Mr. Xing Jiaxing by Good Factor on 19 October 2010	9,354
Granted to the 1st Batch Employees by Good Factor on 19 October 2010	7,526
Granted to the 2nd Batch Employees by Mr. Xing Jiaxing on 22 April 2011	40,754
Granted to the 3rd Batch Employees by Mr. Xing Jiaxing on 24 March 2016	3,889
Granted to the 4th Batch Employees by Mr. Xing Jiaxing on 31 March 2017	2,229

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus (continued)

(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 year. Accordingly, the share-based compensation plans were accounted for as compound financial instruments (Note2(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 year 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 year ended 31 December 2017 and 2016, expenses arising from the share-based compensation plans were charged in the consolidated income statements as follows:

	For year ended 31 December 2017	For year ended 31 December 2016
General and administrative expenses	**4,793**	9,948
Selling and distribution expenses	**995**	5,892
	5,788	15,840

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Other comprehensive (losses)/income

	Other comprehensive income/(losses) in the consolidated balance sheet			Other comprehensive losses in the consolidated income statements of 2017				
	31 December 2016	Attributable to shareholders of the Company	31 December 2017	The pre-tax amount in the current year	Less: transferred out from which was recognized in other comprehensive income in the previous periods (Note 4(8))	Less: Income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Other comprehensive income that may be reclassified to profit or loss								
Fair value changes in available-for-sale financial assets	10,949	(10,949)	—	27,659	(31,693)	(6,915)	(10,949)	—
Currency translation differences	1,024	(1,747)	(723)	(1,747)	—	—	(1,747)	—
	11,973	(12,696)	(723)	25,912	(31,693)	(6,915)	(12,696)	—

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Other comprehensive (losses)/income (continued)

	Other comprehensive income in the consolidated balance sheet			Other comprehensive income/(losses) in the consolidated income statements of 2016				
	31 December 2015	Attributable to shareholders of the Company	31 December 2016	The pre-tax amount in the current year	Less: transferred out from which was recognized in other comprehensive income in the previous periods	Less: Income tax expenses	Attributable to shareholders of the Company	Attributable to minority interests
Other comprehensive income that may be reclassified to profit or loss								
Fair value adjustments on available-for-sale financial assets	—	10,949	10,949	14,599	—	(3,650)	10,949	—
Currency translation differences	—	1,024	1,024	1,024	—	—	1,024	—
	—	11,973	11,973	15,623	—	(3,650)	11,973	—

(31) Surplus reserve

	31 December 2016	**Increase in the current year**	**Decrease in the current year**	**31 December 2017**
Statutory surplus reserve	**148,768**	**70,386**	**—**	**219,154**

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Statutory surplus reserve	128,370	20,398	—	148,768

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. According to the resolution of the Board of Directors, the Company appropriated 10% of net profit to the statutory surplus reserve of RMB70,386,000 for the year ended 31 December 2017 (2016: appropriated RMB20,398,000, to 10% of net profit).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Surplus reserve (continued)

Discretionary surplus reserves' plan should be suggested by the board of directors and approved by the shareholders' meeting. Discretionary surplus reserves can be used to make up for losses or to increase the share capital after approval from the appropriate authorities. For year ended 31 December 2017 and 2016, the Company did not appropriate the discretionary surplus reserve.

(32) Undistributed profits

	For the year ended 31 Decmber 2017		For the year ended 31 Decmber 2016	
	Amount	**Proportion**	Amount	Proportion
Undistributed profits at the beginning of year	**1,115,817**	**—**	983,786	—
Add: net profit attributable to shareholders of the Company	**498,527**	**—**	531,963	—
Less: appropriation to statutory surplus reserve (Note 4(31))	**(70,386)**	**10%**	(20,398)	10%
dividend declared(a)	**(328,602)**	**—**	(379,534)	—
Undistributed profits at the end of year	**1,215,356**		1,115,817	

(a) Pursuant to the resolution of Shareholders' General Meeting Resolution on 18 December 2017, the Company approved a cash dividend of RMB0.33 per share to the shareholders of the Company, representing a total amount of RMB180,731,000 based on a total number of 547,672 thousands of shares (Note 4(7)).

Pursuant to the resolution of Shareholders' General Meeting Resolution on 12 May 2017, the Company approved a cash dividend of RMB0.30 per share to the shareholders of the Company, representing a total amount of RMB147,871,000 based on a total number of 492,902 thousands of shares.

Pursuant to the resolution of Shareholders' General Meeting Resolution on 11 October 2016, the Company approved a cash dividend of RMB0.35 per share to the shareholders of the Company, representing a total amount of RMB172,515,000 based on a total number of 492,902 thousands of shares.

Pursuant to the resolution of Shareholders' General Meeting Resolution on 29 April 2016, the Company approved a cash dividend of RMB0.42 per share to the shareholders of the Company, representing a total amount of RMB207,019,000 based on a total number of 492,902 thousands of shares.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Revenue and cost of sales

Revenue and cost of main operation

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail (i)	**8,982,987**	**(3,367,171)**	8,532,357	(3,056,238)
Rendering services (Note 8(4(d)))	**12,225**	**(2,451)**	—	—
Wholesale	**3,497**	**(1,283)**	18,510	(15,063)
	8,998,709	**(3,370,905)**	8,550,867	(3,071,301)

(i) Retail includes revenue from concessionaire counters, standalone retail outlets, online stores and others.

(a) Revenue from main operation

	For the year ended 31 December 2017	For the year ended 31 December 2016
The revenue from the end consumers	**10,430,106**	10,214,083
Less: concessionaire fee (i)	**(1,447,119)**	(1,681,726)
Rendering of services	**12,225**	—
Wholesale	**3,497**	18,510
Revenue from main operation	**8,998,709**	8,550,867

(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. 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.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(34) Taxes and surcharges

	For the year ended 31 December 2017	For the year ended 31 December 2016	Payment Standard
City maintenance and construction tax	**41,451**	45,393	Note 3
Educational surcharge	**31,929**	33,884	Note 3
Others	**9,628**	8,685	
	83,008	87,962	

(35) Selling and distribution expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employee benefits expenses	**2,017,984**	1,902,907
Rental fees	**1,047,928**	973,804
Amortization of long-term prepaid expenses	**413,506**	332,543
Utilities, electricity and department store expenses	**371,165**	414,008
E-commerce expenses	**155,399**	77,402
Logistic expenses	**124,429**	114,348
Costs of low value consumables	**103,424**	109,892
Travelling and communication expenses	**30,407**	29,164
Marketing and promotion expenses	**27,279**	31,582
Depreciation of fixed assets	**23,011**	23,967
Amortization of intangible assets	**14,633**	11,017
Quality inspection fee	**14,364**	14,133
Consulting expenses	**10,608**	9,582
Taxes and miscellaneous	**737**	917
	4,354,874	4,045,266

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(36) General and administrative expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Employee benefits expenses	**243,743**	253,785
Consulting expenses	**29,342**	19,010
Costs of low value consumables	**26,207**	27,575
Rental fees	**23,149**	19,888
Travelling and communication expenses	**20,258**	19,131
Utilities and electricity fees	**12,556**	15,439
Depreciation of fixed assets	**11,638**	8,200
Amortization of intangible assets	**9,442**	13,568
Amortization of long-term prepaid expenses	**6,174**	3,315
Logistic expenses	**3,440**	2,198
Statutory audit fee	**2,150**	3,728
– audit fee	**2,150**	3,700
– non-audit fee	**—**	28
Taxes and miscellaneous	**1,190**	5,825
	389,289	391,662

(37) Financial expenses-net

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest expenses	**(34,430)**	(10,048)
Add: capitalised interests (Note 4(11))	**21,749**	7,540
Add: interest income	**12,589**	11,582
Exchange gains – net	**280**	8,392
Bank charges	**(16,769)**	(19,094)
	(16,581)	(1,628)

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(38) Expenses by nature

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Costs of inventories	**3,368,454**	3,071,301
– original value	**3,532,949**	3,296,370
– provisions for decline in the value of inventories in prior years-resold	**(164,495)**	(225,069)
Employee benefits expenses	**2,264,178**	2,156,692
Rental fees	**1,071,077**	993,692
Amortization of long-term prepaid expenses	**419,680**	335,858
Utilities, electricity and department store expenses	**383,721**	429,447
E-commerce expenses	**155,399**	77,402
Costs of low value consumables	**129,631**	137,467
Logistic expenses	**127,869**	116,546
Travelling and communication expenses	**50,665**	48,295
Consulting expenses	**39,950**	28,592
Depreciation of fixed assets	**34,649**	32,167
Marketing and promotion expenses	**27,279**	31,582
Amortization of intangible assets	**24,075**	24,585
Quality inspection fee	**14,364**	14,133
Statutory audit fee	**2,150**	3,728
– audit fee	**2,150**	3,700
– non-audit fee	**—**	28
Taxes and miscellaneous	**1,927**	6,742
	8,115,068	7,508,229

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(39) Asset impairment losses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Decline in the values of inventories	**189,614**	260,721
Bad debt provision	**46,343**	3,398
	235,957	264,119

(40) Investment income/(loss)

	For the year ended 31 December 2017	For the year ended 31 December 2016
Investment income from available-for-sale financial assets transferred to long-term equity investments under equity method (Note 4(8(a)))	**42,258**	—
Investment income/(loss) of associates	**18,426**	(1,099)
Sale of available-for-sale financial assets	**—**	99
	60,684	(1,000)

(41) Losses on disposals of assets

	For the year ended 31 December 2017	For the year ended 31 December 2016	The amount regarded as non-recurring profit or loss for 2017
Losses on disposal of fixed assets	**632**	957	632

(42) Other income

	For the year ended 31 December 2017	For the year ended 31 December 2016	Related to assets or income
Funds for enterprises development	**129,144**	—	Related to income
Others	**202**	—	Related to income
	129,346	—	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(43) Non-operating income

	For the year ended 31 December 2017	For the year ended 31 December 2016	The amount included in non-recurring profit or loss for 2017
Penalty gains	**3,842**	—	3,842
Government grants (a)	**—**	80,225	—
Others	**167**	2,159	167
	4,009	82,384	4,009

(a) Details of government grants

	For the year ended 31 December 2017	For the year ended 31 December 2016	Related to assets or income
Funds for enterprises development	**—**	77,460	Related to income
Specific fund for modern service industry	**—**	1,000	Related to income
Local education supplementary subsidy	**—**	668	Related to income
Refunds from individual income tax	**—**	658	Related to income
Subsidy for small and medium-sized technology enterprises that are newly-established or in a formative stage	**—**	400	Related to income
Others	**—**	39	Related to income
	—	80,225	

(44) Non-operating expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Donations	**8,836**	—
Penalty losses	**1,672**	—
Others	**766**	637
	11,274	637

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Income tax expenses

	For the year ended 31 December 2017	For the year ended 31 December 2016
Current income tax calculated according to the tax law	**235,840**	221,865
Deferred income tax	**(43,052)**	(25,413)
	192,788	196,452

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 year ended 31 December 2017	For the year ended 31 December 2016
Total profit	**730,228**	768,719
Income tax expenses calculated at applicable tax rates	**182,557**	192,181
Expenses not deductible for tax purposes (i)	**3,607**	4,271
Adjustment of prior year tax filing	**6,624**	—
Income tax expenses	**192,788**	196,452

(i) Expense not deductible for tax purpose primarily included share-based compensation expenses, long term equity investment loss under equity method and welfare and entertainment expenses in excess of the prescribed cap under the PRC Corporate Income Tax Law.

(46) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding.

	For the year ended 31 December 2017	For the year ended 31 December 2016
Profit attributable to shareholders of the Company	**498,527**	531,963
Weighted average number of ordinary shares outstanding (thousands of shares)	**507,457**	492,902
Basic earnings per share (RMB per share)	**0.98**	1.08

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(46) Earnings per share (continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2017 (2016: nil), diluted earnings per share equals to basic earnings per share.

(47) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Government grants	**129,346**	80,186
Customers' deposits and suppliers' deposits	**20,240**	54,402
Interest income earned from bank deposit	**9,330**	7,136
Others	**4,009**	2,159
	162,925	143,883

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Utilities, electricity and department store expenses	**383,721**	326,088
E-commerce expenses	**155,399**	87,155
Increase in deposits	**60,902**	102,438
Consulting expenses	**39,950**	28,620
Marketing and promotion expenses	**27,279**	30,552
Bank charges	**16,769**	19,094
Net increase in staff advances	**2,124**	525
Miscellaneous	**2,438**	637
	688,582	595,109

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Cash received relating to other investing activities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Interest income generated from other cash balances	**3,673**	3,630
Net decrease in other cash balances	**5,525**	—
Cash inflow on acquisition of Jiuwo (Note 5(1))	**5,023**	—
	14,221	3,630

(d) Cash paid relating to other investing activities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Purchase of available-for-sale financial assets	**60,200**	25,026
Prepayment for equity investment (Note4(15))	**13,605**	10,000
Net increase in entrusted loan	**5,000**	—
Net increase in other cash balances	**—**	120,525
Payment for acquisition of Hangzhou Anshe	**—**	8,000
	78,805	163,551

(e) Cash paid relating to other financing activities

	For the year ended 31 December 2017	For the year ended 31 December 2016
Deposits for prepaid dividends (Note 4(7))	**2,310**	—
Prepayment for A Shares listing expenses	**—**	881
	2,310	881

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(48) Supplementary information of cash flow statement

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

	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit	**537,440**	572,267
Add: amortisation of long-term prepaid expenses	**419,680**	335,858
asset impairment losses	**235,957**	264,119
depreciation of fixed assets	**34,649**	32,167
amortisation of intangible assets	**24,075**	24,585
financial expenses	**9,105**	1,343
amortization of share-based payment	**5,788**	15,840
losses on disposal of fixed assets	**632**	957
Less: increase in inventories	**(817,073)**	(218,040)
investment (income)/losses	**(60,684)**	1,000
increase in deferred tax assets	**(52,726)**	(23,468)
increase/(decrease) in deferred tax liabilities	**9,674**	(1,945)
(decrease)/increase in deferred income	**(12,563)**	13,504
increase in operating receivables	**(33,709)**	(214,420)
increase/(decrease) in operating payables	**256,916**	(98,631)
Net cash flows from operating activities	**557,161**	705,136

(b) Net change in cash and cash equivalents

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash and cash equivalents at end of year	**815,580**	581,389
Less: Cash and cash equivalents at beginning of year	**(581,389)**	(1,118,410)
Net increase/(decrease) in cash and cash equivalents	**234,191**	(537,021)

(c) Acquisition of subsidiaries

	For the year ended 31 December 2017
Cash paid for acquisition in the current year – Jiuwo	**10,000**
Less: Cash held by Jiuwo on acquisition date	**(15,023)**
Net cash inflow on acquisition	**(5,023)**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(d) Cash and cash equivalents

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cash and cash equivalents	**815,580**	581,389
Including: Cash on hand	**11,438**	13,311
Cash at bank that can be readily drawn on demand	**804,142**	568,078
Cash and cash equivalents at end of year	**815,580**	581,389

(49) Foreign currency items

	31 December 2017		
	Foreign currency balance	**Exchange rate**	**RMB balance**
Cash at bank and on hand –			
HKD	**693**	**0.8359**	**579**

	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

Foreign currencies are all the currencies other than Renminbi (the scope is different from that of Note 12(1(a))).

5 CHANGE OF SCOPE OF CONSOLIDATION

(1) Business combination not under common control

(a) Business combination not under common control occurred in the year ended 31 December 2017

Acquiree	Date of acquisition	Purchase consideration (RMB'000)	% of equity interest	Method of acquisition	Date of acquisition	Basis for acquisition	Revenue of the acquiree from the date of acquisition to the end of the year	Net loss of the acquiree from the date of acquisition to the end of the year	Cash flows used in operating activities of the acquiree from the date of acquisition to the end of the year	Net cash out flow of the acquiree from the date of acquisition to the end of the year
Jiuwo (i)	1 April 2017	20,000	60%	Cash	1 April 2017	Contract terms	6,850	(9,844)	(17,453)	(14,367)

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

(b) Combination cost and goodwill are analysed as follows:

	Jiuwo
Combination cost	20,000
Cash	20,000
Total cost of combination	20,000
Less: the fair value of the identifiable net assets acquired	(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) Business combination not under common control (continued)

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

(i) Jiuwo

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

(All amounts in RMB'000 unless otherwise stated)

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(2) Disposal of Subsidiaries

(a) *The relevant information for the disposal of subsidiaries for the year ended 31 December 2017 is analysed as follows:*

Subsidiary	Consideration received	% of equity interests disposed	Method of diaposal	Date of losing control	Basis of losing control	The difference between the disposal consideration and the share of subsidiary's net assets in the consolidated financial statements	The amount of other comprehensive income related to the equity investment of the subsidiary transferred to the investment gains and losses
Hangzhou Zhuolv (i)	—	54.05%	Deregistration	4 May 2017	Deregistration	—	—

(b) *Disposal gains and losses and related cash flows are analysed as follows:*

(i) *Hangzhou Zhuolv*

The Group liquidated one subsidiary in 2017, Hangzhou Zhuolv with disposal gains or losses.

(3) Consolidation scope changes arising from other reasons

(a) The newly added subsidiaries for consolidation for the year ended 31 December 2017

On 12 April 2017, LaCha Fashion, a sub-subsidiary of the Company, set up Apparel, in which the Company indirectly holds 100% equity interests. Since April 2017, Apparel became a subsidiary of the Group.

On 23 February 2017, Jack Walk, a subsidiary of the Company, set up Dianlan Xinlong, in which the Company indirectly holds 55% equity interests. Since February 2017, Dianlan Xinlong became a subsidiary of the Group.

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS

(1) Equity in subsidiaries

(a) The structure of the Group

Name	Kind of legal entity	Place of operation	Place of incorporate	Principle activities	Issued share and share capital	Share proportion Direct	Share proportion Indirect	Acquisition method
Shanghai La Chapelle Casual Fashion Co.,Ltd. ("LaCha Xiuxian")	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	5,000	100%	—	Wholly owned subsidiary
Candie's Shanghai Fashion Co., Ltd. ("Shanghai Le'ou")	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	16,000	65%	—	Holding subsidiaries
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei")	Limited liability company	Chongqing	Chongqing	Design and sales of apparel products	500	100%	—	Wholly owned subsidiary
Beijing La Chapelle Lewei Fashion Co.,Ltd. ("Beijing LaCha")	Limited liability company	Beijing	Beijing	Design and sales of apparel products	500	100%	—	Wholly owned subsidiary
Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	500	100%	—	Wholly owned subsidiary
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	50,000	100%	—	Wholly owned subsidiary
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	—	Wholly owned subsidiary
Shanghai Xiawei Fashion Co., Ltd ("Shanghai Xiawei")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	—	Wholly owned subsidiary
La Chapelle Fashion (Taicang) Co., Ltd ("Taicang LaCha")	Limited liability company	Taicang	Taicang	Sales of apparel products	100,000	95%	5%	Wholly owned subsidiary
La Chapelle (Tianjin) Co., Ltd. ("Tianjin LaCha")	Limited liability company	Tianjin	Tianjin	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Hangzhou Anshe	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	59,465	54%	—	Holding subsidiaries
Zhejiang Qigege Fashion Co., Ltd. ("Qigege")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	10,000	–	54%	Holding sub-subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) The structure of the Group (continued)

Name	Kind of legal entity	Place of operation	Place of incorporate	Principle activities	Issued share and share capital	Share proportion Direct	Share proportion Indirect	Acquisition method
Hangzhou Fushe Fashion Co., Ltd. ("Hangzhou Fushe")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	1,000	—	54%	Holding sub-subsidiaries
Xinyugexia E-Commerce Co., Ltd. ("Xinyugexia")	Limited liability company	Hangzhou	Xinyu	Sales of apparel products	—	—	54%	Holding sub-subsidiaries
Hangzhou Chenge Technology Co., Ltd. ("Hangzhou Chenge")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	2,000	—	54%	Holding sub-subsidiaries
Jack Walk	Limited liability company	Shanghai	Shanghai	Sales of apparel products	16,194	69%	—	Holding subsidiaries
Shanghai Chongan Fashion Co., Ltd. ("Shanghai Chongan")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	15,000	85%	—	Holding subsidiaries
Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	20,000	100%	—	Wholly owned subsidiary
Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei")	Limited liability company	Pucheng	Pucheng	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management")	Limited liability company	Shanghai	Shanghai	Investment	300,000	100%	—	Wholly owned subsidiary
LaCha Fashion	Not applicable	HongKong	HongKong	Investment	25,685	100%	—	Wholly owned sub-subsidiary
Shanghai Nuoxing Fashion Co., Ltd. ("Shanghai Nuoxing")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	—	100%	—	Wholly owned subsidiary
Shanghai Jiatuo Information Technology Co., Ltd. ("Shanghai Jiatuo")	Limited liability company	Shanghai	Shanghai	IT technology	1,000	100%	—	Wholly owned subsidiary
Shanghai Xingji Industry Co., Ltd. ("Xingji")	Limited liability company	Shanghai	Shanghai	Home furnishing	12,000	—	60%	Holding sub-subsidiaries
Jiuwo	Limited liability company	Shanghai	Shanghai	Sales of apparel products	12,500	60%	—	Holding subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) The structure of the Group (continued)

Name	Kind of legal entity	Place of operation	Place of incorporate	Principle activities	Issued share and share capital	Share proportion Direct	Share proportion Indirect	Acquisition method
Dianlan Xinlong	Limited liability company	Dongguan	Dongguan	Design and sales of apparel products	1,000	—	55%	Holding sub-subsidiaries
Guangzhou Xichen Fashion Co., Ltd ("Guangzhou Xichen")	Limited liability company	Guangzhou	Guangzhou	Sales of apparel products	19,000	—	80%	Holding sub-subsidiaries
Apparel	Not applicable	BVI	BVI	Investment	—	100%	—	Wholly owned sub-subsidiary

(b) Subsidiaries with significant minority interests

Name of subsidiaries	Shareholding proportion of minority interests	Net profit attributables to minority interests for the year ended 31 December 2017	Dividends distributed to minority interests for the year ended 31 December 2017	Minority interests on 31 December 2017
Hangzhou Anshe Group	45.95%	68,559	(59,745)	180,944

Hangzhou Anshe Group contains the Company's subsidiary Hangzhou Anshe and its sub-subsidiaries-Qigege, Hangzhou Fushe, Hangzhou ZhuoLv, Hangzhou Chenge and XinyuGeXia.

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(b) Subsidiaries with significant minority interests (continued)

	31 December 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	**436,831**	**45,319**	**482,150**	**84,530**	**3,835**	**88,365**	427,968	54,686	482,654	101,389	6,662	108,051

	For the year ended 31 December 2017				For the year ended 31 December 2016			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Anshe Group	**523,429**	**149,203**	**149,203**	**182,355**	467,113	123,088	123,088	179,958

(2) Equity in associates

Summarised financial information of associates:

Associates:	**For the year ended 31 December 2017**	From investment date to 31 December 2016
Carrying amount of long-term equity investments in its associates	**428,465**	130,381
The following items are calculated based on the share percentage in the associates		
Net income/(losses) (i)	**18,426**	(1,099)
Total comprehensive income/(losses)	**18,426**	(1,099)

(i) The net profit and other comprehensive income was adjusted according to the fair value of the identifiable assets and liabilities of the associates at the acquisition date as well as the accounting policies of the Group.

(All amounts in RMB'000 unless otherwise stated)

7 SEGMENT INFORMATION

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

In 2017 and 2016, there are not any sales to a single customer which accounted for over 10% of the total sales.

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

	31 December 2017		31 December 2016	
	Share holding (%)	**Voting rights (%)**	Share holding (%)	Voting rights (%)
Mr. Xing Jiaxing	**26%**	**34%**	29%	38%

Pursuant to an act-in-concert agreement entered into between Mr.Xing Jiaxing and Shanghai Hexia, the director appointed by Shanghai Hexia agreed to take a concerted approach with Mr.Xing Jiaxing in exercising Shanghai Hexia's voting rights in the Company. Therefore, the percentage of share holding differs from that of voting rights.

(2) Information of 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
Cao Qing	The minority shareholder holding more than 10% equity interests of the significant subsidiary

(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 year ended 31 December 2017	For the year ended 31 December 2016
Remuneration of key management	**21,644**	24,465

(b) Provision of funds to

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cao Qing	**28,000**	—

(c) Repayment of funds from

	For the year ended 31 December 2017	For the year ended 31 December 2016
Cao Qing	**28,000**	—

(d) Rendering of services

	For the year ended 31 December 2017	For the year ended 31 December 2016
Hangzhou Kaihui E-Commerce Co., Ltd.	**10,685**	—
Hangzhou Mixin E-Commerce Co., Ltd.	**1,104**	—
Hangzhou Jianing E-Commerce Co., Ltd.	**436**	—
	12,225	—

(e) Interest income

	For the year ended 31 December 2017	For the year ended 31 December 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)

(f) Purchase of goods

	For the year ended 31 December 2017	For the year ended 31 December 2016
Shanghai Pincheng Industry Co., Ltd.	**3,249**	—

(g) Provision of service

	For the year ended 31 December 2017	For the year ended 31 December 2016
Shanghai Pincheng Industry Co., Ltd.	**2,483**	—
Hongche Industry (Shanghai) Co., Ltd.	**1,527**	—
	4,010	—

(h) Funds received on behalf of

	For the year ended 31 December 2017	For the year ended 31 December 2016
Hangzhou Kaihui E-Commerce Co., Ltd.	**3,099**	—

(i) Joint investment with related parties

For the year ended 31 December 2017, the Group and Legend Minzhi (Tianjin) Enterprise Management and Consultancy Partnership (L.P.) (天津君聯敏智企業管理咨詢合夥企業(有限合夥)), which was controlled by the Group's then shareholder Legend Capital Management Co., Ltd. (君聯資本管理股份有限公司), jointly invested in Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司). The Group acquired 1,075,000 ordinary shares, or 3.74% equity interests with a total consideration of RMB15,000,000, while Legend Minzhi (Tianjin) Enterprise Management and Consultancy Partnership (L.P.) acquired 2.5% equity interests with a total consideration of RMB10,000,000.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Receivables from and payables to related parties

(a) Accounts receivable

	31 December 2017		31 December 2016	
	Ending Balance	Provision	Ending Balance	Provision
Hangzhou Kaihui E-Commerce Co., Ltd.	1,707	—	—	—
Hangzhou Mixin E-Commerce Co., Ltd.	88	—	—	—
	1,795	—	—	—

(b) Accounts payable

	31 December 2017	31 December 2016
Hongche Industry (Shanghai) Co., Ltd.	104	—
	104	—

(c) Other payables

	31 December 2017	31 December 2016
Hangzhou Kaihui E-Commerce Co., Ltd	2,134	—
Shanghai Pincheng Industry Co., Ltd.	527	—
	2,661	—

Notes to the Financial Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors

(a) Directors and chief executive's emoluments

	Fees	Salaries and benefits	Employer's contribution to retirement plan	Discretionary bonuses	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
Year ended 31 December 2017								
Executive Directors								
Xing Jiaxing (邢加興)	–	1,362	46	110	–	–	196	1,714
Wang Yong (王勇) (i)	–	1,314	46	73	–	–	114	1,547
Wang Wenke (王文克) (ii)	–	1,314	46	157	–	–	253	1,770
Non-executive Director								
Li Jiaqing (李家慶) (iii)	–	–	–	–	–	–	–	–
Lu Weiming (陸衛明)	–	–	–	–	–	–	–	–
Cao Wenhai (曹文海) (iv)	–	–	–	–	–	–	–	–
Wang Haitong (王海桐) (v)	–	–	–	–	–	–	–	–
Luo Bin (羅斌)	–	–	–	–	–	–	–	–
Independent Directors								
Mao Jianong (毛嘉農) (vi)	–	50	–	–	–	–	–	50
Chen Jieping (陳杰平)	–	167	–	–	–	–	–	167
Chen Wei (陳巍) (vii)	–	50	–	–	–	–	–	50
Chen Yongyuan (陳永源)	–	167	–	–	–	–	–	167
Zhang Zeping (張澤平)	–	117	–	–	–	–	–	117
Zhang Yi (張毅) (viii)	–	117	–	–	–	–	–	117
	–	4,658	138	340	–	–	563	5,699

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors

(a) Directors and chief executive's emoluments (continued)

	Fees	Salaries and benefits	Employer's contribution to retirement plan	Discretionary bonuses	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
Year ended 31December 2016								
Executive Directors								
Xing Jiaxing (邢加興)	—	1,347	42	108	14	—	284	1,795
Wang Yong (王勇) (i)	—	1,279	42	240	14	—	524	2,099
Wang Wenke (王文克) (ii)	—	1,278	42	220	14	—	524	2,078
Non-executive Director								
Li Jiaqing (李家慶) (iii)	—	—	—	—	—	—	—	—
Lu Weiming (陸衛明)	—	—	—	—	—	—	—	—
Cao Wenhai (曹文海) (iv)	—	—	—	—	—	—	—	—
Wang Haitong (王海桐) (v)	—	—	—	—	—	—	—	—
Luo Bin (羅斌)	—	—	—	—	—	—	—	—
Independent Directors								
Mao Jianong (毛嘉農) (vi)	—	120	—	—	—	—	—	120
Chen Wei (陳巍) (vii)	—	120	—	—	—	—	—	120
Zhou Guoliang (周國良) (ix)	—	40	—	—	—	—	—	40
Law Japhet Sebastian (羅文鈺) (x)	—	70	—	—	—	—	—	70
Chen Jieping (陳杰平) (xi)	—	80	—	80				
Chen Yongyuan (陳永源) (xii)	—	50	—	50				
	—	4,384	126	568	42	—	1,332	6,452

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors (continued)

(a) Directors and chief executive's emoluments (continued)

(i) Mr. Wang Yong (王勇) was appointed as an executive director since April 2012 and resigned as an executive director in December 2017.

(ii) Mr. Wang Wenke (王文克) was appointed as an executive director since July 2015 and resigned as an executive director in December 2017.

(iii) Mr. Li Jiaqing (李家慶) was appointed as a non-executive director since April 2010 and resigned as a non-executive director in December 2017.

(iv) Mr. Cao Wenhai (曹文海) was appointed as a non-executive director since March 2010 and resigned as a non-executive director in December 2017.

(v) Mr. Wang Haitong (王海桐) was appointed as a non-executive director since July 2014 and resigned as a non-executive director in December 2017.

(vi) Mr. Mao Jianong (毛嘉農) no longer served as an independent director as his term expired in May 2017.

(vii) Mr. Chen Wei (陳巍) no longer served as an independent director as his term expired in May 2017.

(viii) Mr. Zhang Yi (張毅) was appointed as an independent director since May 2017 and resigned as an independent director in December 2017.

(ix) Mr. Zhou Guoliang (周國良) was appointed as an independent director since May 2013 and resigned as an independent director in April 2016.

(x) Mr. Luo Wenyu (羅文鈺) was appointed as an independent director since August 2013 and resigned as an independent director in July 2016.

(xi) Mr. Chen Jieping (陳杰平) was appointed as an independent director since April 2016.

(xii) Mr. Chen Yongyuan (陳永源) was appointed as an independent director since July 2016.

(b) Directors' retirement benefits

There are no retirement benefits for the directors. The Group only contributes to state-sponsored retirement schemes for the directors in PRC.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors (continued)

(c) Directors' termination benefits

There are no directors' termination benefits for the directors.

(d) Consideration provided to third parties for obtaining available directors' services

During the year ended 31 December 2017, no consideration was paid to third parties for making available services of directors of the Company (2016: nil).

(e) For the year ended 31 December 2017, there are no loans and quasi-loans in favour of directors, controlled body corporate of directors and connected entities of directors, and no guarantee or security provided to directors, controlled body corporate of directors and connected entities of directors (2016: nil).

(7) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group (Note 8(6(a))) for the year ended 31 December 2017 did not include any directors (2016: two directors), whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to these five individuals (2016: three individuals) for the year are as follows:

	For the year ended 31 December 2017	For the year ended 31 December 2016
Salary, bonus and allowance	**6,356**	3,214
Social pension	**229**	127
Housing funds, medical insurance and other social insurance	**211**	123
Share-based payment	**3,425**	3,323
	10,221	6,787

Emoluments bands:

	2017	2016
HK$1,500,000 to HK$3,500,000 (equivalent to approximately RMB1,249,200 to RMB2,914,000)	**5**	3

No director, supervisor or the five highest paid individuals received any emolument from the Group as an inducement to join or leave the Group.

(All amounts in RMB'000 unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

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

	31 December 2017	31 December 2016
Fixed assets	**285,607**	449,545
Long-term prepaid expenses	**16,620**	8,242
Long-term equity investments	**4,781**	90,600
Intangible assets	**—**	717
	307,008	549,104

(2) Operating lease commitments

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

	31 December 2017	31 December 2016
Within 1 year	**921,027**	661,640
1 to 2 years	**782,471**	759,028
2 to 3 years	**655,294**	684,461
3 to 4 years	**492,321**	548,040
4 to 5 years	**381,691**	443,490
Over 5 years	**461,444**	1,182,524
	3,694,248	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

Pursuant to a resolution of the Board of Directors on 22 March 2018, a dividend of RMB0.22 per share totally approximately RMB120,488,000 was proposed.

11 BUSINESS COMBINATION

See Note 5.

12 FINANCIAL RISK

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, 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.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group's head office is responsible for monitoring the amount of assets and liabilities and transactions denominated in foreign currencies to minimise the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. For the year ended 31 December 2017 and 2016, the Group did not enter into any forward exchange contracts or currency swap contracts.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the subsidiaries of the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2017 and 31 December 2016 as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
HKD		
Financial assets denominated in foreign currency – Cash at bank and on hand	**4**	5
USD		
Financial assets denominated in foreign currency – Cash at bank and on hand	**—**	1,125
Total	**4**	1,130

As at 31 December 2017, if RMB had strengthened or weakened by 10% against HKD and USD with all other variables held constant, the Group's net profit for the year would have been approximately RMB1,000 (31 December 2016: RMB85,000) lower or higher respectively, for cash and cash equivalents denominated in HKD and USD.

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(1) Market risk (continued)

(b) Interest rate risk

The Group's interest rate risk mainly arises from interest-bearing debt such as bank borrowings. Borrowings obtained at floating rates expose the Group to cash flow interest rate risk and borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

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:

	31 December 2017	31 December 2016
Bank borrowing		
– Fixed rate	**1,006,000**	300,000

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, 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 2017 and 2016, the Group did not enter into any interest rate swap agreements.

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, accounts receivable and other receivables.

The Group expects that there is no significant credit risk associated with cash at bank considering they are deposited at state-owned banks and other medium or large size public-listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable and other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, their credit history and other factors. The credit history of the customers is regularly monitored and reassessed by the Group. The trade receivables from concessionaire counters through department stores are generally collected within 90 days from the invoice date. There is no history of customer's breach of agreement, the Group does not require guarantee from a third party.

In addition, the Group also places rental deposits for certain retail outlets with landlords. The management is of the opinion that no additional allowance for impairment is required.

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The financial liabilities of the Group at the balance sheet date are analysed by the contractual maturity date below at their contractual undiscounted cash flows.

	31 December 2017				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities –					
Short-term borrowings	**1,006,000**	**—**	**—**	**—**	**1,006,000**
Notes payable	**534,504**	**—**	**—**	**—**	**534,504**
Accounts payable	**988,084**	**—**	**—**	**—**	**988,084**
Interests payable	**26,695**	**—**	**—**	**—**	**26,695**
Dividends payable	**168,729**	**—**	**—**	**—**	**168,729**
Other payables	**530,356**	**—**	**—**	**—**	**530,356**
	3,254,368	**—**	**—**	**—**	**3,254,368**

	31 December 2016				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities –					
Short-term borrowings	300,000	—	—	—	300,000
Notes payable	395,292	—	—	—	395,292
Accounts payable	638,910	—	—	—	638,910
Interests payable	8,457	—	—	—	8,457
Other payables	728,133	—	—	—	728,133
	2,070,792	—	—	—	2,070,792

As at 31 December 2017, the repayment terms of bank borrowing of the Group are all within 1 year(31 December 2016: within 1 year).

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE ESTIMATES

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

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 or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 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))	**—**	**—**	**67,544**	**67,544**
Bank financial products	**—**	**—**	**17,000**	**17,000**
Total financial assets	**—**	**—**	**84,544**	**84,544**
Total assets	**—**	**—**	**84,544**	**84,544**

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

	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

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONTINUED)

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

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 current year.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier, liquidity discount and etc.

The changes in Level 3 financial assets are analysed below:

	Available-for-sale financial assets
1 January 2017	**190,649**
Investment	**60,200**
Differences of foreign currency conversion	**(1,706)**
Gains or losses that are included in other comprehensive income (Note 4(30))	**27,659**
Transferred to long-term equity investment	**(192,258)**
31 December 2017	**84,544**
1 January 2016	150,000
Investment	25,026
Differences of foreign currency conversion	1,024
Gains or losses that are included in other comprehensive income	14,599
31 December 2016	190,649

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

Financial assets and liabilities of the Group measured at amortised cost mainly include receivables, short-term borrowings and payables. The difference between the carrying amount and fair value of those financial assets and liabilities not measured at fair value is small.

(All amounts in RMB'000 unless otherwise stated)

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.

The total capital of the Group is the equity listed in the consolidated financial statement. The Group is not subject to external mandatory capital requirements and monitors capital on the basis of the gearing ratio.

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

	31 December 2017	31 December 2016
Total liabilities	**1,006,000**	300,000
Total equity	**4,069,228**	3,510,218
Asset-liability ratio	**25%**	9%

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivable

	31 December 2017	31 December 2016
Accounts receivable	**1,692,373**	905,113
Less: provision for bad debts	**(17,283)**	(7,322)
	1,675,090	897,791

The accounts receivable of the Company are from concessionaire counters through department stores and from sales of goods to subsidiaries. The accounts receivable are generally collected within 90 days from the invoice date.

(a) The aging of accounts receivable based on the invoice date are analysed below:

	31 December 2016	31 December 2016
Within credit period (90 days)	**1,192,989**	892,415
Overdue (over 90 days) to one year	**486,543**	2,503
One year to two years	**2,647**	3,474
Two years to three years	**3,474**	4,699
Above three years	**6,720**	2,022
	1,692,373	905,113

(All amounts in RMB'000 unless otherwise stated)

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

(1) Accounts receivable (continued)

(a) The aging of accounts receivable based on the invoice date are analysed below: (continued)

As at 31 December 2017, there is no accounts receivable overdue but not impaired. 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 Company was of the view that the overdue amounts could be fully recovered, thus no provisions for bad debts are individually provided. The aging analysis of these accounts receivable is analysed as follows:

	31 December 2017	31 December 2016
90 days to 180 days	—	2,250
180 days to 360 days	—	—
Over 360 days	—	2,043
	—	4,293

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

	31 December 2017				31 December 2016			
	Carrying amount before provision		**Provision for bad debts**		Carrying amount before provision		Provision for bad debts	
	Amount	**% of total balance**	**Amount**	**% of total provision**	Amount	% of total balance	Amount	% of total provision
Individually significant and subject to separate assessment for provision	2,940	0%	(2,940)	100%	3,035	1%	(3,035)	100%
Subject to provision on aging analysis	283,409	17%	(8,069)	3%	—	0%	—	0%
Subject to provision on grouping 1	—	0%	—	0%	316,443	99%	—	0%
Subject to provision on grouping 2	—	0%	—	0%	1,402	0%	(1,402)	100%
Individually not significant and subject to separate assessment for provision	6,274	1%	(6,274)	100%	2,885	0%	(2,885)	100%
Accounts receivable from subsidiaries	1,399,750	82%	—	0%	581,348	0%	—	0%
	1,692,373	100%	(17,283)	3%	905,113	100%	(7,322)	1%

(All amounts in RMB'000 unless otherwise stated)

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

(1) Accounts receivable (continued)

(c) As at 31 December 2017, accounts receivable with amounts that are individually significant and subject to separate assessment for provision are analysed as follow:

	Amount	Provision for bad debts	Proportion of accrual	Reason
Accounts receivable 1	**1,093**	**(1,093)**	100%	(i)
Accounts receivable 2	**686**	**(686)**	100%	(ii)
Accounts receivable 3	**651**	**(651)**	100%	(iii)
Accounts receivable 4	**510**	**(510)**	100%	(iv)
	2,940	**(2,940)**	100%	

(i) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB1,093,000, since the mall had already gone into cashflow shortage, management of the Company is of the view that it is difficult to collect the receivable amount therefor full bad debt provision has been made accordingly.

(ii) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB686,000, since the mall had already gone into cashflow shortage, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(iii) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB651,000, since the mall had already gone into liquidation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(iv) As at 31 December 2017, accounts receivable due from one shopping mall amounted to RMB510,000, since the mall had already gone into liquidation, management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(d) For the year ended 31 December 2017, the Company accrued provision for bad debts of RMB10,621,000, and reversed provision for bad debts of RMB660,000.

(e) For the year ended 31 December 2017, no accounts receivable have been written off of the Company.

(All amounts in RMB'000 unless otherwise stated)

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

(1) Accounts receivable (continued)

(f) *As at 31 December 2017, the top five accounts receivable are analysed as follows:*

	Amount	Provision of bad debts	% of total balance
Total amount of the top five accounts receivable	**954,059**	**—**	**57%**

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

(2) Other receivables

	31 December 2017	31 December 2016
Other receivables from subsidiaries	**1,431,903**	1,532,762
Deposits	**53,392**	42,584
Staff advances	**2,641**	1,285
Others	**186**	1,457
	1,488,122	1,578,088
Less: provision for bad debts	**(4,738)**	(2,888)
	1,483,384	1,575,200

(a) *The aging of other receivables is analysed below:*

	31 December 2017	31 December 2016
Within 1 year	**1,482,867**	1,574,927
1 to 2 years	**2,835**	2,926
2 to 3 years	**2,187**	235
Above 3 years	**233**	—
	1,488,122	1,578,088

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables (continued)

(a) *The aging of other receivables is analysed below: (continued)*

As at 31 December 2017, there is no other receivables overdue but not impaired. 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 Company was of the view that the overdue amounts could be fully recovered, thus no provisions for bad debts were individually provided. The aging analysis of these other receivables is set out as follows:

	31 December 2017	31 December 2016
1 to 2 years	**—**	278
2 to 3 years	**—**	95
	—	373

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

	31 December 2017				31 December 2016			
	Carrying amount before provision		**Provision for bad debts**		Carrying amount before provision		Provision for bad debts	
	Amount	**% of total balance**	**Amount**	**% of total provision**	Amount	% of total balance	Amount	% of total provision
Individually significant and subject to separate assessment for provision	**516**	**0%**	**(516)**	**100%**	516	0%	(516)	100%
Subject to provision on aging analysis	**55,703**	**4%**	**(4,222)**	**8%**	—	0%	—	0%
Subject to provision on grouping 1	**—**	**0%**	**—**	**0%**	39,696	3%	—	0%
Subject to provision on grouping 2	**—**	**0%**	**—**	**0%**	2,372	0%	(2,372)	100%
Subject to provision on grouping 3	**—**	**0%**	**—**	**0%**	1,535,504	97%	—	0%
Other receivables from subsidiaries	**1,431,903**	**96%**	**—**	**0%**	—	0%	—	0%
	1,488,122	**100%**	**(4,738)**	**0%**	1,578,088	100%	(2,888)	0%

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables (continued)

(c) *As at 31 December 2017, other receivables that are individually significant and subject to separate assessment for provision are analysed as follows:*

	Ending balance	Provision for bad debts	Ratio	Reason
Other receivables 1	516	(516)	100%	(i)

(i) As at 31 December 2017, deposit receivable from one shopping mall amounted to RMB516,000. Since the Company ceased all the transactions with the mall, the management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(d) *For the year ended 31 December 2017, the accrued provision for bad debts are RMB1,850,000, and there is no reversal of provision for bad debts.*

(e) *For the year ended 31 December 2017, no other receivables has been written off.*

(f) *As at 31 December 2017, the top five balances of other receivables are summarized as below:*

	Nature	Amount	Aging	% of total other receivables balance	Provision for bad debts
Shanghai Weile	Receivable from subsidiaries	731,914	Within 1 year	49%	—
Shanghai Le'ou	Receivable from subsidiaries	206,391	Within 1 year	14%	—
Jack Walk	Receivable from subsidiaries	169,268	Within 1 year	11%	—
Shanghai Xiawei	Receivable from subsidiaries	97,480	Within 1 year	7%	—
Shanghai Youshi	Receivable from subsidiaries	64,893	Within 1 year	4%	—
		269,946		85%	—

(All amounts in RMB'000 unless otherwise stated)

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

(3) Inventories

(a) *Classification of inventories is as follows:*

	31 December 2017			31 December 2016		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**424**	**—**	**424**	587	—	587
Finished goods	**2,202,579**	**(178,841)**	**2,023,738**	498,534	(88,932)	409,602
Low value consumables	**13,019**	**—**	**13,019**	3,627	—	3,627
	2,216,022	**(178,841)**	**2,037,181**	502,748	(88,932)	413,816

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

	31 December 2016	Increase in the current year		Decrease in the current year		**31 December 2017**
		Business combination	Accrual	Reversed	Resold	
Finished goods	(88,932)	—	(275,243)	—	185,334	**(178,841)**

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

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

	Basis for NRV	**Reason for resold**
Raw materials	Market price	Not applicable
Finished goods	Market price	Sold/donated

(All amounts in RMB'000 unless otherwise stated)

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

(4) Long-term equity investments

	31 December 2017	31 December 2016
Subsidiary (a)	**838,650**	817,650
Associates (b)	**24,433**	—
	863,083	817,650
Less: provision for impairment of long-term equity investments	**—**	—
	863,083	817,650

(a) Subsidiary

		Movement in the current year			
	31 December 2016	Additional investment	Disinvestment	**31 December 2017**	Provision for impairment
Enterprise Management	300,000	—	—	**300,000**	—
Hangzhou Anshe	208,000	—	—	**208,000**	—
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 Chongan	12,750	—	—	**12,750**	—
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**	—
Chongqing LeWei	500	—	—	**500**	—
Beijing Lacha	500	—	—	**500**	—
Shanghai Jiatuo	—	1,000	—	**1,000**	
Jiuwo (Note 5(1))	—	20,000	—	**20,000**	—
	817,650	21,000	—	**838,650**	—

(All amounts in RMB'000 unless otherwise stated)

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

(4) Long-term equity investments (continued)

(b) Associates

		Movement in the current year									
	31 December 2016	Additions	Transferred from available-for-sale financial asssets	Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equity	Cash dividends declared	Provision for impairment	Others	31 December 2017	Balance of provision for impairment at the end of year
Shanghai Pincheng Industry Co., Ltd.	—	15,000	—	775	—	—	—	—	—	15,775	—
Fuzhou Badi Fashion Co., Ltd.	—	10,000	—	(1,342)	—	—	—	—	—	8,658	—
	—	25,000	—	(567)	—	—	—	—	—	24,433	—

(5) Revenue and cost of sales

Revenue and cost of main operation

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail	**4,651,907**	**(2,887,403)**	3,160,244	(1,623,782)

(6) Investment income

	For the year ended 31 December 2017	For the year ended 31 December 2016
Investment income from long-term equity investments using cost method	**583,277**	26,120
Investment loss in associates	**(567)**	—
	582,710	26,120

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

Supplementary Information of Financial Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	For the year ended 31 December 2017	For the year ended 31 December 2016
Losses from disposal of non-current assets	**(632)**	(957)
Government grants recognised in profits	**129,346**	80,225
Reversal of bad debt provision for accounts receivable which provision is provided on the individual basis	**5,063**	—
Investment income from available-for-sale financial assets transferred to long-term equity investments under equity method	**42,258**	—
Other non-operating income and expenses other than aforesaid items	**(7,265)**	1,522
Subtotal of non-recurring profit before tax	**168,770**	80,790
Less: Impact of income tax expense	**(42,313)**	(20,258)
Less: Impact on the minority interests, net of tax	**(7,753)**	(569)
Subtotal of non-recurring profit attributable to shareholders of the Company, net of tax	**118,704**	59,963

Basis for preparation of summary of non-recurring profit or loss

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public — non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

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

The Company is listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has prepared its financial statements under IFRS for the year ended 31 December 2016. There is no difference in the net assets as at 31 December 2016, and the net profit for the year ended 31 December 2016 under IFRS and CAS.On 28 July 2017, according to the approval of the shareholders' meeting, the Company started to use the consolidated financial statements prepared under CAS to file the annual report with the Stock Exchange from the year ended 31 December 2017. Since that, the Group did not prepare the reconciliation between the financial statements prepared used CAS and IFRS.

Supplementary Information of Financial Statements

For the year ended 31 December 2017
(All amounts in RMB'000 unless otherwise stated)

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit attributable to ordinary shareholders of the Company	**13.59**	15.46
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**10.35**	13.72

	Basic earnings per share (RMB Yuan)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit attributable to ordinary shareholders of the Company	**0.98**	1.08
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**0.75**	0.96

	Diluted earnings per share (RMB Yuan)	
	For the year ended 31 December 2017	For the year ended 31 December 2016
Net profit attributable to ordinary shareholders of the Company	**0.98**	1.08
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**0.75**	0.96

Supplementary Information Provided by Management
Company Balance Sheet

As at 31 December 2017
(All amounts in RMB unless otherwise stated)

	31 December 2017 Company	31 December 2016 Company
ASSETS		
Current assets		
Cash at bank and on hand	**561,358,984.16**	388,336,663.00
Accounts receivable	**1,675,090,630.73**	897,790,822.00
Advances to suppliers	**56,342,279.38**	92,094,379.00
Interests receivable	**79,267.50**	1,244,684.00
Other receivables	**1,483,384,218.52**	1,575,200,204.00
Inventories	**2,037,181,083.25**	413,815,771.00
Other current assets	**115,813,561.72**	6,495,117.00
Total current assets	**5,929,250,025.26**	3,374,977,640.00
Non-current assets		
Available-for-sale financial assets	**18,200,000.00**	—
Long-term equity investments	**863,083,414.40**	817,650,000.00
Fixed assets	**11,101,972.04**	11,269,344.00
Construction in progress	**5,444,444.04**	5,276,931.00
Intangible assets	**10,610,429.72**	14,344,796.00
Long-term prepaid expenses	**61,522,320.26**	78,428,334.00
Deferred tax assets	**52,177,463.18**	31,846,014.00
Other non-current assets	**—**	10,000,000.00
Total non-current assets	**1,022,140,043.64**	968,815,419.00
TOTAL ASSETS	**6,951,390,068.90**	4,343,793,059.00

Supplementary Information Provided by Management
Company Balance Sheet

As at 31 December 2017
(All amounts in RMB unless otherwise stated)

	31 December 2017 Company	31 December 2016 Company
LIABILITIES AND EQUITY		
Current liabilities		
Short-term borrowings	**1,006,000,000.00**	300,000,000.00
Notes payable	**343,725,949.66**	150,255,823.00
Accounts payable	**1,721,781,503.05**	492,631,033.00
Employee benefits payable	**52,920,013.16**	72,486,192.00
Taxes payable	**57,149,829.62**	109,096,882.00
Interests payable	**3,036,376.95**	380,806.00
Dividends payable	**168,729,465.35**	2,293.00
Other payables	**479,242,408.41**	882,883,998.00
Current portion of non-current liabilities	**2,192,032.97**	3,720,865.00
Total current liabilities	**3,834,777,579.17**	2,011,457,892.00
Non-current liabilities		
Other non-current liabilities	**365,872.64**	2,387,000.00
Total liabilities	**3,835,143,451.81**	2,013,844,892.00
Equity		
Share capital	**547,671,642.00**	492,901,642.00
Capital surplus	**1,894,096,689.50**	1,537,825,404.00
Surplus reserve	**219,153,742.20**	148,767,812.00
Undistributed profits	**455,324,543.39**	150,453,309.00
Total equity	**3,116,246,617.09**	2,329,948,167.00
TOTAL LIABILITIES AND EQUITY	**6,951,390,068.90**	4,343,793,059.00

Supplementary Information Provided by Management
Company Income Statements

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

ITEM	Year ended 31 December 2017 Company	Year ended 31 Decembe 2016 Company
Revenue	**4,651,906,798.43**	3,160,243,920.00
Less: Cost of sales	**(2,887,402,749.16)**	(1,623,781,827.00)
Taxes and surcharges	**(14,506,136.14)**	(20,951,756.00)
Selling and distribution expenses	**(1,092,265,433.27)**	(994,826,474.00)
General and administrative expenses	**(195,504,952.94)**	(220,395,937.00)
Financial (expenses)/income – net	**(22,228,624.82)**	2,172,001.00
Asset impairment losses	**(287,053,648.79)**	(84,931,108.00)
Investment income	**582,709,964.65**	26,120,218.00
Including: Share of losses of associates	**(566,585.60)**	—
Losses on disposals of assets	**(68,507.98)**	(36,455.00)
Other income	**26,803,014.32**	—
Operating profit	**762,389,724.30**	243,612,582.00
Add:Non-operating income	**1,609,734.01**	24,975,789.00
Less:Non-operating expenses	**(8,874,056.51)**	(6,180.00)
Total profit	**755,125,401.80**	268,582,191.00
Less: Income tax expenses	**(51,266,103.07)**	(64,599,365.00)
Net profit	**703,859,298.73**	203,982,826.00
Classified by continuity of operations		
– Net profit from continuing operations	**703,859,298.73**	203,982,826.00
– Net profit from discontinued operations	—	—
Other comprehensive income, net of tax	—	—
Total comprehensive income	**703,859,298.73**	203,982,826.00

Supplementary Information Provided by Management Company Cash Flow Statements

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

ITEM	**Year ended 31 December 2017 Company**	Year ended 31 December 2016 Company
1. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	**4,755,717,933.90**	3,823,191,888.00
Cash received relating to other operating activities	**51,512,578.64**	49,996,840.00
Sub-total of cash inflows	**4,807,230,512.54**	3,873,188,728.00
Cash paid for goods and services	**(4,691,776,115.10)**	(2,689,940,355.00)
Cash paid to and on behalf of employees	**(531,293,292.51)**	(564,751,032.00)
Payments of taxes and surcharges	**(227,961,243.14)**	(266,092,382.00)
Cash paid relating to other operating activities	**(200,598,945.75)**	(306,186,482.00)
Sub-total of cash outflows	**(5,651,629,596.50)**	(3,826,970,251.00)
Net cash flows (used in)/from operating activities	**(844,399,083.96)**	46,218,477.00
2. Cash flows from investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**387,948.96**	174,164.00
Cash received relating to other investing activities	**593,875,381.15**	715,351,159.00
Sub-total of cash inflows	**594,263,330.11**	715,525,323.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(68,430,238.14)**	(86,546,718.00)
Net cash paid to acquire subsidiaries and other business units	**(45,433,414.40)**	(237,000,000.00)
Cash paid relating to other investing activities	**(295,784,946.87)**	(819,228,284.00)
Sub-total of cash outflows	**(409,648,599.41)**	(1,142,775,002.00)
Net cash flows used in/(from) investing activities	**184,614,730.70**	(427,249,679.00)
3. Cash flows from financing activities		
Cash received from capital contributions	**405,254,300.00**	—
Cash received from borrowings	**1,256,000,000.00**	780,000,000.00
Cash received relating to other financing activities	**6,495,117.00**	—
Sub-total of cash inflows	**1,667,749,417.00**	780,000,000.00
Cash repayments of borrowings	**(550,000,000.00)**	(480,000,000.00)
Cash payments for distribution of dividends, profits or interest expenses	**(282,730,948.58)**	(388,735,985.00)
Cash payments relating to other financing activities	**(2,211,794.00)**	(883,433.00)
Sub-total of cash outflows	**(834,942,742.58)**	(869,619,418.00)
Net cash flows from/(used in) financing activities	**832,806,674.42**	(89,619,418.00)
4. Effect of foreign exchange rate changes on cash and cash equivalents	**—**	—
5. Net decrease in cash and cash equivalents	**173,022,321.16**	(470,650,620.00)
Add: Cash and cash equivalents at beginning of year	**388,336,663.00**	858,987,283.00
6. Cash and cash equivalents at end of year	**561,358,984.16**	388,336,663.00

Supplementary Information Provided by Management
Company Statements of Changes in Shareholders' Equity

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance at 31 December 2015	492,901,642.00	1,521,984,679.00	128,369,529.00	346,403,030.00	2,489,658,880.00
Balance at 1 January 2016	492,901,642.00	1,521,984,679.00	128,369,529.00	346,403,030.00	2,489,658,880.00
Movements for the year ended 31 December 2016					
Total comprehensive income					
Net profit	—	—	—	203,982,826.00	203,982,826.00
Capital contribution and withdrawal by shareholders					
Amount recorded in shareholders' equity arising from share-based payment arrangements	—	15,840,725.00	—	—	15,840,725.00
Profit distribution					
Profit distribution-appropriation to surplus reserve	—	—	20,398,283.00	(20,398,283.00)	—
Profit distribution to shareholders	—	—	—	(379,534,264.00)	(379,534,264.00)
Balance at 31 December 2016	492,901,642.00	1,537,825,404.00	148,767,812.00	150,453,309.00	2,329,948,167.00
Balance at 1 January 2017	**492,901,642.00**	**1,537,825,404.00**	**148,767,812.00**	**150,453,309.00**	**2,329,948,167.00**
Movements for the year ended 31 December 2017					
Total comprehensive income					
Net profit	**—**	**—**	**—**	**703,859,298.73**	**703,859,298.73**
Capital contribution and withdrawal by shareholders					
Capital contribution by shareholders	**54,770,000.00**	**350,484,300.00**	**—**	**—**	**405,254,300.00**
Amount recorded in shareholders' equity arising from share-based payment arrangements	**—**	**5,786,985.50**	**—**	**—**	**5,786,985.50**
Profit distribution					
Profit distribution-appropriation to surplus reserve	**—**	**—**	**70,385,930.20**	**(70,385,930.20)**	**—**
Profit distribution to shareholders	**—**	**—**	**—**	**(328,602,134.14)**	**(328,602,134.14)**
Balance at 31 December 2017	**547,671,642.00**	**1,894,096,689.50**	**219,153,742.20**	**455,324,543.39**	**3,116,246,617.09**

Supplementary Information Provided by Management
Reconciliation of Taxable Income

For the year ended 31 December 2017
(All amounts in RMB unless otherwise stated)

Total Profit	755,125,401.80
Add: Accrual of provision for the decline in value of inventories	89,909,760.41
Accrual of bad debt	11,811,118.62
Share-based payment recorded in equity	5,786,986.00
Fines and penalties	242,493.22
Entertainment expenses in excess of the prescribed cap	131,566.68
Accrued employee benefits payable as at 31 December 2017	1,467,636.50
Less: Equity investment not subject to tax	(582,709,964.65)
Reversal of employee benefits payable accrued as at 31 December 2016	(11,465,569.00)
Difference resulting from the amortization method for long-term prepaid expenses which is not in compliance with tax regulation	(5,980,661.04)
Difference resulting from the amortization method for rental fees which is not in compliance with tax regulation	(4,416,488.77)
Taxable income (A)	259,902,279.77
Multiply by: income tax rate (B)	25%
Income tax expenses (AxB)	64,975,569.94
Add: Adjustment of prior year tax filing	6,621,982.25
Total Income tax expenses	71,597,552.19

Note: The aforementioned amounts are to be determined by the tax authorities.