Cosmo Lady (China) Holdings Company Limited
都市麗人(中國)控股有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2298

Annual Report 2017

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Wen Baoma
Mr. Yang Weiqiang

Independent Non-executive Directors

Mr. Yau Chi Ming
Dr. Dai Yiyi
Mr. Chen Zhigang
Dr. Lu Hong Te

COMPANY SECRETARY

Mr. Loo Hong Shing Vincent *FCCA, AHKSA*

BOARD COMMITTEES

Audit Committee

Mr. Yau Chi Ming *(Chairman)*
Dr. Dai Yiyi
Mr. Chen Zhigang
Dr. Lu Hong Te

Remuneration Committee

Dr. Dai Yiyi *(Chairman)*
Mr. Zhang Shengfeng
Mr. Chen Zhigang
Dr. Lu Hong Te

Nomination Committee

Mr. Zheng Yaonan *(Chairman)*
Mr. Yau Chi Ming
Mr. Chen Zhigang
Dr. Lu Hong Te

Risk Management Committee

Mr. Chen Zhigang *(Chairman)*
Mr. Yau Chi Ming
Dr. Dai Yiyi
Dr. Lu Hong Te

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS

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

AUTHORIZED REPRESENTATIVES

Mr. Zheng Yaonan
Mr. Loo Hong Shing Vincent

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

Unit 3004, 30/F.
West Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

SHARE REGISTRAR IN HONG KONG

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

LEGAL ADVISORS

People's Republic of China
Jingtian Gongcheng

Hong Kong
ReedSmith Richards Butler
Cleary Gottlieb Steen & Hamilton

Financial Highlights

		Year ended 31 December		
		2017	2016	Change
Revenue	*RMB'000*	**4,542,483**	4,512,385	0.7%
Operating profit	*RMB'000*	**419,565**	305,449	37.4%
Profit attributable to equity holders of the Company	*RMB'000*	**317,002**	241,961	31.0%
Gross profit margin	*%*	**43.2%**	44.4%	
Operating profit margin	*%*	**9.2%**	6.8%	
Margin of profit attributable to equity holders of the Company	*%*	**7.0%**	5.4%	
Earnings per share – basic and diluted	*RMB cents*	**15.45**	12.70	
Final dividend per share	*HK cents*	**3.34**	6.21	

Statement from Chairman and Chief Executive Officer

Mr. Zheng Yaonan
Chairman and Chief Executive Officer

During the year under review, the global economy showed booming growth trend, and major economies in the world continued to recover at a steady pace. China's economy has also shifted from a phase of rapid growth to a period of high-quality development. In 2017, the GDP of China grew by approximately 6.9% year-on-year, picking up pace for the first time in seven years. The total retail sales of China's consumer goods increased by approximately 10.2% year-on-year, and the overall domestic retail atmosphere gradually recovered from weakness. China's intimate wear market is huge in size, but there are a large number of players and the market is very fragmented, and it continues to undergo structural adjustments in respect of sales channel diversification, product quality and mix of products. The market remained competitive and posed great challenges to the industry.

To address the above challenges, the Company and its subsidiaries (the "Group") has formulated various measures to improve the Group's business performance during the year, including but not limited to the following:

1) OPTIMIZATION AND FURTHER DIVERSIFICATION OF SALES AND DISTRIBUTION CHANNELS

a) Adjusting sales and distribution channels proactively by closing loss-making retail stores (mainly those located in department stores and street), and enhancing efforts in opening of retail stores with larger size in suitable locations and renovation of the existing retail stores;

b) Opening large discount retail stores in the third-and-fourth-tier areas in mainland China;

c) Stepping up effort in the development of e-commerce channels; and

d) Developing Southeast Asian market with business partners.

2) TIGHTENING EXPENSES CONTROL AND CUTTING COSTS

In addition to adjusting sales and distribution channels proactively by closing loss-making retail stores, the Group implemented further initiatives to tighten cost controls by negotiating for lower retail store rentals and reducing unnecessary human resources expenses.

3) REFORMING SUPPLY CHAIN MANAGEMENT

a) Establishing a new product management department for strengthening the coordination and communication between sales department and supply chain department, improving the efficiency of research and development, design and logistics, and making rapid responses to market changes;

b) Enhancing procurement flexibility to optimize inventory control; and

c) Procuring some raw materials for use by OEM suppliers for enhancing quality of final products and enjoying benefits from bulk purchases.

4) ENHANCING EFFORTS ON MARKET RESEARCH AND DEVELOPMENT OF NEW PRODUCTS AND TECHNOLOGICAL INNOVATION

New products, such as seamless and soft wire bras, upright cotton mold cups, tai chi stone cups, sleepwear products using cationic antiseptic fabric, were launched in the year to improve competitiveness of the Group in the market.

5) BROADENING THE PRODUCT RANGE OF THE GROUP WITH OTHER RENOWNED PLAYERS

Entering into a cooperation agreement with Fanani (Shanghai) Garments Co., Ltd., a domestic enterprise, and Kimuratan Corporation, a Japan listed company, for distributing their infant and children apparels online in China, and broadening the product range of the Group in order to capture a footing in the kids' segment of the intimate wear market.

The above measures have gradually achieved moderate success, with which the operations of the Group showed significant improvement in the second half of 2017. As such, revenue improved by approximately 7.1% in the second half of the year as compared with that of the same period in 2016, from a decrease of approximately 6.0% in the first half of the year as compared with that of the same period in 2016, resulting in a slight increase in the revenue for the year of approximately by 0.7% to approximately RMB4,542,483,000 (2016: RMB4,512,385,000). Profit also improved by approximately 153.3% in the second half of the year as compared with that of the same period in 2016, from a decrease of approximately 16.7% in the first half of the year as compared with that of the same period in 2016, resulting in an increase in the profit for the year of approximately 31.0% to approximately RMB317,002,000 (2016: RMB241,961,000).

In the coming year, we will continue to revitalize the Group's business as our top priority and proactively seek suitable mergers, acquisitions, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses having synergy with existing business, and to create higher value for shareholders by developing the business in a healthy and stable manner and seeking new breakthroughs and changes.

Zheng Yaonan
Chairman and Chief Executive Officer

Hong Kong, 22 March 2018

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's revenue is derived from sales of products, either to the franchisees or to the consumers through self-managed retail stores and online sales platforms.

Revenue by sales channel

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

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Sales to franchisees	**2,433,468**	**53.6**	2,520,238	55.9
Retail sales	**1,566,039**	**34.5**	1,679,518	37.2
E-commerce	**542,976**	**11.9**	312,629	6.9
Total revenue	**4,542,483**	**100.0**	4,512,385	100.0

Revenue from the sales to franchisees and retail sales decreased as a result of the closure of certain loss-making retail stores. Management has stepped up effort in the development of e-commerce channel so that the sales through e-commerce channel continued its high growth momentum in 2017, achieving an increase of approximately 73.7%.

Management Discussion and Analysis

Revenue by type of product

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

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Bras[1]	**2,285,950**	**50.3**	2,041,221	45.2
Underpants[1]	**818,429**	**18.0**	712,260	15.8
Sleepwear and loungewear[2]	**532,756**	**11.7**	652,748	14.5
Thermal clothes[2]	**457,639**	**10.1**	582,943	12.9
Others[3]	**447,709**	**9.9**	523,213	11.6
Total revenue	**4,542,483**	**100.0**	4,512,385	100.0

Notes:

(1) Sales of the Group's principal business (bras and underpants) have restored a good growth.

(2) Apart from the closure of retail stores affecting the sales revenue:

(a) The drop in sales of sleepwear and loungewear was mainly attributable to the insufficient investment in the research and development and technology innovation in this business; and

(b) The decrease in sales of thermal clothes was mainly due to the relatively warm weather during the year.

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

Gross profit margin

During the year under review, the gross profit margin of the Group slightly decreased to around 43.2% (2016: 44.4%). This was primarily due to the increase in purchase prices for raw materials during the year and the Group's step up of promotion efforts for clearing the aged inventories brought down from previous years.

Selling and marketing expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating lease rentals in respect of land and buildings, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization and others.

During the year under review, the decline of selling and marketing expenses by about 6.8% to approximately RMB1,337,868,000 (2016: RMB1,434,758,000) was primarily attributable to (a) the decrease of operating lease rentals and employee benefit expenses as a result of adjusting sales and distribution channels proactively by closing certain loss-making retail stores in 2017; and (b) the adoption of more stringent measures to control various expenses.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, depreciation and amortization, travelling expenses and others.

During the year, the drop of general and administrative expenses by about 16.3% to approximately RMB261,525,000 (2016: RMB312,619,000) was mainly attributable to (a) the reduction in number of administrative staff of the Group; and (b) the adoption of more stringent measures to control various expenses.

Other income

Other income consists of government grants, logistic warehousing and delivery income, software usage fee income, franchise fee income, service fee income and others. During the year, other income increased by approximately 10.5% to approximately RMB55,354,000 (2016: RMB50,087,000), mainly due to the increase in grants awarded for the compliance with the local governments' industrial technological reforms.

Finance income – net

Net finance income mainly represents interest income on available-for-sale financial assets, loan to a third party and short-term bank deposits, less finance expenses on bank borrowings.

The finance income of approximately RMB18,763,000 (2016: RMB22,707,000) decreased, mainly as a result of the decline in the interest on the loan to a third party which has been fully settled in the first half of 2017.

The finance expense of approximately RMB11,564,000 (2016: RMB4,412,000) increased, mainly arising from the annual interest expenses in 2017 on the bank borrowings obtained in the second half of 2016 and the first half of 2017.

Income tax expense

Income tax expense primarily represents income tax payable by the Group under relevant income tax rules and regulations of the People's Republic of China (the "PRC"). The effective tax rate of the Group for the year ended 31 December 2017 was approximately 25.5% (2016: 25.3%) which remained fairly stable. As at 31 December 2017, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Year ended 31 December	
	2017	2016
Average inventory turnover days	**160.2 days**	141.8 days
Average trade receivables turnover days	**40.4 days**	39.2 days
Average trade payables turnover days	**80.5 days**	76.3 days

The inventory balance of approximately RMB1,111,959,000 (31 December 2016: RMB1,150,679,000) remained fairly stable. The effort for clearing aged inventories and reducing inventory balance has been offset by the inventories for new products purchased in 2017. The increase in the average inventory turnover days from about 141.8 days for 2016 to about 160.2 days for 2017 was primarily due to the lower inventory balance of approximately RMB800,377,000 as at 31 December 2015, which was used in the calculation of the average inventory turnover days for 2016. The management expects that by taking the measures mentioned in the Statement from Chairman and Chief Executive Officer section, the inventory level and hence the average inventory turnover days at 31 December 2018 will become lower than those at 31 December 2017.

Average trade receivables turnover days of about 40.4 days remained fairly stable (31 December 2016: 39.2 days).

Average trade payables turnover days increased from about 76.3 days for 2016 to about 80.5 days for 2017 because of increased bargaining power against the OEM suppliers.

ISSUANCE OF NEW SHARES TO A STRATEGIC INVESTOR

On 17 May 2017, the Company issued 240,000,000 new shares at a price of HK$2.50 per share to a wholly-owned subsidiary of Fosun International Limited ("Fosun") raising a gross proceed of HK$600,000,000. The above proceed was deposited in certain licensed banks in Hong Kong.

The Company and Fosun have entered into a strategic cooperation agreement pursuant to which the parties agreed to utilize their respective resources, expertise and experience to explore various possible in-depth cooperations with a view to further promote the brands and development of the Group in the intimate wear industry in China.

For details of the above transaction, please refer to the announcements dated 5 May 2017 and 17 May 2017.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 31 December 2017, the Group's term deposits, restricted bank deposits and cash and cash equivalents, amounted to approximately RMB1,515,140,000 (31 December 2016: RMB809,178,000) and bank borrowings amounted to approximately RMB223,080,000 (31 December 2016: RMB200,000,000). As at 31 December 2017, the current ratio was about 3.9 times (31 December 2016: 3.4 times). The increase in term deposits, restricted bank deposits and cash and cash equivalents, and improvement in current ratio were mainly due to the issuance of new shares as mentioned above and improvement in the cash flows generated from operating activities.

As at 31 December 2017, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 6.6% (31 December 2016: 7.4%). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less term deposits, restricted bank deposits and cash and cash equivalents as a percentage of the total shareholders' equity, was approximately negative 38.5% (31 December 2016: negative 22.6%) as the Group was at a net cash position.

FOREIGN CURRENCY RISK

Most of the Group's income, expenses and purchases of raw materials are denominated in Renminbi. The Group has never had any significant difficulties in obtaining sufficient foreign currencies for repatriation of profits declared by the subsidiaries in the mainland China to the overseas holding companies.

APPOINTMENT OF PROFESSIONAL CONSULTANT

During the year, management has engaged Rowland Berger Strategy Consultants (Shanghai) Limited ("Rowland Berger"), a global leading consulting firm, to assist the Group to prepare and implement its 5-year development plan for the future. Rowland Berger will make recommendations to management on strategies for income and development in the next five years, strategies and layout for brand building, development and layout for distribution channels, reforms and innovation on retail sales, as well as reforms on supply chain management and products of the Group.

In addition, the management has further engaged Rowland Berger to provide consulting services on the management, systems and operation of the supply chains department in March 2018.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, as at 31 December 2017, utilized approximately RMB416,985,000 (equivalent to approximately HK$481,947,000) to invest in the self-managed retail stores to expand its retail network, approximately RMB163,425,000 (equivalent to approximately HK$188,885,000) and RMB118,301,000 (equivalent to approximately HK$136,731,000) to construct and operate the logistics centres in Tianjin and Dongguan respectively and approximately RMB25,603,000 (equivalent to approximately HK$29,592,000) to upgrade information technology infrastructure. As 31 December 2017, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong and China.

CAPITAL EXPENDITURE

During the year, capital expenditure of approximately RMB128,420,000 (31 December 2016: RMB190,081,000) was used mainly for the construction of the first stage of logistics centre in Tianjin and decoration of retail stores. The amount of capital expenditure declined as the construction work for the first stage of the Tianjin logistics centre had been completed in 2017.

PLEDGE OF ASSETS

At 31 December 2017, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

At 31 December 2017, the Group did not have any significant contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial situation, operating results and business prospects may be directly or indirectly affected by a number of risks and uncertainties including business risks, operational risks, financial risks and changes of local laws and regulations in the jurisdictions in which it operates. Information on the financial risk management and estimation uncertainty is set out in Notes 3 and 4 to the consolidated financial statements respectively.

There may be other risks and uncertainties in addition to those stated above which are not known to the Group or which may not be material now but could turn out to be material in the future.

DISTRIBUTION NETWORK ACROSS CHINA

As the leader of the China's intimate wear industry, the Group has an extensive distribution network across China. Nevertheless, in response to the structural adjustments in the mainland China intimate wear industry and the challenges faced by the Group as described in the Statement from Chairman and Chief Executive Officer section, the Group adjusted sales and distribution channels proactively by closing certain loss-making retail stores, and hence the total net number of retail stores has declined by 362 during the year under review. In addition, upon the disposal of the low-end "Freeday" retail operation, which represented only about 1% of the Group's sales in 2016, the number of retail stores declined by 108. As at 31 December 2017, the Group's distribution network comprised 7,181 retail stores, out of which 1,290 were self-managed retail stores and 5,891 were franchised retail stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had 7,252 full-time employees as at 31 December 2017 (31 December 2016: approximately 7,800). The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's operating result as well as individual performance.

ENVIRONMENTAL MANAGEMENT

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

OUTLOOK AND STRATEGY

Looking forward to 2018, although the future remains uncertain, the Group will adopt or continue to adopt the measures and initiatives mentioned in the Statement from Chairman and Chief Executive Officer section with an aim to enhance our core competitiveness, further improving and expanding the business of the Group. Amid the challenging operating conditions, we strive to strengthen the sustainability of the Group.

In terms of internal management, the Group will introduce the "Amoeba management business model (阿米巴管理經營模式)", a management system that involves all employees in operations, and "partnership system (合伙人制度)", in order to effectively enhance the employees' efficiency, improve the sales and distribution channels and reduce expenses. In addition, the Group will actively seek suitable opportunities for mergers, acquisitions, share subscription and/or cooperation opportunities, amid industry adjustments, with a view to further develop the Group's existing business and new businesses having synergy effect with our existing business. The management is cautiously optimistic about the future business development and expects that the results for 2018 will be gradually improved after implementing various measures, which will help increase the Group's market penetration in the intimate wear industry in China and further strengthen the Group's position as the industry-leading intimate wear enterprise in China to achieve a sustainable growth and create maximum value for the interests of shareholders of the Company.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zheng Yaonan, aged 42, is the chairman of the Board, an executive Director, the chief executive officer and the chairman of the Nomination Committee of the Company. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. He is also one of the founders of the Group. With approximately 18 years of experience in the intimate wear manufacturing and sales industry, Mr. Zheng has been the key driver of the business strategies and achievements to date of the Group. He is primarily responsible for the strategic planning, business development, corporate management and overall performance of the Group. Mr. Zheng has been serving the Group since September 2009.

Mr. Zheng is currently a committee member of Guangdong Provincial Committee of Chinese People's Political Consultative Conference, a vice chairman of China Youth Entrepreneur Association, a vice chairman of Guangdong Youth Association, an executive vice chairman of World Dongguan Entrepreneurs and the chairman of the supervisory committee of Fujian Chamber of Commerce in Shenzhen.

Mr. Zheng completed the China CEO Program and obtained an executive education program certificate from Cheung Kong Graduate School of Business, Beijing in 2013, and completed an EMBA course at the School of Management of Xiamen University, Xiamen, Fujian Province. In addition, he is also studying an EMBA course in Shanghai Advanced Institute of Finance ("SAIF") of Shanghai Jiao Tong University and a DBA course at Tsinghua University.

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

Mr. Zhang Shengfeng, aged 49, is the deputy chairman of the Board, an executive Director, a vice president and a member of the Remuneration Committee of the Company. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Zhang is also one of the founders of the Group, and he is primarily responsible for the design, research and development and procurement of the Group. Mr. Zhang has been serving the Group since September 2009.

Mr. Zhang has been the deputy chairman of Dongguan Fenggang Association of Enterprises with Foreign Investment and the executive deputy chairman of Shenzhen Underwear Association since September 2011 and August 2012, respectively and the honorary chairman of Guangdong Underwear Association in March 2016.

Mr. Zhang is currently studying for an executive master's degree in business administration from the School of Management of Xiamen University, Xiamen, Fujian Province. He completed the executive master of business administration degree at Cheung Kong Graduate School of Business and the EMBA Course at PBC School of Finance, Tsinghua University in 2016. Mr. Zhang obtained a college degree in industrial electric automation from Guangdong University of Technology in 1990.

Mr. Lin Zonghong, aged 49, is the deputy chairman of the Board, an executive Director and a vice president of the Company. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Lin is also one of the founders of the Group and he is primarily responsible for the production and logistics of the Group. Mr. Lin has been serving the Group since September 2009.

Mr. Lin is currently studying for an EMBA course at the School of Management of Xiamen University, Xiamen, Fujian Province, and graduated from China Europe International Business School, Shanghai, upon finishing the study of the Advanced Management Program in 2013.

Mr. Cheng Zuming, aged 41, is an executive Director and a vice president of the Company. He also holds positions as an executive director and concurrently as the general manager in a number of the Company's subsidiaries. Mr. Cheng is also one of the founders of the Group. He is primarily responsible for the marketing and customer relations of the Group. Mr. Cheng has been serving the Group since September 2009.

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

Ms. Wu Xiaoli, aged 44, is an executive Director and a vice president of the Company. Ms. Wu is primarily responsible for the human resources and administration management of the Group. Ms. Wu has been serving the Group since September 2009.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Wen Baoma, aged 56, is a non-executive Director of the Company. Mr. Wen is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Wen has been serving the Group since October 2010. Mr. Wen has been a partner of Capital Today China Growth (HK) Limited since 2005. Mr. Wen had held a number of senior positions in various investment companies and an investment bank set forth below:

Company and its principal business	Duration of tenure	Last position held
Actis Capital LLP (Beijing)	from 2004 to 2005	Principal
AIG Investment Corporation (Asia) Ltd.	from 1998 to 2000	Investment Manager
Intel Capital (Hong Kong)	from 2000 to 2004	Investment Manager
Jardine Fleming Holdings Limited	from 1995 to 1997	Executive
Wisdom Alliance Limited	From 2007 to 2016	Director
Yuanmeng Household Products Co., Ltd.	From 2008 to 2017	Director

Mr. Wen obtained a bachelor's degree and a master's degree in engineering from Tsinghua University, Beijing, in 1984 and 1988, respectively, and a master's degree in business administration from London Business School of the University of London, London, the United Kingdom, in 1995.

Mr. Yang Weiqiang, aged 50, is a non-executive Director of the Company since August 2017.

Mr. Yang has more than 18 years of practice experience in manufacturing industry. He is currently the chairman and president of Shenzhen Qianhai Fosun Ruizhe Asset Management, a non-executive director of Koradior Holdings Limited and a director of Grandland Decoration Group. Mr. Yang served as a senior vice president and an executive director of TCL Corporation. Mr. Yang moved to the investment industry and served as an executive president and a managing director of HEAVEN-SENT Capital Management Group Co., Ltd. from 2008 to 2013. Mr. Yang participated in the preparation of "Q & A of mergers and acquisition of listed companies" issued by the Shenzhen Stock Exchange and served as a core lecturer for mergers and acquisitions field as invited by the Shenzhen Stock Exchange.

Mr. Yang obtained a bachelor's degree in computer science from Zhengzhou University, master's degrees in business management from Perking University and Cheung Kong Graduate School of Business, and an executive master of business administration degree from Tsinghua University.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yau Chi Ming, aged 50, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee and Risk Management Committee of the Company. Mr. Yau is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

Mr. Yau has over 20 years of experience in finance and accounting. He has been the joint company secretary of Consun Pharmaceutical Group Limited since March 2013, an independent non-executive director of Common Splendor International Health Industry Group Limited from February 2013 to June 2017, served as an independent non-executive director of CircuTech International Holdings Limited from April 2015 to June 2016 and served as an independent non-executive director of the Company, the chairman of the audit committee and a member of the remuneration committee of Chinese Energy Holdings Limited from August 2016 to January 2018. Prior to that, Mr. Yau worked at KPMG from August 1992 to November 1994 and from May 1995 to October 2012, and was promoted to a partner in July 2007.

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

Dr. Dai Yiyi, aged 50, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and Risk Management Committee of the Company. Dr. Dai is mainly responsible for supervising the activities and decisions of the Remuneration Committee, giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Company and its principal business	Duration of tenure	Stock exchange
China SCE Property Holdings Limited	from February 2010 to present	Stock Exchange
Fujian Septwolves Industry Co., Ltd.	from July 2016 to present	Shenzhen Stock Exchange
Mingfa Group (International) Company Limited	from October 2009 to present	Stock Exchange
Xiamen C&D Inc.	from July 2016 to Present	Shanghai Stock Exchange

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

Company and its principal business	Duration of tenure	Stock exchange
GuangDong Shirongzhaoye Co., Ltd.	from December 2008 to January 2013	Shenzhen Stock Exchange
New Hua Du Supercenter Co. Ltd.	from May 2013 to May 2017	Shenzhen Stock Exchange
Xiamen ITG Group Co., Ltd.	from April 2009 to May 2014	Shanghai Stock Exchange
Xiamen Dazhou Xingye Resources Holdings Limited	from March 2010 to October 2016	Shanghai Stock Exchange

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

Mr. Chen Zhigang, aged 45, is an independent non-executive Director, the chairman of the Risk Management Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Chen is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

Mr. Chen has been a partner and the department head of the Vocation International Certified Public Accountants Co., Ltd. since 2004. He is also a Chinese Certified Public Accountant, certified by The Chinese Institute of Certified Public Accountants in September 2000 and a Certified Public Accountant with Securities and Futures Practice Qualification, certified by the China Securities Regulatory Commission in January 2004.

Mr. Chen has been an independent non-executive director of SZ Reach Tech Co., Ltd. since November 2011, and served as an independent non-executive director of Guangdong Chaohua Technology Co., Ltd. from September 2010 to October 2011.

Dr. Lu Hong Te, aged 57, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee of the Company since August 2017. Dr. Lu is mainly responsible for giving strategic advice and making recommendations on the operation and management of the Group.

Dr. Lu is an independent non-executive director of Capxon International Electronic Company Limited, ANTA Sports Products Limited, China Lilang Limited and China SCE Property Holdings Limited and an independent director of Uni-President Enterprises Corp.. Dr. Lu is also an independent director of Firich Enterprises Co., Ltd and Lanner Electronics Inc., the shares of which are traded in Taipei Exchange. Dr. Lu is currently a professor at the department of business administration of Chung Yuan Christian University in Taiwan and serves as a visiting professor at institutions including SGP International Management Academy, Nanyang Technological University's EMBA Center and Xiamen University's EMBA Center.

Dr. Lu obtained a bachelor's degree in industrial management science from National Cheng Kung University in 1983, and a master's degree and a doctoral degree in marketing from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively.

SENIOR MANAGEMENT

Mr. Sha Shuang, aged 45, joined the Group in April 2012. He is a vice president, the chief strategy officer, chief information officer and the chief executive officer for e-commerce business of the Group. He is mainly responsible for the management of the information systems, strategy formulation and the e-commerce business of the Group.

Mr. Sha was appointed as the general manager of the information systems at Li Ning (China) Sports Goods Co., Ltd. and a senior manager of integrated service at the information systems integration and service operation department of Lenovo (Beijing) Co., Ltd.. Mr. Sha obtained a bachelor's degree in economics of technology from the School of Economics of Jilin University, Changchun, Jilin Province in 1998 and a finance master's degree of business administration jointly offered by The Chinese University of Hong Kong in collaboration with Tsinghua University in Beijing in 2009. Mr. Sha is an assistant engineer qualified by Chinese Academy of Sciences in 2000.

Mr. Dai Bin, aged 39, joined the Group in June 2016. He is a vice president of the Company and the president of Ordifen (Hong Kong) Holdings Company Limited, a wholly-owned subsidiary of the Company. He is principally responsible for the operation and management of Ordifen brand.

Mr. Dai was the president of Hangzhou Xingmo Apparel Co., Ltd., the director vice president of Zhejiang Ihappy Apparel Co., Ltd., the general manager of sports life business department of ANTA Sports Products Limited and the national marketing manager of COFCO (Shenzhen) Co., Ltd.. Mr. Dai obtained a bachelor's degree of science in education from Suzhou University in 2002.

Mr. Loo Hong Shing Vincent, aged 51, has been appointed as a vice president, the chief financial officer, company secretary and authorized representative of the Company since December 2016. Before joining the Group, Mr. Loo was an executive director, the chief financial officer, company secretary and authorized representative of Hengan International Group Company Limited, a company listed on the Stock Exchange. Mr. Loo has been appointed as an independent non-executive director of Huabang Financial Holdings Limited, a company listed on the Stock Exchange, since 26 June 2012.

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

Mr. Li Guocheng, aged 44, joined the Group in August 2017. He is a vice president and the chief human resources officer of the Group. He is mainly responsible for the human resources and investment management of the Group.

Mr. Li was appointed as a vice president of group strategic integration and the chief human resources officer of Shenzhen Eternal Asia Supply Chain Co., Ltd. and human resources manager of Lenovo Group Limited. He obtained a master's degree in business administration from Warnborough College, the United Kingdom and a master's degree in business administration from Tsinghua University.

Mr. Mao Yu-in, aged 53, joined the Group in July 2017. He is a vice president of the Group. He is mainly responsible for the large enterprises' project management and structure building of the Group, formulation of terminal retail and operation standards, as well as coordinating and planning of the big data of the Group's commodities.

Mr. Mao worked in Nike, Inc. and served as the sports product manager. He was also a vice president of ANTA (China) Co., Ltd. and Tutwo (Xiamen) Outdoor Products Co., Ltd. respectively. Mr. Mao obtained a double master's degree in marketing and mass communication from University of Hartford, the United States in 1993.

Mr. Yang Zhi, aged 40, joined the Group in June 2010. He is a vice president of the Group. He is mainly responsible for financial management of the Group.

Mr. Yang was appointed as the financial controller of A. Best Department Store Supermarket Co., Ltd.. Mr. Yang obtained a master's degree in business administration from City University of Macau in 2010 and the qualification as international finance manager in 2015.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and complied with the code provisions contained therein during the year ended 31 December 2017 and up to the date of publication of the annual report for 2017, except the following:

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

(b) according to Code Provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balance understanding of the views of shareholders. Owing to other business engagements, Dr. Dai Yiyi and Mr. Chen Zhigang, both being independent non-executive Directors, were not available to attend the annual general meeting of the Company held on 19 May 2017. However, Mr. Zheng Yaonan, the chairman of the Board and the chief executive officer of the Company, Mr. Lin Zonghong and Ms. Wu Xiaoli, both being executive Directors, Mr. Wen Baoma, a non-executive Director, and Mr. Yau Chi Ming being an independent non-executive Director, were present at the annual general meeting to ensure an effective communication with the shareholders at that meeting.

Corporate Governance Report

THE BOARD

The Board currently comprises eleven Directors of which five are executive Directors, two are non-executive Directors and four are independent non-executive Directors.

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

Executive Directors

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

Non-executive Directors

Mr. Wen Baoma
Mr. Yang Weiqiang (appointed on 17 August 2017)

Independent Non-executive Directors

Mr. Yau Chi Ming
Dr. Dai Yiyi
Mr. Chen Zhigang
Dr. Lu Hong Te (appointed on 17 August 2017)

All Directors have signed service contracts or letters of appointment with the Company which set out the key terms and conditions of their appointments. Biographical details of the Directors and relevant relationships among them together with their respective roles in the Board and its committees are set out in the Biographies of the Directors and Senior Management on pages 12 to 16.

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

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed four independent non-executive Directors which represent at least one-third of the Board, and complied with the requirement that at least one of them has appropriate professional qualifications of accounting or related financial management expertise. The Company has received written confirmation for the year 2017 from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

Corporate Governance Report

The Board meetings are held regularly and are also held on an ad hoc basis as required by business needs. All Directors are consulted as to whether to include any matters in the agenda. Notice of at least 14 days are given to all Directors before the date of regular Board meeting. Agenda and accompanying board papers are given to all Directors in a timely manner before the date of each regular Board meeting. During the year 2017, four regular meetings were held by the Board. Besides, the Chairman of the Board had an annual meeting in 2017 with all non-executive Directors (including independent non-executive Directors) of the Company without the other executive Directors present.

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

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

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

Audit Committee

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

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

During the year ended 31 December 2017, the Audit Committee held two meetings. The Audit Committee reviewed the accounting policies and practices adopted by the Group and discussed on auditing and financial reporting matters, evaluated the overall effectiveness of the internal control system of the Group and the significant risks faced by the Group. It also reviewed the Company's financial statements, annual and interim reports, the management letter from the auditor of the Company, the connected transaction and continuing connected transactions entered into by the Group, corporate governance practices and the audit scope and fees for the year ended 31 December 2017.

The Audit Committee held a meeting in March 2018 to review the consolidated financial statements of the Group for 2017 and to consider the re-appointment of the auditor. The Audit Committee recommended the Board to approve the Group's consolidated financial statement for 2017 and propose the re-appointment of the auditor at annual general meeting of the Company for 2018.

Nomination Committee

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

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

During the year ended 31 December 2017, the Nomination Committee held one meeting. The Nomination Committee reviewed the Board structure, size and composition, the Board diversity and the appointment or re-appointment of directors of the Company.

Remuneration Committee

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

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

Two Remuneration Committee meetings were held during 2017 for reviewing the remuneration policy and packages for all the Directors and senior management of the Company. Details of emoluments paid to the Directors and senior management of the Company for the year ended 31 December 2017 are set out in Note 11 to the consolidated financial statements.

Risk Management Committee

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

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

During the year ended 31 December 2017, the Risk Management Committee held one meeting. It reviewed the new risk management framework, the key risks faced by the Group, risk management policy and practice.

Attendance Records at Meetings

The attendance of individual Directors at general meeting, regular meetings of the Board and meetings of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee held during the year ended 31 December 2017 is set out below:

Name of Directors	Number of meetings attended/held Annual General Meeting	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Executive Directors						
Mr. Zheng Yaonan	1/1	4/4	N/A	1/1	N/A	N/A
Mr. Zhang Shengfeng	0/1	4/4	N/A	N/A	2/2	N/A
Mr. Lin Zonghong	1/1	4/4	N/A	N/A	N/A	N/A
Mr. Cheng Zuming	0/1	4/4	N/A	N/A	N/A	N/A
Ms. Wu Xiaoli	1/1	4/4	N/A	N/A	N/A	N/A
Non-executive Directors						
Mr. Wen Baoma	1/1	4/4	N/A	N/A	N/A	N/A
Mr. Yang Weiqiang*	N/A	2/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Yau Chi Ming	1/1	4/4	2/2	1/1	N/A	1/1
Dr. Dai Yiyi	0/1	4/4	2/2	N/A	2/2	1/1
Mr. Chen Zhigang	0/1	4/4	2/2	1/1	2/2	1/1
Dr. Lu Hong Te*	N/A	2/2	1/1	N/A	1/1	1/1

* Mr. Yang Weiqiang and Dr. Lu Hong Te were appointed on 17 August 2017.

Appointment and Re-election of Directors

In accordance with article 112 of the Memorandum and Articles of Association of the Company, Mr. Yang Weiqiang and Dr. Lu Hong Te were appointed as non-executive Director and independent non-executive Director of the Company on 17 August 2017 respectively. They will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with article 108 of the Memorandum and Articles of Association of the Company and code provision A.4.2 in Appendix 14 of the Listing Rules, Mr. Zhang Shengfeng, Mr. Lin Zonghong and Mr. Wen Baoma will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

A summary of the continuous professional development in which Directors participated during the year ended 31 December 2017 is as follows:

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

Notes:

A: Attending seminars and/or conferences and/or forums and/or in-house trainings

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2017.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2017 as disclosed in this annual report. The Directors have selected suitable accounting policies and applied them consistently, have made judgements and estimates that were prudent and reasonable and have prepared the consolidated financial statements on a going concern basis.

The statement of the Company's auditor regarding its responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on pages 51 to 55 of this annual report.

Risk Management and Internal Controls

The Board acknowledges its responsibilities for ensuring that proper risk management and internal control systems are maintained within the Group and for overseeing the effectiveness of these systems to safeguard the Group's assets and to protect the shareholders' investments.

The Group has carried out risk management with reference to the corporate risk management framework of the COSO (The Committee of Sponsoring Organizations of the Treadway Commission). The framework facilities a systematic approach to the management of risks within the Group. The Group's business units have listed out the risks that the Group is exposed to one by one through a variety of risk identification techniques. The business units and the risk management department have analyzed and evaluated those risks in different ways so as to develop risk response plans. The risk management department has tracked and evaluated those risk response plans to ensure the effectiveness of risk control activities. In addition, the Group has established a database for risk management and has kept optimizing it to offer support to the risk management of the Group. The relevant concepts and procedures of such framework are set out in the risk management manual of the Group ("Manual"), and the Manual has been assigned to the various business units on real-time basis in a bid to build a comprehensive risk management environment for the Group.

The Group has developed a standard and improved procedural management system and authorisation to prevent or detect unauthorized expenses and payments in a bid to protect the Group's assets so as to ensure the accuracy and completeness of the Group's accounts and ensure that financial statements are prepared reliably and timely.

On the other hand, the Group also has an internal audit department which regularly review the routines, procedures, expenses and internal controls (including financial monitoring, operational monitoring and compliance monitoring and risk management functions) for all business units and companies in the Group.

In 2017, the internal audit department developed an annual review plan to review the various areas of the Group, including the financial system, daily operation, compliance control and risk management functions. The internal audit department has conducted an initial check on soundness and a preliminary evaluation on the units under auditing, followed by compliance testing, substantive testing and comprehensive evaluation. The internal audit department has conducted a return visit to the risks identified in the internal control, has conducted subsequent check on the audit proposal adopted, and has examined its written explanations and replies on corrective measures not adopted for the account of cost saving or other factors so as to prevent any omission.

Risk assessment report and internal audit report are presented to the Risk Management Committee, Audit Committee and the Board on a half-yearly basis. The Board considers that the Group's risk management and internal audit function for the year ended 31 December 2017 were effective. However, it shall conduct regular review to enhance and protect the operation of risk management and internal control system.

Auditor's Remuneration

The Company engages PricewaterhouseCoopers as external auditor and has received a written confirmation from PricewaterhouseCoopers confirming that they are independent and that there are no relationships between PricewaterhouseCoopers and the Company that are likely to impair its independence. The roles and responsibilities of our external auditor are stated in the Independent Auditor's Report on pages 51 to 55. During the year ended 31 December 2017, PricewaterhouseCoopers provided the following services to the Group:

Service rendered	RMB'000
Audit services	
Annual audit and interim review	3,380
Non-audit services	
Tax services	180
Environmental, Social and Governance Services	167
Total	3,727

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

Shareholders' Enquiries

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

Corporate Communication

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

Corporate Website

- a dedicated Investor Relations section is available on the Company's website (http://www.cosmo-lady.com.hk). Information on the Company's website is updated on a regular basis;
- information released by the Company to the Stock Exchange is also posted on the HKEx's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents, etc.; and

- all presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website as soon as practicable after their release.

Shareholders' Meetings

- shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings;

- the process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that shareholders' needs are best served; and

- board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer shareholders' questions.

Investment Market Communications

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

SHAREHOLDERS' RIGHTS

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

(a) Any shareholder(s) holding, at the date of deposit of the requisition, not less than 10% of the paid up capital of the Company may request the Board to convene an extraordinary general meeting. The requisition of the shareholder(s) concerned must clearly state the purposes and transaction of business of the meeting and must be deposited at the Hong Kong office of the Company at Unit 3004, 30/F., West Tower, Shun Tak Centre, Nos. 168 – 200 Connaught Central, Hong Kong for the attention of the Board or the company secretary. Such meeting shall be held within 2 months after the deposit of such requisition.

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

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

Procedures for Putting Forward Enquiries to the Board

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

Shareholders may at any time put forward enquiries to the Board through Company Secretary in writing by mail to the office of the Company in Hong Kong at Unit 3004, 30/F., West Tower, Shun Tak Centre, Nos. 168 – 200 Connaught Central, Hong Kong.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents of the Company during the year ended 31 December 2017 and up to the date of publication of the annual report for 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE APPROACH

The vision of Cosmo Lady (China) Holdings Company Limited (the "Company") is to become a global leading mass market intimate wear brand, providing care and creating healthy and happy lifestyles for our consumers. As we strive towards our goals, we continue to align our strategy to facilitate the sustainable development of our business within the communities in which we operate. Our core values reflect our culture and are embedded in our day-to-day operations:

Vision
To become a global leading mass market intimate wear brand

Mission
To provide care and create healthy and happy lifestyle options for consumers

Value
Act responsibly, encourage innovation, strive, win-win and create happiness

Strategic Core
Promote "Precision + Unity" strategy

ABOUT THIS REPORT

This corporate social responsibility ("CSR") report was issued in accordance with Environmental, Social and Governance ("ESG") Reporting Guide set out in Appendix 27 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report gives an overview of the CSR challenges and achievements, management systems, as well as initiatives planned and implemented for the year ended 31 December 2017.

REPORTING SCOPE

The report focuses on the businesses of the Company and its subsidiaries (the "Group"), describing the overall ESG performance and initiatives of our head office and retail stores in China. Environmental data presented only covers our production facilities as the Group consider these have the most significant environmental and social impact and influence to the Group's business and stakeholders.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

The interests of our stakeholders play a significant role in the implementation of the Group's ESG vision, policies and practices. The Group, with support from an independent third party consultant, has engaged with a number of stakeholders to gain an objective and impartial view of current ESG performance and challenges that the Group's businesses face.

The Group's external stakeholders, which include our employees, customers, suppliers, industry associations, and the community at large, have all contributed to the materiality assessment. Their responses on the material ESG aspects of the Group's operations have been considered and analysed in line with the requirements of the ESG Reporting Guide of the Stock Exchange.

The results of this survey enable the Group to realign our sustainability strategy, helping the Group to gain clarity of our existing sustainable performance and set future measurable goals to further enhance the Group's businesses. The following areas were noted by stakeholders to be of key importance to the Group:

Topics	Material aspects
Employment and labour practices	Employment Health and safety Development and training Labour standards
Operating practices	Supply chain management Product responsibility Anti-corruption
Environmental protection	Emission Use of resources Environment and natural resources
Community investment	Community investment

EMPLOYMENT AND LABOUR PRACTICES

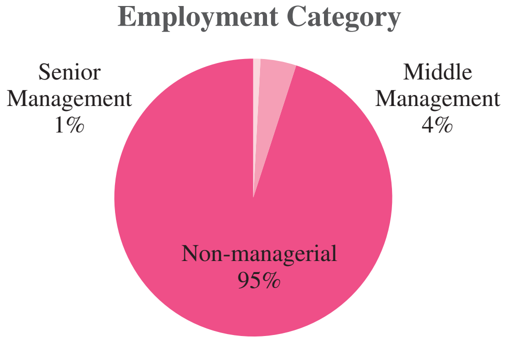
Our employees are at the heart of businesses and brand of the Group. Their dedication, commitment, and creativity to go above and beyond the expectations of our customers define the excellence that the Group stands for. The Group believes that having a strong team is a key success factor in building a successful business. Investing in human resources management, anchored with mutual trust and respect, forms the core of our strategy to create an inclusive, open, healthy and happy working environment.

Accordingly, the Group has invested in a number of employment and labour initiatives, including:

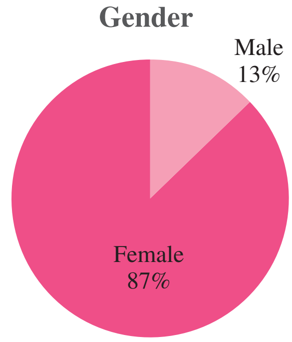
- Employment
- Health and safety
- Development and training
- Labour standards

Employment

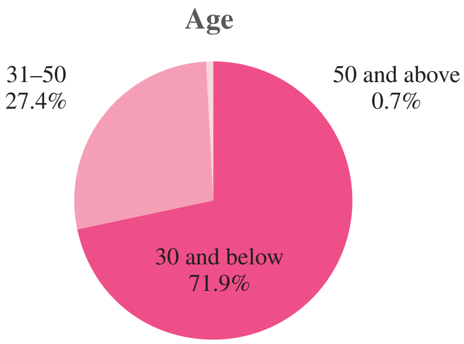
Long-term success of the Group hinges on talented people and an engaging work force. Our aspiration is to be a sustainable, caring employer, and in maintaining long-term relationships with our employees. The Group are committed to developing and supporting our people, and strongly believe in creating opportunities for their individual development, enabling them to pursue their career paths-together with the Group. As of 31 December 2017, the Group welcomed a total of 7,252 employees.



Non-managerial	6,874
Senior and Middle Management	378



Female	6,293
Male	959



30 and below	5,214
31–50	1,987
50 and above	51

The Group naturally attracts a larger population of female and younger people to join our workforce given the nature of our business.

Employee Benefits and Welfare

To formally establish our human resource initiatives, the Group has published an employee handbook that lays out our policies and procedures relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity, anti-discrimination, and other benefits and welfare. The Group has also implemented a payment and performance, attendance and leave, as well as promotion management systems. The Group actively reviews and improves on our human resource management to align with the Group's vision and strategy.

As part of our leave management system, the Group offers benefits in consideration of the employees' welfare and well-being, including entitlement to paid leave and flexible work arrangements. Our payment and performance management system, remuneration policy, and bonus system are in place to provide our staffs with compensation based on their working experience, qualifications, individual performance and general market conditions. The employees' bonus is evaluated on the basis of their performance assessment and the Group's overall operating result.

Care for Employees

A core value of the Group is the creation of happiness within the workplace.

A core value of the Group is the creation of a positive environment within the workplace that motivates our employees' performance. This includes performance appraisals, as well as awards in areas of innovation, service excellence, savings, and collaboration. The Group also upholds the importance of a healthy work-life balance. Focusing on our employees' well-being and personal growth, we organise a variety of entertainment and employee engagement activities that reflect the Group's corporate culture. Furthermore, the Group's culture is propagated to all staff through a number of channels including staff manuals, office administrative bulletins and circulars, company public bulletins, bulletin boards, posters and cultural walls.

Entertainment and employee engagement activities of the Group include team training activities, staff birthday parties, cultural games, talent shows and sports competitions. The employee engagement activities are announced through the Group's wechat official account. Through these activities and daily communication through the wechat account, the Group seeks to create a sense of belonging and enhance interaction and communication amongst staff, as well as to strengthen the foundation of the Group's corporate culture.

During the year, the Group has organised the following initiatives:

- Opening of the long-awaited company café for our employees
- To provide decent working conditions that also support female workers, in their roles as parents or caregivers, for example, providing additional support beyond basic legal requirements for working mothers, such as private nursing room, equipped with supporting facilities such as sofa, TV, refrigerators, etc.
- Hosting of the "Chongyang Climbing Event" along the leisure path of Guanyin Mountain in Dongguan
- Mid-Autumn Festival activities to celebrate the holiday season with families

Health and Safety

The health and safety of our employees and people in our communities are paramount to the economic and social success of the Group. Safety underpins the fundamental way we do our business. Apart from fulfilling our legal obligations on health and safety, the Group also takes extra steps to provide a safe environment to team members, minimising threats that may lead to injury or fatal accidents. The Group has policies in place to maintain an occupational hazard free workplace and has implemented measures to prevent occurrences. For example, the Group has implemented OHSAS 18001: 2007 "Occupational Health and Safety Management System", wherein the Group conducts comprehensive identification, evaluation, and prevention of the hazards within Company's scope of liability. During the year, there were no work-related fatalities within the Group.

Development and Training

Being a "people-oriented" business, the Group is aware of our responsibility to continuously develop our talents to reach their full potential, whilst adapting to the needs of the Group. The Group believes that a strong team is one of the primary drivers of our long-term development which forms a part of our core strategy to attract new talent, as well as develop and retain existing staff members.

To ensure job competency, the Group provides all staff with training according to their needs and identified areas of growth. This is demonstrated by the incorporation of training schemes into the Group's corporate strategy, which includes assignment training, academic education, school-enterprise cooperation, as well as elite and middle-level management training camps. We believe that having a strong learning culture within the Group will aid the employees to adapt to the rapid development of the business and the market.

In 2017, the percentage of staff trained and the average training hours per employee by categories are summarised below:

Employee category	Number of employees	Rate of employees trained	Average training hours
Senior and Middle Management	378	100%	80
Non-managerial employees	2,266	100%	45
Store Salesmen	4,608	100%	14

Labour Standards

Employees hired by the Group are from Hong Kong and mainland China. The Group safeguards the rights of our employees by strictly complying with the requirements of the Labour Laws of the People's Republic of China (the "PRC"), the Labour Contract Law of the PRC, and the Employment Ordinance of Hong Kong, as well as other applicable laws and regulations of the jurisdictions where the Group operate.

The Group reviews the corporate policy of employment and labour regularly to ensure that it has fully complied with the related legislations and regulations. The Group has strictly followed the Provisions on the Prohibition of Using Child Labour to prohibit the use of child and forced labour.

Honesty and integrity is one of key corporate values of the Group. In line with this, the Group has established robust policies and clearly defined procedures and standards relating to employment and labour. The Group has incorporated a number of preventive measures in an effort to preclude possible unethical and corrupt practices within our operations. When unethical acts and forbidden practices are discovered, the Group recognises that it is our responsibility to take the necessary prevention steps, including further review and assessment, as well as implementation of remediation measures.

OPERATING PRACTICES

As the leader of China's intimate wear industry, the Group is dedicated to conduct business in accordance with the highest ethical, social, and environmental standards. To maintain our brand reputation, the Group continuously improves our internal workflows, product research and design, as well as supply chain processes. At the same time, the Group ensures that we abide by the applicable laws of China and practice due diligence in the following areas:

- Supply chain management
- Product responsibility
- Anti-corruption

Supply Chain Management

The Group has an extensive supply chain network in China, comprising more than 200 suppliers across Guangdong Province, East China and other regions of China.

Geographic regions	Suppliers
Guangdong	158
Jiang, Zhe and Hu districts	64
Other areas	12
Total	**234**

The Group believes that it is essential to maintain a resilient relationship built on trust with our selected suppliers, as well as franchisees to provide high-quality products. It is also vital that both the Group and our suppliers understand each other's business operations, needs, and expectations to ensure that social risk is mitigated during the design, procurement, packaging, and distribution of the products.

The Group understands the importance of implementing a stringent sourcing strategy as a first step to achieve a sustainable supply chain. As such, the Group applies a formal process for selecting and evaluating, as well as communicating with our current and prospective suppliers. We will update our suppliers list to ensure all our suppliers meet our standards.

Pre-screening

- Assess the supplier's supply chain management procedures, production capacity, product quality, and research and development ("R&D") capabilities

Implementation

- Implement the procurement and production plan according to the Group's product listing specification as well as the supplier's comprehensive production capacity
- Monitor production and supply progress and quality

Testing

- Evaluate the supplier's performance indicators such as R&D capabilities, degree of production coordination, delivery conditions and product quality on a monthly or quarterly basis
- Provide training and incentives to the suppliers according to their performance evaluation

The Group has also established a "Qualified Supplier Rating Criteria", which is assessed by an independent department for an objective performance assessment of our suppliers. Specifically, the "Qualified Supplier Rating Criteria" is used to:

- Ensure that the service performance and product quality of new suppliers can satisfy the Group's criteria; and
- Quarterly assess existing qualified suppliers to evaluate whether they continue to meet the Group's contractor criteria, as well as to enhance their service performance and product quality.

Product Responsibility

The Group provides high-quality products and the Group takes seriously our responsibility to protect our consumers against the possible detrimental impact our products may cause to their health and safety. As such, the Group ensures that we are compliant with all applicable national and regional laws and regulations on product quality, strictly implementing necessary standards for our products and services. Furthermore, our policies and procedures implemented across all the Group's properties clearly explain quality and safety management, control methods, duties, and requirements in relation to the following areas:

- Quality and safety of products and services
- R&D and design
- Product transport and packaging
- Customers

The Group recognises the challenge in eliminating completely service and product complaints, as well as merchandise recalls. Accordingly, the Group has implemented a number of quality inspection and review activities from the procurement of new products and raw materials to handling customer complaints.

Specifically, our product quality and safety procedures are divided into three major areas, namely: product information, selection and advice, accidental injury and privacy protection. The Group ensures that our procedures are strictly followed during the pre-sale, sales and after-sales business phases, which encompass company advertising, store shopping guide and customer service hotline (i.e. telephone and network).

The Group understands that customers provide sensitive information relating to their product preference when interacting with our retail staff or ordering through our online sales platform. Strict policies are in place to protect customer information. The Group has a secure member management system for customers which collects, transmits, and stores their membership information.

The need to provide our customers with a comfortable shopping experience remains one of the Group's primary concerns. The Group continuously optimises our "Customer Service Management System", "Store Shopping Guide Process" and "Exhibition Guideline". The Group also provides training to our employees to master our "Underwear Product Knowledge Dictionary" to make our consumers feel confident and relaxed throughout their shopping experience at our retail stores. Furthermore, the Group requires complete, accurate, and clear product information disclosure to safeguard the health and safety of our consumers.

To maintain and improve the quality of our products, the Group's quality control department implements the most stringent of quality inspection procedures to test according to national standards to prevent any adverse effect of our products on our consumers. The Group's in-house testing laboratory includes 20 qualified laboratory technicians, more than 40 equipment sets, and encompasses an area of about 1,000 square metres. The in-house physical and chemical laboratory is China National Accreditation Service ("CNAS") for Conformity Assessment certified laboratory for IEC CL01"Accreditation Criteria for the Competency of Testing and Calibration Laboratories" and complies with ISO 17025 standards, making us the first company in the underwear industry to have an own CNAS accredited laboratory.

Anti-Corruption

The promotion of ethical behaviours is one of the core values of the Group. The Group has established anti-corruption policies and regulations to ensure that the Group conforms to relevant laws and regulations. Anti-corruption policies and training are regularly reviewed, adopted, delivered and communicated. In particular, the Group has developed and established the following:

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

To protect reputation and the interests of the Group and its shareholders, the Group has zero tolerance towards employees that abuse their position to illegally obtain money or non-monetary favours. Thus, the Group's "Reward and Punishment Management System" was established to communicate expected behaviours of our employees and to enforce relevant anti-corruption regulations.

A monitoring centre is in place to investigate and verify reports of dishonest conduct. The Group strictly imposes punishment according to our "Reward and Punishment Management System" for any employee proven to have been involved with unlawful acts such as bribery, extortion, fraud and money laundering. Employees who have been involved with unlawful act may be subjected to the following:

- Termination of labour contract
- Recovery of the proceeds of discipline and the losses caused to the company
- Legal proceedings to recover possible financial damage caused to the company

The monitoring centre also cooperates with the local law enforcement office and police to follow up on proven cases of corruption and other unlawful acts. To minimise these incidents and to uphold our core values, the Group encourages our employees to report unlawful behaviours through our reporting hotline and e-mail address.

ENVIRONMENTAL PROTECTION

In recognition of the potential environmental impact of our business operations, the Group is committed to the ongoing improvement of our environmental sustainability performance through our daily activities. The Group complies with all applicable environmental protection laws and regulations across the locations where we operate. This includes the revised "Environmental Protection Law of the People's Republic of China" and rules set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001 Environment Management Systems to further reinforce our dedication to environmental protection.

The Group has implemented policies, procedures, and initiatives to govern our environmental protection objectives in an effort to address the following critical environmental issues:

- Emission
- Use of resources
- The environment and natural resources

Emission

The Group is very aware of the adverse implications of climate change and pollution to the environment. Because of our commitment to environmental protection, the Group constantly seeks to re-envision our daily operations and develop new solutions to preserve the planet. Numerous initiatives have been carried out across our operations to reduce emissions and waste, enhance resource efficiency and minimise our environmental footprint. This includes provision of employee shuttle bus services to workplace to reduce pollution from car usage. For our company cars and logistic services transport, the Group selects only certified green label vehicles.

In active alignment with the Group's "Environment Management Systems", the Group emulates the principle of "Reduce, Reuse and Recycle" ("3Rs") to promote the initiative of saving natural resources, reducing pollution and the need for landfill. The Group promotes the following segregation, storage, and handling practices:

- Restricted the use of disposable cups in the staff canteen and encouraged the use of reusable stainless steel tableware
- Registered fertilisers, pesticides and detergents are only purchased and used
- Inspected grease trap regularly to determine if cleaning is required and meet to standard
- Directed large-scale publicity and promotional activities to keenly endorse the proper use and handling of recyclable materials

Use of Resources

The Group has developed energy conservation programs to increase the power usage efficiency of our operations across our properties. Some specific examples of these energy-saving policies and initiatives include:

- Promote environmental awareness and behaviour to our staff
- Maintain an average indoor temperature of 25-26 °C
- Equip offices and shops with LEDs or energy efficient lights
- Optimise natural light in the interior design of department stores to reduce the energy used for lighting

The Group aims to reduce our water usage in an effort to mitigate our contribution to water pollution. To achieve this, the Group implemented the following initiatives:

- Installed faucets and water dispensers that minimise water wastage
- Conducted water conservation training to our staff
- Adopted stricter water utilisation supervision to encourage reduction in water usage within our operational processes

Packaging materials represents an adverse impact to the environment. To reduce the utilisation of packaging materials, the Group has the following measures and practices in place:

- Adopted electronic-based records to minimise paper usage
- Improved product wrapping design to mitigate the over packing of finished products and to reduce the use of packaging materials
- Implemented product carton recycling
- Repaired and re-used damaged cargo pads to minimise timber utilisation

The Environment and Natural Resources

Management considers the environmental impact of its commercial activities and business decisions. To support this, continuous improvement to the environmental management system, and strengthening targets and responsibility assessments are supported by the application of strict environmental supervision and management, to minimise the negative impacts on the environment and natural resources when doing business. The Group extends our environmental protection consideration outside of our factory and office facilities. For example, The Group has installed an air quality-processing device to monitor the quality of air emitted from the exhaust pipes in the staff cafeteria. The Group also oversees noise pollution from our facilities, by prohibiting the use of car horns at our factory facilities. The Group regulates our plant equipment to minimise environmental impact.

Environmental performance data for the year ended 31 December 2017:

Environmental KPIs	Unit	2017
NOx emissions	tonne	**0.307**
SOx emissions	tonne	**0.000542**
Particulate matter emissions	tonne	**0.0286**
Total GHG emissions	tonne (CO_2)	**10,539**
Greenhouse gas emissions (Scope 1)	tonne (CO_2)	**99.8**
Greenhouse gas emissions (Scope 2)	tonne (CO_2)	**10,439**
Total non-hazardous waste produced	tonne	**16.2**
Total energy consumption	GJ	**44,539**
Total energy consumption intensity	GJ/Revenue (in million)	**9.80**
Total direct energy consumption (Petrol)	GJ	**1,222**
Petrol	GJ	**1,222**
Total indirect energy consumption (Electricity)	GJ	**43,317**
Purchased electricity	GJ	**43,317**
Water consumption	m^3	**170,426**
Water consumption intensity	m^3/Revenue (in million)	**37.52**
Packaging material	tonne	**144**
Packaging material intensity	tonne/Revenue (in million)	**0.03**

Note: There is no significant hazardous generated by the Group

COMMUNITY INVESTMENT

Upholding the value of giving back to the society, the Group is committed to being a responsible and proactive member of the local community. Our approach to community investment centres on youth empowerment, aid to the less fortunate, relief projects, advocacy of women and culture cultivation.

The Group is actively involved in supporting the community through charity work, promoting healthy living and caring for the underprivileged within the community. Progress of these initiatives are tracked to ensure that the value created is optimised.

The Group gives back to the society through sponsorships and partnership with other non-profit organizations. For the year ended 31 December 2017, the Group has contributed approximately RMB2,035,000 to charity and other donations. During 2017, a total of five volunteering projects were undertaken, comprising activities to benefit education, culture and other social sectors. The number and distribution of these projects are demonstrated by the table below:

Community	Number of projects
Education	2
Culture	1
Others	2

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year is an investment holding company. The Group is the largest branded intimate wear enterprise in the People's Republic of China ("PRC") in terms of total retail sales in 2017, according to Frost & Sullivan. It is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others, which include leggings and tights, vests, hosiery and accessories) in the PRC.

The detail principal activities of the subsidiaries of the Company were set out in Note 41 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group and a discussion and analysis of the Group's operating performance during the year are provided in the Statement from Chairman and Chief Executive Officer and the Management Discussion and Analysis sections, respectively on pages 4 to 5 and on pages 6 to 11 of this annual report.

A description of the principal risks and uncertainties that the Company may be facing can be found in the Statement from Management Discussion and Analysis on pages 6 to 11 of this annual report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to the consolidated financial statements.

The future development of the Group's business is discussed throughout this annual report including in the Statement from Chairman and Chief Executive Officer, and the Management Discussion and Analysis sections, respectively on pages 4 to 5 and on pages 6 to 11 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements on page 56.

The Board of the Company has recommended the payment of final dividend of HK3.34 cents per share (equivalent to approximately RMB2.70 cents per share, using the exchange rate quoted by the People's Bank of China on 21 March 2018) for the year ended 31 December 2017 (2016: HK6.21 cents per share). The final dividend would be payable to shareholders whose names appear on the register of members of the Company on Wednesday, 30 May 2018, subject to the approval of shareholders at the annual general meeting to be held on Monday, 21 May 2018 (the "2018 AGM"). Dividend warrants are expected to be despatched on Thursday, 7 June 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Wednesday, 16 May 2018 to Monday, 21 May 2018, both days inclusive, during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the 2018 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 15 May 2018 for registration.

The record date and time for entitlement to the proposed finial dividend for 2017 is Wednesday, 30 May 2018 at 4:30 p.m.. The register of members of the Company will be closed from Monday, 28 May 2018 to Wednesday, 30 May 2018, both days inclusive. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Friday, 25 May 2018 for registration.

BORROWINGS

Details of borrowings of the Group as at 31 December 2017 are set out in Note 34 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 29 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2017, charitable and other donations made by the Group amounted to approximately RMB2,035,000 (2016: RMB8,656,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

The distributable reserves of the Company as at 31 December 2017 amounted to approximately RMB1,496,802,000 (2016: RMB1,263,454,000).

Movements in reserves of the Group and of the Company during the year are shown in the Consolidated Statement of Changes in Equity on page 59, and Note 30, and Note 37 to the consolidated financial statements, respectively.

Report of the Directors

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the preceding five financial years is set out on page 126.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, the percentage of the Group's turnover attributable to the Group's largest customer and the five largest customers in aggregate were approximately 1.0% and 3.1% (2016: 2.0% and 4.7%) respectively.

During the year ended 31 December 2017, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were approximately 4.2% and 16.3% (2016: 3.3% and 13.6%) respectively.

During the year ended 31 December 2017, none of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of five largest customers or suppliers of the Group.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Zheng Yaonan
Mr. Zhang Shengfeng
Mr. Lin Zonghong
Mr. Cheng Zuming
Ms. Wu Xiaoli

Non-executive Directors

Mr. Wen Baoma
Mr. Yang Weiqiang

Independent Non-executive Directors

Mr. Yau Chi Ming
Dr. Dai Yiyi
Mr. Chen Zhigang
Dr. Lu Hong Te

A profile of the existing Directors of the Company is shown on pages 12 to 16.

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

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

All Directors of the Company are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Memorandum of Article of Association. Article 108 provides that at every annual general meeting, one-third of the Directors of the Company for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. In this connection, Mr. Zhang Shengfeng, Mr. Lin Zonghong and Mr. Wen Baoma will retire by rotation at the 2018 AGM and, being eligible, offer themselves for re-election.

Mr. Yang Weiqiang and Dr. Lu Hong Te were appointed as a non-executive Director and an independent non-executive Director of the Company on 17 August 2017 respectively. In according with article 112 of the Memorandum and Articles of Association of the Company, they will retire at 2018 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company who are proposed for re-election at 2018 AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 2017, the interests and short positions of the Directors and the chief executive officers of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interest and short positions in the Company

Name of Directors	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Mr. Zheng Yaonan[2][3]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Mr. Zhang Shengfeng[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Mr. Lin Zonghong[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Mr. Cheng Zuming[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Ms. Wu Xiaoli[2][3]	Interest of spouse	1,191,900,678 (L)	55.53% (L)
Mr. Wen Baoma	Personal Interests	5,000,000 (L)	0.23% (L)
Dr. Lu Hong Te	Personal Interests	210,000 (L)	0.01% (L)

Notes:

(1) The letter "L" denotes the person's long position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,146,457,000 shares) of the Company as at 31 December 2017.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,191,900,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 55.53% of the total issued share capital in the Company.

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

(ii) Interest in associated corporations of the Company

Name of Directors	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Mr. Zheng Yaonan	Harmonious Composition Investment Holdings Limited	Interest of controlled company	615,840	64.59%
Mr. Zhang Shengfeng	Harmonious Composition Investment Holdings Limited	Interest of controlled company	177,125	18.58%
Mr. Lin Zonghong	Harmonious Composition Investment Holdings Limited	Interest of controlled company	128,743	13.50%
Mr. Cheng Zuming	Harmonious Composition Investment Holdings Limited	Interest of controlled company	31,707	3.33%

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive officers of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the following shareholders (other than the Directors and chief executive officers) were interested, directly or indirectly, in 5% or more of the number of issued shares and the underlying shares of the Company and those interests were required to be recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Forever Flourish International Holdings Limited[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Forever Shine Holdings Limited[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Great Brilliant Investment Holdings Limited[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Harmonious Composition Investment Holdings Limited[2]	Interests held jointly with another person; beneficial interest	1,191,900,678 (L)	55.53% (L)
Mountain Dragon Investment Limited[2]	Interests held jointly with another person; interest of controlled company	1,191,900,678 (L)	55.53% (L)
Ms. Cai Jingqin[3]	Interest of spouse	1,191,900,678 (L)	55.53% (L)
Ms. Cai Shaoru[4]	Interest of spouse	1,191,900,678 (L)	55.53% (L)
Fosun International Holdings Limited[5]	Interest of controlled company	240,000,000 (L)	11.18% (L)
Fosun International Limited[5]	Interest of controlled company	240,000,000 (L)	11.18% (L)
Fosun Ruizhe Grace Investments Limited[5]	Beneficial interest	240,000,000 (L)	11.18% (L)
Guo Guangchang[5]	Interest of controlled company	240,000,000 (L)	11.18% (L)
Prime Capital Management Company Limited	Beneficial owner	184,083,558 (L)	8.58% (L)
Morgan Stanley[6]	Interest of controlled company; interests held jointly with another person	151,206,433 (L) 151,237,431 (S)	7.04% (L) 7.04% (S)

Name	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Capital Today Investment XVIII (HK) Limited[7]	Beneficial owner	133,156,000 (L)	6.20% (L)
Capital Today Investment XVIII Limited[7]	Interest of controlled company	133,156,000 (L)	6.20% (L)
Capital Today China Growth Fund, LP[7]	Interest of controlled company	133,156,000 (L)	6.20% (L)
Capital Today China Growth GenPar, LTD[7]	Interest of controlled company	133,156,000 (L)	6.20% (L)
Capital Today Partners Limited[7]	Interest of controlled company	133,156,000 (L)	6.20% (L)
Ms. Xu Xin[7]	Interest of controlled company	133,156,000 (L)	6.20% (L)

Notes:

(1) The letter "L" denotes the person's long position in the shares and the letter "S" denotes the person's short position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,146,457,000 shares) of the Company as at 31 December 2017.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,191,900,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 55.53% of the total issued share capital in the Company.

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

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

(5) Pursuant to the subscription agreement entered into between the Company and Fosun Ruizhe Grace Investments Limited on 5 May 2017, Fosun Ruizhe Grace Investments Limited, an indirect wholly-owned subsidiary of Fosun International Limited subscribed and paid for 240,000,000 shares at the subscription price of HK$2.50 per share, which was completed on 17 May 2017. Each of Mr. Guo Guangchang, Fosun International Holdings Limited and Fosun International Limited were deemed to be interested in the 240,000,000 shares of the Company held by Fosun Ruizhe Grace Investments Limited because Fosun Ruizhe Grace Investments Limited is an indirect wholly-owned subsidiary of Fosun International Limited. Fosun International Limited is indirectly owned as to 71.76% by Fosun International Holdings Limited, which is owned as to 64.45% by Mr. Guo Guangchang.

(6) Morgan Stanley was deemed to have a long position in 151,206,433 shares and a short position in 151,237,431 shares in total by virtue of its control over the following corporations:

(a) Morgan Stanley had a long position in 105,484,000 shares.

(b) Morgan Stanley & Co. International plc (Morgan Stanley's indirect subsidiary) had a long position in 38,373,070 shares and a short position in 151,237,431 shares.

(c) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 6,921,363 shares.

(d) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a long position in 428,000 shares.

In addition, the long position in 10,256,000 shares and short position in 54,662,867 shares involved cash settled derivatives (off exchange).

(7) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing approximately 6.20% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, LP, an exempted limited partnership registered in the Cayman Islands, holds approximately 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, LP is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, approximately 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. Xu Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, LP, Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. Xu Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing approximately 6.20% of the total issued share capital of the Company.

Save as disclosed above, as at 31 December 2017, the Directors of the Company were not aware of any person (other than the Directors and chief executive officers) who had, directly or indirectly, interest or short positions in shares and underlying shares of the Company and those interests or short positions were required to be recorded in the register kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 9 June 2014 (the "Share Option Scheme"), 79,100,000 options were granted during the year ended 31 December 2017, and 75,000,000 options were outstanding, representing approximately 3.5% of the total number of issued shares of the Company as at 31 December 2017.

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The maximum number of shares available for issuance under the Share Option Scheme is 190,645,700 shares, which are not more than 10% of the total number of issued shares of the Company as at the date of the approval of the Share Option Scheme, and represents approximately 8.9% of the total number of issued shares of the Company as at the date of this report.

(d) Maximum entitlement of each participants

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

(e) Acceptance of an offer of options

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

(f) Performance target and minimum holding period

Subject to such terms and conditions as the Board may determine, there is no minimum period for which an option must be held before it can be exercised and certain performance targets need to be achieved by the grantees before vesting and exercise of the options.

(g) Basis of determining the exercise price

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

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

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

(iii) the nominal value of a share.

(h) The remaining life of the Share Option Scheme

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

During the year ended 31 December 2017, the movements of the options which has been granted under the Share Option Scheme were as follows:

Category and name of participant	Date of grant	Exercise price per share *(HK$)*	Exercisable period[1]	Number of Options: Balance as at 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year[2]	Balance as at 31 December 2017
Directors								
Mr. Zheng Yaonan	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	2,100,000	–	–	2,100,000
Mr. Zhang Shengfeng	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	2,100,000	–	–	2,100,000
Mr. Lin Zonghong	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	2,100,000	–	–	2,100,000
Mr. Cheng Zuming	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	2,100,000			2,100,000
Ms. Wu Xiaoli	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	2,100,000	–	–	2,100,000
Total for Directors				–	10,500,000	–	–	10,500.000
Employees								
Employees of the Group	31 October 2017	3.288	31 October 2018 to 30 October 2027	–	68,600,000	–	(4,100,000)	64,500,000
Total for Employees of the Group				–	68,600,000	–	(4,100,000)	64,500,000
Total for all categories				**–**	**79,100,000**	**–**	**(4,100,000)**	**75,000,000**

Notes:

1. Subject to the terms of the Share Option Scheme, the options granted to each holder of the options are valid for a period of from the date of grant and shall be valid in five tranches in accordance with the following vesting dates:

   (a) 10% of the options shall be vested and exercisable from the first anniversary date of the date of grant (i.e. 31 October 2018);

   (b) 15% of the options shall be vested and exercisable from the second anniversary date of the date of grant (i.e. 31 October 2019);

   (c) 20% of the options shall be vested and exercisable from the third anniversary date of the date of grant (i.e. 31 October 2020);

   (d) 25% of the options shall be vested and exercisable from the fourth anniversary date of the date of grant (i.e. 31 October 2021); and

   (e) 30% of the options shall be vested and exercisable from the fifth anniversary date of the date of grant (i.e. 31 October 2022)

2. This refers to the options lapsed due to cessation of employment.

Save as disclosed above, no other options under the Share Option Scheme were outstanding at the beginning or at the end of the year ended 31 December 2017, and no other options were granted, exercised, cancelled or lapsed at any time during the year.

SHARE AWARD SCHEME

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

As at 31 December 2017, a total of 7,518,000 shares have been purchased from the open market and no shares have been granted to the selected participant of the Group under the Share Award Scheme.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of this year.

DEED OF NON-COMPETITION

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

During 2017, the Controlling Shareholders provided the Company with all information necessary for the enforcement of the Company's rights under the Deed of Non-competition, all information reasonably requested by the Company from time to time relating to the Excluded Businesses (as defined in the Deed of Non-competition) and such other business opportunities or activities related to any business of the Group as the Company reasonably believed was available to the Controlling Shareholders or that the Controlling Shareholders may be planning to participate in, as well as access to appropriate staff members of the Controlling Shareholders to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the Deed of Non-competition.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this annual report, there had been no transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity connected with the Director (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, were entered into during the year ended 31 December 2017 or subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTION

Pursuant to an agreement dated 23 June 2017 entered into between a wholly-owned subsidiary of the Company and Guangdong Zhengji Innovative Industrial Park Development Company Limited ("Guangdong Zhengji"), a company owned as to 90% by Mr. Zheng Yaonan, the chairman, chief executive officer, an executive Director and a controlling shareholder of the Company, the Group disposed 95% of the equity interest of Cosmo Lady Guangdong Intelligent Industry Investment Company Limited, which owns the land use right of a parcel of land located in the PRC, to Guangdong Zhengji at the appraised value of RMB10,809,100. For details of the transaction, please refer to Note 16 in the consolidated financial statements and the announcement dated 23 June 2017.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2017, the Group has entered into the following continuing connected transactions, details of which are set out below:

1. Framework purchase agreement with Shantou City Shengqiang Knitting Industrial Co., Ltd. ("Shantou Shengqiang")

	2017 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Shengqiang	**30,000**	20,819

Mr. Cai Shaoqiang (a brother of one of the executive Directors, Mr. Zhang Shengfeng's spouse), together with his wife, in aggregate, own the entire equity interest in Shantou Shengqiang and hence Shantou Shengqiang is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Zhang Shengfeng and a connected person of the Group.

2. Framework purchase agreement with Shantou City Maosheng Knitting Underwear Co., Ltd. ("Shantou Maosheng")

	2017 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Maosheng	**25,000**	8,089

Mr. Lin Zonglie, a brother of Mr. Lin Zonghong (an executive Director), owns 60% of the equity interest in Shantou Maosheng and hence Shantou Maosheng is an associate (as defined under Chapter 14A of the Listing Rules) of Mr. Lin Zonghong and a connected person of the Group.

REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

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

a. in the ordinary and usual course of business of the Group;

b. on normal commercial terms or better; and

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

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to perform certain procedures in respect of the continuing connected transactions set out above in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in Note 39 to the consolidated financial statements. The related party transactions disclosed also constitute the connected transaction and continuing connected transactions disclosed in accordance with Chapter 14A of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group commits to comply with the relevant laws and regulations including, inter alia, the Companies Ordinance, the Listing Rules, and other applicable local laws and regulations in various jurisdictions in which it operates. During the year ended 31 December 2017 and up to the date of this report, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RETIREMENT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the People's Republic of China and Hong Kong. Particulars of the retirement benefit schemes are set out in Note 2.22 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2017 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

SUBSEQUENT EVENTS

On 7 February 2018, a wholly-owned subsidiary of the Company has entered into main terms for a non-legally binding cooperation agreement with a wholly-owned subsidiary of JD. Com. Inc. and Mr. Li Guocheng to establish a cooperation fund, which is primarily used for industry mergers and acquisitions and consolidation of resources which are suitable to the business of the Group. The main investment targets of the cooperation fund are domestic and foreign companies engaged in intimate wear brands, upstream and downstream and related peripheral industry. The size of the cooperation fund is estimated to be RMB1 billion and will be expanded based on the actual need in the future. The establishment of the cooperation fund is in progress and is expected to be completed in the second quarter of 2018.

On 21 March 2018, Cosmo Lady (Tianjin) E-commerce Company Limited ("Cosmo Lady (Tianjin)"), a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Kappa Sporting Goods Co., Ltd., a wholly-owned subsidiary of China Dongxiang (Group) Co., Ltd., in relation to the establishment of a joint venture ("JV") company, held as to 75% by Cosmo Lady (Tianjin). The principal business of the JV company will be online sales of men's intimate wear and women's sports underwear, and the JV company is authorized to use the "Kappa" trademarks on its bras, underpants, loungewear and socks for a contract term of 5 years, to be extended automatically for another 3 years.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2018 AGM of the Company.

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

Hong Kong, 22 March 2018

Independent Auditor's Report

pwc 羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 125, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on carrying value of inventories Refer to note 4(a) (Critical accounting estimates and judgements) and note 25 (Inventories) to the consolidated financial statements. As at 31 December 2017, the Group's gross inventories and provision for impairment of inventories amounted to RMB1,176 million and RMB64 million, respectively. As described in the Accounting Policies in note 2.13 to the consolidated financial statements, inventories are carried at lower of cost and net realisable value. As a result, the directors consistently apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of off-season inventories, net realisable value below cost based upon plans for clearance sales and inventories loss based upon turnover rate. The estimations used in applying this methodology are subject to uncertainty and judgement by directors as a result of changes in economic condition and customer needs.	We assess the appropriateness of management's assumptions applied in calculating the value of the inventories provisions by, amongst others: • evaluated the outcome of management's estimations in prior years, level of inventories write-off during the year in relation to stock loss, analysis and assessment made by management with respect to off-season and slow-moving inventories. • tested the accuracy of the season-by-season inventories and slow moving inventories analysis and performed analytics on stock holding and movement data to identify product lines with indicators of low turnover or slow moving. • met with marketing team of the Group to validate the assumptions applied by management in the underlying sales forecasts by category to assess the completeness of provisions for obsolescence. • compared the net realisable value, obtained through the sales subsequent to the year-end, to the cost of inventories to check for completeness of the associated provision. • recalculated the inventories provisions as at 31 December 2017. We found that management's assessment of the provision for obsolete or slow moving inventory was supported by the available audit evidence.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of provision for trade receivables Refer to note 4(b) (Critical accounting estimates and judgements) and note 26 (Trade receivables) to the consolidated financial statements. As at 31 December 2017, the Group's gross trade receivables and provision for impairment of trade receivables amounted to RMB557 million and RMB2 million, respectively. Certain customers of the Group may have a slower settlement pattern and may settle after the contractual credit period. Management performed periodic credit monitoring, which included the assessment of customers' credit worthiness, status of collection of outstanding balances and individual credit terms. If there is indicator that the receivables are impaired, management would make specific provision against individual balances with reference to the recoverable amount.	We assess the appropriateness of management's assumptions applied in calculating the provision for impairment of trade receivables by, amongst others: • understood and validated the credit control procedures performed by management, including its procedures on periodic review on aged receivables and assessment on recoverability of these receivables. • tested the accuracy of the aging profile of trade receivables. • assessed the aging profile on trade receivables, focusing on the aged receivables for which no provision had been made. • tested the subsequent settlement of the balance of trade receivables. • enquired management in respect of the unsettled balance on the reasons for the delay in collection of these receivables, if actions had been taken in recovering the long outstanding receivables, and assessed if additional provision should be made. We found that management's assessment of the provision for trade receivables was supported by the available audit evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Kit Yi, Kitty.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	*6*	**4,542,483**	4,512,385
Cost of sales	*9*	**(2,577,960)**	(2,510,348)
Gross profit		**1,964,523**	2,002,037
Selling and marketing expenses	*9*	**(1,337,868)**	(1,434,758)
General and administrative expenses	*9*	**(261,525)**	(312,619)
Other income	*7*	**55,354**	50,087
Other (losses)/gains – net	*8*	**(919)**	702
Operating profit		**419,565**	305,449
Finance income	*12*	**18,763**	22,707
Finance expense	*12*	**(11,564)**	(4,412)
Finance income – net	*12*	**7,199**	18,295
Share of loss of an associate		**(1,493)**	–
Profit before income tax		**425,271**	323,744
Income tax expense	*13*	**(108,269)**	(81,783)
Profit for the year		**317,002**	241,961
Other comprehensive income for the year			
(Items that may be reclassified subsequently to profit or loss)			
Exchange differences		**(18,035)**	1,925
Total comprehensive income for the year		**298,967**	243,886
Profit attributable to equity holders of the Company		**317,002**	241,961
Total comprehensive income attributable to equity holders of the Company		**298,967**	243,886
Earnings per share		**RMB cents**	RMB cents
Basic and diluted	*14*	**15.45**	12.70

The notes on pages 61 to 125 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*17*	**565,009**	545,646
Land use rights	*18*	**87,311**	89,391
Intangible assets	*19*	**45,390**	39,449
Investment in a joint venture	*20*	**19,900**	1,990
Investment in an associate	*20*	**2,507**	–
Available-for-sale financial assets	*21*	**23,100**	18,600
Deposits, prepayments and other receivables	*22*	**8,637**	25,815
Deferred income tax assets	*23*	**55,230**	39,209
		807,084	760,100
Current assets			
Inventories	*25*	**1,111,959**	1,150,679
Trade receivables	*26*	**554,279**	451,230
Loan to a third party	*24*	**–**	105,000
Deposits, prepayments and other receivables	*22*	**539,624**	503,199
Financial asset at fair value through profit or loss	*27*	**8,408**	–
Term deposits and restricted bank deposits	*28*	**109,855**	9,645
Cash and cash equivalents	*28*	**1,405,285**	799,533
		3,729,410	3,019,286
Total assets		**4,536,494**	3,779,386

Consolidated Balance Sheet

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	*29*	133,792	117,320
Share premium	*29*	1,603,035	1,254,574
Other reserves	*30*	275,445	260,929
Retained earnings		1,343,841	1,061,006
Total equity		3,356,113	2,693,829
Liabilities			
Current liabilities			
Trade payables	*32*	583,568	554,254
Accruals and other payables	*33*	305,257	305,614
Current income tax liabilities		48,649	24,088
Borrowings	*34*	11,820	–
Deferred income	*35*	2,958	–
		952,252	883,956
Non-current liabilities			
Borrowings	*34*	211,260	200,000
Deferred income tax liabilities	*23*	1,424	1,601
Deferred income	*35*	15,445	–
		228,129	201,601
Total liabilities		1,180,381	1,085,557
Total equity and liabilities		4,536,494	3,779,386

The notes on pages 61 to 125 are integral parts of these consolidated financial statements.

Zheng Yaonan
Director

Zhang Shengfeng
Director

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Share capital RMB'000 *(Note 29)*	**Share premium** RMB'000 *(Note 29)*	**Other reserves** RMB'000 *(Note 30)*	**Retained earnings** RMB'000	**Total equity** RMB'000
As at 1 January 2017	117,320	1,254,574	260,929	1,061,006	2,693,829
Comprehensive income					
Profit for the year	–	–	–	317,002	317,002
Other comprehensive income					
Exchange differences	–	–	(18,035)	–	(18,035)
Total comprehensive income for the year	–	–	(18,035)	317,002	298,967
Transactions with equity holders					
Proceeds from share issued	16,472	511,978	–	–	528,450
Equity-settled share-based compensation *(Note 31)*	–	–	3,049	–	3,049
Shares purchased for share award scheme *(Note 30(d))*	–	–	(4,665)	–	(4,665)
Dividends paid	–	(163,517)	–	–	(163,517)
Total transaction with equity holders	16,472	348,461	(1,616)	–	363,317
Appropriation to statutory reserves	–	–	34,167	(34,167)	–
As at 31 December 2017	133,792	1,603,035	275,445	1,343,841	3,356,113
As at 1 January 2016	117,320	1,431,994	244,196	845,352	2,638,862
Comprehensive income					
Profit for the year	–	–	–	241,961	241,961
Other comprehensive income					
Exchange differences	–	–	1,925	–	1,925
Total comprehensive income for the year	–	–	1,925	241,961	243,886
Transactions with equity holders					
Equity-settled share-based compensation *(Note 31)*	–	–	3,373	–	3,373
Shares purchased for share award scheme *(Note 30(d))*	–	–	(14,872)	–	(14,872)
Dividends paid	–	(177,420)	–	–	(177,420)
Total transaction with equity holders	–	(177,420)	(11,499)	–	(188,919)
Appropriation to statutory reserves	–	–	26,307	(26,307)	–
As at 31 December 2016	117,320	1,254,574	260,929	1,061,006	2,693,829

The notes on pages 61 to 125 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended 31 December	
	Note	**2017** **RMB'000**	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	*36(a)*	**446,733**	122,993
Income tax paid		**(99,906)**	(129,923)
Net cash generated from/(used in) operating activities		**346,827**	(6,930)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*36(b)*	**561**	4,564
Interest received		**25,971**	18,044
Payment for an available-for-sale financial asset		**(4,000)**	–
Purchases of property, plant and equipment		**(98,436)**	(162,379)
Purchases of intangible assets		**(6,323)**	(5,518)
Capital contribution to a joint venture		**(9,055)**	–
Capital contribution to an associate		**(4,000)**	–
Term deposits with initial term of over three months		**(100,210)**	(210)
Repayment of loan by a third party	*24*	**105,000**	–
Payments to a business combination		**–**	(5,000)
Net cash used in investing activities		**(90,492)**	(150,499)
Cash flows from financing activities			
Payments for purchase of the Company's shares for share award scheme		**(4,665)**	(14,872)
Proceeds from shares issued	*29*	**528,450**	–
Proceeds from borrowings		**30,000**	200,000
Repayments of borrowings		**(6,920)**	–
Interest paid for borrowings		**(11,564)**	(4,412)
Dividends paid		**(163,517)**	(177,420)
Net cash generated from financing activities		**371,784**	3,296
Net increase/(decrease) in cash and cash equivalents		**628,119**	(154,133)
Cash and cash equivalents at beginning of the year	*28*	**799,533**	950,639
Effect of foreign exchange rate changes		**(22,367)**	3,027
Cash and cash equivalents at end of the year	*28*	**1,405,285**	799,533

The notes on pages 61 to 125 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Company's board of directors (the "Board") on 22 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) Effect of adopting amendments to standards

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning 1 January 2017. The adoption of these amendments to standards does not have any significant impact to the results or financial position of the Group.

IAS 7	Statement of Cash Flows
IAS 12	Income Taxes
IFRS 12	Disclosure of Interest in Other Entities

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments'

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

IFRS 15, 'Revenue from contracts with customers'

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

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

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

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

IFRS 16, 'Leases'

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. There is no significant change for the accounting for lessors.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB498,733,000 (Note 38(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting

(a) *Subsidiaries*

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(b) *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the statement of profit or loss.

(c) *Joint arrangements*

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

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

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

(e) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.3 Separate financial statements

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

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

2.4 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The function currency of the Company is Hong Kong dollar ("HK$"). The Company's subsidiaries incorporated and operated in the PRC consider their functional currency to be RMB. As the major operations of the Group are within the PRC, the Group determined to present its financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

(c) Group companies

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

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

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within"other losses/gains – net" in the profit or loss.

2.7 Land use rights

Land use rights represent upfront prepayments made for the land use rights at historical cost, and are expensed in the profit or loss on a straight-line basis over the terms of the leases. Whenever there is impairment, the impairment is recognized in the profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) Acquired trademark

Separately acquired trademarks is shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Amortization of trademark that has a finite useful life is calculated using the straight-line method to allocate the costs of acquired trademark over its estimated useful life of 10 years. It is subsequently carried at cost less accumulated amortisation and impairment losses.

(b) Computer software

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

(c) Goodwill

Goodwill is measured as described in Note 2.9. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets

Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(a) Financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise, they are presented as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables and cash and cash equivalents.

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses.

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income.

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

2.11 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortized cost

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

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

Impairment testing of trade receivables is described in Note 26.

(b) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Inventories

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

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

2.14 Trade and other receivables

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

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

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

2.16 Restricted bank deposits

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

2.17 Share capital

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

2.18 Trade and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Borrowings

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

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

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

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

2.20 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

Borrowing costs include interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

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

(b) Deferred income tax

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

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits

(a) *Pension obligations*

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

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

(b) *Termination benefits*

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

(c) *Housing funds, medical insurances and other social insurances*

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

(d) *Bonus entitlements*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

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

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a special period of time).

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

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

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

(b) Shares held for the 2016 Share Award Scheme

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Share-based payments (Continued)

(c) Employee options

The fair value of options granted under the Company Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself and the charges are treated as cash-settled transactions.

The Employee Option Plan is administered by the Company Employee Share Trust, which is consolidated in accordance with the principles in Note 2.2. When the options are exercised, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

(d) Share-based payment transactions among group entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Provisions

Provisions for restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

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

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

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

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

2.25 Operating leases – as leasee

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

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(a) *Sales of goods – sales to franchisees*

Timing of recognition: The Group sells intimate wear products in the wholesale market. Sales are recognised when products are delivered to the franchisees, the franchisees has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the franchisees' acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the franchisees, and either the franchisees has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Measurement of revenue: The goods are often sold with volume discounts and customers have a right to return faulty products in the wholesale market. Revenue from sales is based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated seasonal products purchases. No element of financing is deemed present as the sales are made with a credit term of 60 to 90 days, which is consistent with market practice.

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

Timing of recognition: The Group operates a chain of retail stores and uses third party e-commerce platforms selling intimate wear products. Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

Measurement of revenue: It is the Group's policy to sell its products to the end customer which is usually at the time a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(c) *Franchise fee and software usage fee income*

Timing of recognition: Revenue from franchise fee and software usage fee income is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

Measurement of revenue: Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(d) Logistic warehousing and delivery income

Timing of recognition: Revenue from logistic warehousing and delivery services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

Measurement of revenue: Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(e) Other services income

Timing of recognition: Revenue from other services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method).

Measurement of revenue: Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2.27 Interest income

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

2.28 Dividend distribution

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

2.29 Government grants

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

Note 7 provides further information on how the Group accounts for government grants.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's recognized assets and liabilities in the consolidated balance sheet as at 31 December 2017 are denominated in the respective group companies' functional currencies.

(b) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (other than loan to a third party, bank balances and cash, details of which have been disclosed in Notes 24 and 28), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 34. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. The Group's borrowings were carried at fixed rates and does not expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure against interest-rate risks.

(c) Price risk

Except for the investments held by the Group and classified on the consolidated balance sheet as available-for-sale financial assets of RMB23,100,000 (2016: RMB18,600,000), the Group is not exposed to any equity securities price risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Credit risk

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

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

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

In respect of loan to a third party, which was secured by a joint guarantee provided by two shareholders of Shanghai Ordifen Company Limited ("Shanghai Ordifen") and a charge over parcel of land and the related building in Shanghai, was repaid in March 2017.

The Group also has policies in place to ensure that bank balances, term deposits and restricted bank deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions. As at 31 December 2017, the bank balances, term deposits and restricted bank deposits with banks as detailed in Note 28 are held in the following banks in the PRC and Hong Kong:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Top-four major state-owned banks in the PRC/Hong Kong	**646,227**	463,079
Listed state-owned banks in the PRC/Hong Kong	**613,336**	168,771
Other regional banks in the PRC	**255,247**	177,091
	1,514,810	808,941

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(e) Liquidity risk

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

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

As at 31 December 2017, the Group has borrowings of RMB11,820,000 (Note 34) (2016: Nil) that are due for settlement contractually within 12 months, and the contractual undiscounted cash outflow of the Group's financial liabilities approximates their carrying amounts included in the consolidated balance sheet.

3.2 Capital risk management

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

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

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

As at 31 December 2017, the Group has a net cash position and the aggregate balances of bank deposits, cash and cash equivalents and liquid investment exceeded the balance of bank loans by approximately RMB1,300,468,000 (2016: RMB609,178,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

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

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

As at 31 December 2017, except for the available-for-sale financial assets of RMB23,100,000 (2016: RMB18,600,000) and financial assets at fair value through profit or loss of RMB8,408,000 (2016: Nil) were measured at level 3 and level 1 fair value respectively, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Analysis of level 3 and level 1 financial instruments for the year ended 31 December 2017 are as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000 *(Note)*	Total
Financial assets at fair value through profit or loss	8,408	–	–	8,408
Available-for-sale financial assets	–	–	23,100	23,100
At 31 December 2017	8,408	–	23,100	31,508
At 31 December 2016	–	–	18,600	18,600

Note: the changes in level 3 items are as follows:

	Unlisted equity investments RMB'000
Closing balance 31 December 2016	18,600
Addition	4,500
Closing balance 31 December 2017	23,100

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transaction on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

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

The following significant unobservable inputs have been applied in the discounted cash flow calculations in determining the fair value of the Group's available-for-sale financial assets as at 31 December 2017:

Five entities engaging in the manufacturing of intimate wear in the PRC	
Discount rate	15%
Long term revenue growth rates	3%
Long term profit margins	3% – 16%
Discount for lack of marketability	30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Net realizable value of inventories

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

(b) Impairment of trade receivables

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

5 SEGMENT INFORMATION

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

The Group is principally engaged in designing, marketing and selling of intimate wear products. Substantially all of its revenue are derived in the PRC.

For the year ended 31 December 2017, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2016: None).

6 REVENUE

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Sales to franchisees	**2,433,468**	2,520,238
Retail sales	**1,566,039**	1,679,518
E-commerce	**542,976**	312,629
	4,542,483	4,512,385

7 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants *(Note (a))*	**40,349**	31,083
Logistic warehousing and delivery income	**3,100**	–
Software usage fee income	**1,833**	2,248
Franchise fee income	**922**	984
Service fee income *(Note (b))*	**–**	2,011
Others	**9,150**	13,761
	55,354	50,087

Notes:

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 2.29 for further details.

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

8 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net foreign exchange (losses)/gains	**(4,332)**	1,093
Fair value gains on financial asset at fair value through profit or loss *(Note 27)*	**2,606**	–
Others	**807**	(391)
	(919)	702

9 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Costs of inventories recognized in cost of sales	**2,511,457**	2,407,080
Employee benefit expenses (including Directors' emoluments) *(Note 10)*	**506,845**	557,974
Operating lease rentals in respect of land and buildings (including variable rentals of RMB462,801,000 (2016: RMB465,263,000)) *(Note (a))*	**479,934**	527,687
Other operating rental expenses	**30,664**	45,883
Marketing and promotion expenses	**133,255**	117,459
Depreciation and amortization *(Notes 17, 18 and 19)*	**81,654**	88,220
E-commerce platforms commission expenses	**74,003**	53,376
Logistic warehousing and delivery expenses	**48,475**	49,936
Write-down of inventories *(Note 25)*	**19,574**	46,877
Government charges and levies	**35,927**	39,096
Utilities expenses	**30,981**	34,858
Travelling expenses	**30,676**	32,929
Consumables recognized in expenses	**23,682**	29,206
Consulting service expenses	**17,219**	9,009
Auditor's remuneration		
– Audit services	**3,380**	3,380
– Non-audit services	**347**	286
Provision for impairment of other receivable *(Note 22)*	**3,326**	2,829
Provision for impairment of trade receivables *(Note 26)*	**393**	1,628
Miscellaneous	**145,561**	210,012
Total cost of sales, selling and marketing expenses and general and administrative expenses	**4,177,353**	4,257,725

Notes:

(a) Revenue in respect of the retail outlets under variable rentals arrangement with minimum commitment amounted to RMB1,528,153,000 for the year ended 31 December 2017 (2016: RMB1,534,358,000).

10 EMPLOYEE BENEFIT EXPENSES

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**448,680**	493,498
Pension costs – defined contribution plans	**42,523**	47,169
Welfare and allowance	**12,593**	13,934
Equity-settled share-based compensation *(Note 31)*	**3,049**	3,373
	506,845	557,974

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

(a) Benefits and interests of Directors

Directors' and chief executive's emoluments for the year ended 31 December 2017 are set out below:

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Zheng Yaonan *(Note)*	–	818	45	863
Mr. Zhang Shengfeng	–	691	45	736
Mr. Lin Zonghong	–	691	45	736
Mr. Cheng Zuming	–	691	43	734
Ms. Wu Xiaoli	–	263	45	308
Non-executive Directors				
Mr. Wen Baoma	–	50	–	50
Mr. Yang Weiqiang	–	–	–	–
Independent Non-executive Directors				
Dr. Dai Yiyi	150	–	–	150
Mr. Chen Zhigang	120	–	–	120
Mr. Yau Chiming	167	–	–	167
Dr. Lu Hongte	56	–	–	56
	493	3,204	223	3,920

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

(a) Benefits and interests of Directors (Continued)

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

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Zheng Yaonan(Note)	–	982	45	1,027
Mr. Zhang Shengfeng	–	667	45	712
Mr. Lin Zonghong	–	667	45	712
Mr. Cheng Zuming	–	667	43	710
Ms. Wu Xiaoli	–	629	45	674
Non-executive Director				
Mr. Wen Baoma	–	50	–	50
Independent Non-executive Directors				
Dr. Dai Yiyi	150	–	–	150
Mr. Chen Zhigang	120	–	–	120
Mr. Yau Chiming	179	–	–	179
	449	3,662	223	4,334

Note: Mr. Zheng Yaonan is also the chief executive officer of the Group.

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

(a) Benefits and interests of Directors (Continued)

Mr. Yang Weiqiang and Dr. Lu Hongte have been appointed as a non-executive Director and an independent non-executive Director of the Company respectively with effect from 17 August 2017.

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

No retirement benefits were paid to or receivable by any Directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: Nil).

No payment was made to Directors as compensation for the early termination of the appointment during the year (2016: Nil).

No payment was made to the former employer of Directors for making available the services of them as a Director of the Company (2016: Nil).

There are no loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors during the year (2016: Nil).

Except for those disclosed in Note 39, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one Director (2016: 3), whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2016: 2) during the year are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**4,439**	2,641
Pension costs – defined contribution plans	**319**	141
Equity-settled share-based compensation	**521**	832
	5,279	3,614

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

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Year ended 31 December	
	2017 **Number of individual**	2016 Number of individual
Emolument bands:		
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1

During the year, no Director or none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2016: Nil).

(c) Senior management remuneration by band

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

	Year ended 31 December	
	2017 **Number of individual**	2016 Number of individual
Emolument bands:		
HK$0 to HK$500,000	**–**	2
HK$500,001 to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1

12 FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income		
Interest income on available-for-sale financial assets	**12,228**	11,387
Interest income on loan to a third party *(Note 24)*	**1,713**	9,300
Interest income on short-term bank deposits	**4,822**	2,020
	18,763	22,707
Finance expense		
Interest expense on bank borrowings	**(11,564)**	(4,412)
	7,199	18,295

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**124,467**	90,851
	124,467	90,851
Deferred income tax *(Note 23)*	**(16,198)**	(9,068)
Income tax expense	**108,269**	81,783

13 INCOME TAX EXPENSE (Continued)

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2017 (2016: 16.5%).

(b) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2017 (2016: 25%), based on the existing legislation, interpretations and practices in respect thereof.

(c) Overseas income tax

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

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit before income tax	**425,271**	323,744
Tax calculated at statutory tax rates applicable to each group entity *(Note)*	**104,338**	78,284
Tax losses for which no deferred income tax asset was recognised	**9,301**	4,137
Income not subject to taxation	**(13,600)**	(8,734)
Expenses not deductible for tax purposes	**4,563**	4,134
Withholding tax	**3,667**	3,962
Income tax expense	**108,269**	81,783

Note: The weighted average applicable tax rate for the year is 25.5% (2016: 25.3%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

14 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2017	2016
Profit for the year attributable to equity holders of the Company (RMB'000)	**317,002**	241,961
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	**2,051,303**	1,904,482
Basic earnings per share (RMB cents per share)	**15.45**	12.70

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2017 has been adjusted for the effects of the issuance of new shares on 17 May 2017 and the effects of purchase and withholding of the ordinary shares of the Company for the share award scheme which took place on 30 November 2017 and 7 December 2017.

Diluted

For the year ended 31 December 2017, diluted earnings per share is the same as the basic earnings per share as the share options granted by the Company had anti-dilutive effect to the Group (2016: Nil).

15 DIVIDENDS

At a meeting held on 22 March 2018, the Directors recommended a final dividend of HK3.34 cents (equivalent to approximately RMB2.70 cents) per ordinary share of the Company, totalling approximately HK$71,692,000 (equivalent to approximately RMB57,954,000) for the year ended 31 December 2017. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements for the year ended 31 December 2017, but will be reflected as an appropriation for the year ending 31 December 2018.

At a meeting held on 21 August 2017, the Board recommended an interim dividend of HK2.58 cents (equivalent to approximately RMB2.20 cents) per ordinary share of the Company, totalling approximately HK$55,378,000 (equivalent to approximately RMB47,246,000) for the six months ended 30 June 2017 (2016: Nil). which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2017.

At the annual general meeting held on 19 May 2017, the shareholders approved a final dividend of HK6.21 cents (equivalent to approximately RMB5.49 cents) per ordinary share of the Company, totalling approximately HK$133,294,000 (equivalent to approximately RMB117,827,000) for the year ended 31 December 2016, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2017.

16 DISPOSAL OF SUBSIDIARY

On 23 June 2017, the Group disposed of 95% equity interest in Cosmo Lady Guangdong Intelligent Industry Investment Co., Ltd. ("CLGIII"), which was engaged in property investment, to Guangdong Zhengji Innovative Industrial Park Development Co., Ltd. ("Guangdong Zhengji"), for a consideration of RMB10,809,100.

Assets and liabilities related to CLGIII at the disposal date are summarised as below:

	As at 31 December 2017 RMB'000
Property, plant and equipment	263
Land use rights	48,640
Deposits, prepayments and other receivables	14,360
Cash and cash equivalents	354
Accruals and other payables *(Note)*	(53,690)
Net assets	9,927
95% of carrying amount of net assets	9,431
Settlement through current account	10,809
Gain on disposal of subsidiaries	1,378

Note: Payable amount of RMB3,200,000 relating to the Group has been settled subsequently.

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture, fittings and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016							
Cost	305,598	89,106	49,520	90,967	4,727	45,711	585,629
Accumulated depreciation	(33,960)	(51,503)	(14,369)	(33,215)	(3,583)	–	(136,630)
Net book amount	271,638	37,603	35,151	57,752	1,144	45,711	448,999
Year ended 31 December 2016							
Opening net book amount	271,638	37,603	35,151	57,752	1,144	45,711	448,999
Additions	154	44,242	1,758	19,315	696	113,819	179,984
Disposals	(7)	–	(998)	(3,942)	(8)	–	(4,955)
Depreciation *(Note 9)*	(14,538)	(34,965)	(6,714)	(21,756)	(409)	–	(78,382)
Closing net book amount	257,247	46,880	29,197	51,369	1,423	159,530	545,646
At 31 December 2016							
Cost	305,745	133,348	50,280	106,340	5,415	159,530	760,658
Accumulated depreciation	(48,498)	(86,468)	(21,083)	(54,971)	(3,992)	–	(215,012)
Net book amount	257,247	46,880	29,197	51,369	1,423	159,530	545,646
Year ended 31 December 2017							
Opening net book amount	257,247	46,880	29,197	51,369	1,423	159,530	545,646
Additions	258	23,068	8,485	23,292	342	38,762	94,207
Transfer	139,736	413	20,086	–	–	(160,235)	–
Disposals	–	–	(12)	(786)	(334)	–	(1,132)
Depreciation *(Note 9)*	(14,646)	(32,579)	(6,122)	(19,708)	(657)	–	(73,712)
Closing net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
At 31 December 2017							
Cost	445,739	156,829	78,839	128,846	5,423	38,057	853,733
Accumulated depreciation	(63,144)	(119,047)	(27,205)	(74,679)	(4,649)	–	(288,724)
Net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**1,457**	1,427
Selling and marketing expenses	**10,487**	11,469
General and administrative expenses	**61,768**	65,486
	73,712	78,382

18 LAND USE RIGHTS

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**89,391**	91,471
Amortization charge *(Note 9)*	**(2,080)**	(2,080)
At 31 December	**87,311**	89,391

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Selling and marketing expenses	**866**	866
General and administrative expenses	**1,214**	1,214
	2,080	2,080

Notes to the Consolidated Financial Statements

19 INTANGIBLE ASSETS

	Goodwill RMB'000	Acquired trademark RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2016				
Cost	2,887	10,190	46,824	59,901
Accumulated amortization	–	(1,590)	(18,201)	(19,791)
Net book amount	2,887	8,600	28,623	40,110
Year ended 31 December 2016				
Opening net book amount	2,887	8,600	28,623	40,110
Additions	–	–	7,097	7,097
Amortization charge *(Note 9)*	–	(1,020)	(6,738)	(7,758)
Closing net book amount	2,887	7,580	28,982	39,449
At 31 December 2016				
Cost	2,887	10,190	53,921	66,998
Accumulated amortization	–	(2,610)	(24,939)	(27,549)
Net book amount	2,887	7,580	28,982	39,449
Year ended 31 December 2017				
Opening net book amount	**2,887**	**7,580**	**28,982**	**39,449**
Additions	**–**	**–**	**11,803**	**11,803**
Amortization charge *(Note 9)*	**–**	**(1,028)**	**(4,834)**	**(5,862)**
Closing net book amount	**2,887**	**6,552**	**35,951**	**45,390**
At 31 December 2017				
Cost	**2,887**	**10,190**	**65,724**	**78,801**
Accumulated amortization	**–**	**(3,638)**	**(29,773)**	**(33,411)**
Net book amount	**2,887**	**6,552**	**35,951**	**45,390**

19 INTANGIBLE ASSETS (Continued)

Amortization of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income within selling and marketing expenses and general and administrative expenses of RMB1,615,000 (2016: RMB3,677,000) and RMB4,247,000 (2016: RMB4,081,000), respectively.

Impairment review on goodwill of the Group has been conducted by management as at 31 December 2017 and 31 December 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 3% (2016: not more than 3%). The growth rates used do not exceed the industry growth forecast for the market in which the Group operates. The discount rate used of 19% (2016: 19%) is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

20 INVESTMENT IN A JOINT VENTURE AND AN ASSOCIATE

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2017	2016			**2017**	2016
		%	%			**RMB'000**	RMB'000
Guangdong Dongdu Holdings Limited	PRC	**19.9**	19.9	Joint venture *(Note)*	Equity method	**19,900**	1,990
Zhong Rui Run He (Ningbo) Investment Management Company Limited	PRC	**40**	–	Associate *(Note)*	Equity method	**2,507**	–

Note: Guangdong Dongdu Holdings Limited is primarily engaged in developing an industrial center in Shaoguan, Guangdong Province. Zhong Rui Run He (Ningbo) Investment Management Company Limited is primarily engaged in investments and assets management.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Unlisted equity investments	**23,100**	18,600

During the year ended 31 December 2017, the Group acquired equity interests in one entity engaged in properties investment.

22 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Prepayments for acquisition of property, plant and equipment and intangible assets	**3,989**	12,038
Value added tax recoverable	**152,541**	169,678
Prepayments and deposits	**7,593**	21,203
Prepaid rental expenses	**260,225**	271,635
Prepayments for purchase of goods	**6,089**	32
Other receivables from suppliers	**53,591**	–
Others	**64,233**	54,428
	548,261	529,014
Less: non-current portion	**(8,637)**	(25,815)
Current portion	**539,624**	503,199

As at 31 December 2017, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

As at 31 December 2017, the Group's deposits and other receivables are fully performing under normal business terms except that certain other receivables of RMB3,326,000 (2016: 2,829,000) have been fully impaired.

23 DEFERRED INCOME TAX

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

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

	Write-down of inventories RMB'000	Provision for trade receivables RMB'000	Provision for sales return RMB'000	Deferred income RMB'000	Tax losses carried forward RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	9,496	366	938	–	2,817	16,701	30,318
Credited/(charged) to the profit or loss *(Note 13)*	6,437	407	(106)	–	12,240	(10,087)	8,891
At 31 December 2016	15,933	773	832	–	15,057	6,614	39,209
Credited/(charged) to the profit or loss *(Note 13)*	92	(162)	(227)	4,601	5,633	6,084	16,021
At 31 December 2017	**16,025**	**611**	**605**	**4,601**	**20,690**	**12,698**	**55,230**

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**12,461**	13,217
Deferred tax assets to be recovered within 12 months	**42,769**	25,992
	55,230	39,209

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

	Intangible assets	
	2017 RMB'000	2016 RMB'000
At 1 January	**1,601**	1,778
Credited to the statement of profit or loss	**(177)**	(177)
At 31 December	**1,424**	1,601

23 DEFERRED INCOME TAX (Continued)

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

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group recognised deferred income tax assets of RMB20,690,000 (2016: RMB15,057,000) in respect of tax losses amounting to RMB82,759,000 (2016: RMB60,226,000) that can be carried forward to offset against future taxable income. Tax losses of RMB47,788,000 (2016: Nil) will expire within 5 years from 31 December 2017.

As at 31 December 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,397,866,000 (2016: RMB1,130,998,000). Deferred tax liabilities of RMB139,786,000 (2016: RMB113,099,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

24 LOAN TO A THIRD PARTY

Loan to a third party of RMB105,000,000 was repaid in March 2017. It represented an entrusted loan advanced to Shanghai Ordifen, a third party, through Shenzhen branch of China Merchants Bank Co., Ltd. ("CMB"), as lending agent, pursuant to an entrusted loan entrustment agreement, entered into between a subsidiary of the Group and CMB, and an entrusted loan agreement, entered into between CMB and Shanghai Ordifen, as part of the acquisition of the business of Shanghai Ordifen in year 2015.

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

25 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	**17,922**	15,954
Work in progress	**3,532**	1,241
Finished goods	**1,154,604**	1,197,217
	1,176,058	1,214,412
Less: provision for impairment	**(64,099)**	(63,733)
	1,111,959	1,150,679

Inventories are valued at the lower of cost and estimated net realizable value. Provision is made for obsolete and slow-moving items. The inventory write-down recognized in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB19,574,000 for the year ended 31 December 2017 (2016: RMB46,877,000).

26 TRADE RECEIVABLES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Due from third parties	**556,723**	454,323
Less: provision for impairment	**(2,444)**	(3,093)
Trade receivables – net	**554,279**	451,230

(a) As at 31 December 2017, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.

(b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new outlets. The Group would extend the credit period for certain franchise customers under certain circumstances. The ageing analysis of trade receivables based on invoice date, as at 31 December 2017 is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables, gross		
– Within 30 days	**291,628**	234,559
– Over 30 days and within 60 days	**59,296**	54,784
– Over 60 days and within 90 days	**73,527**	37,223
– Over 90 days and within 180 days	**39,409**	46,224
– Over 180 days and within 360 days	**71,730**	75,670
– Over 360 days	**21,133**	5,863
	556,723	454,323

26 TRADE RECEIVABLES (Continued)

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Fully performing under credit terms	**531,624**	409,711
Past due but not impaired	**22,655**	41,519
Non-performing and impaired	**2,444**	3,093
	556,723	454,323
Less: provision for impairment	**(2,444)**	(3,093)
Trade receivables – net	**554,279**	451,230

As at 31 December 2017, trade receivables of RMB2,444,000 of the Group are impaired and have been fully provided for (2016: RMB3,093,000). The individually impaired receivables mainly relate to certain franchise customers who are in unexpectedly difficult economic situations.

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

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
– Within 30 days	**13,837**	23,611
– Over 30 days and within 60 days	**3,586**	7,921
– Over 60 days and within 90 days	**2,761**	2,221
– Over 90 days and within 180 days	**1,589**	3,993
– Over 180 days and within 360 days	**311**	1,928
– Over 360 days	**571**	1,845
	22,655	41,519

26 TRADE RECEIVABLES (Continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**3,093**	1,465
Provision for impairment	**1,510**	1,928
Unused amounts reversed	**(1,117)**	(300)
Receivables written off during the year as uncollectible	**(1,042)**	–
At 31 December	**2,444**	3,093

27 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset at fair value through profit or loss is held for trading and include the following:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current asset		
Japan listed equity security	**8,408**	–

(a) Amount recognised in profit or loss

Changes in fair value of financial asset at fair value through profit or loss are recorded in other (losses)/gain in profit or loss (2017: gain of RMB2,606,000; 2016: Nil).

(b) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in Note 3.1(c). For information about the methods and assumptions used in determining fair value, please refer to Note 3.3.

28 BANK BALANCES AND CASH

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**1,405,285**	799,533
Term deposits with initial term of over three months *(Note (a))*	**100,630**	420
Restricted bank deposits *(Note (b))*	**9,225**	9,225
Total bank balances and cash	**1,515,140**	809,178
Denominated in:		
RMB	**1,158,982**	786,224
HK$	**213,346**	22,638
Other currencies	**142,812**	316
	1,515,140	809,178

(a) As at 31 December 2017, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 1.12% (2016: 0.8%) per annum.

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

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

29 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 31 December 2015	1,906,457,000	117,320	1,431,994	1,549,314
Dividends	–	–	(177,420)	(177,420)
As at 31 December 2016	1,906,457,000	117,320	1,254,574	1,371,894
Proceeds from shares issued *(Note)*	**240,000,000**	**16,472**	**511,978**	**528,450**
Dividends	**–**	**–**	**(163,517)**	**(163,517)**
As at 31 December 2017	**2,146,457,000**	**133,792**	**1,603,035**	**1,736,827**

Note: Pursuant to an agreement dated 5 May 2017 entered into between the Company and Fosun Ruizhe Grace Investments Limited, the Company allotted and issued 240,000,000 shares at the price of HK$2.5 per share on 17 May 2017.

30 OTHER RESERVES

	Merger reserve RMB'000 *Note (a)*	Shares held for share award scheme RMB'000 *Note (d)*	Statutory reserve RMB'000 *Note (b)*	Capital reserve RMB'000 *Note (c)*	Capital contribution reserve RMB'000	Equity – settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2016	(8,938)	–	37,749	192,790	9,119	12,477	999	244,196
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	3,373	–	3,373
– Transfer upon vested	–	–	–	–	9,310	(9,310)	–	–
Shares purchased for share award scheme	–	(14,872)	–	–	–	–	–	(14,872)
Exchange differences	–	–	–	–	–	–	1,925	1,925
Appropriation to statutory reserves	–	–	26,307	–	–	–	–	26,307
At 31 December 2016	(8,938)	(14,872)	64,056	192,790	18,429	6,540	2,924	260,929
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	3,049	–	3,049
– Transfer upon vested	–	–	–	–	4,948	(4,948)	–	–
Shares purchased for share award scheme	–	(4,665)	–	–	–	–	–	(4,665)
Exchange differences	–	–	–	–	–	–	(18,035)	(18,035)
Appropriation to statutory reserves	–	–	34,167	–	–	–	–	34,167
At 31 December 2017	**(8,938)**	**(19,537)**	**98,223**	**192,790**	**23,377**	**4,641**	**(15,111)**	**275,445**

Notes:

(a) **Merger reserve**

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

(b) **Statutory reserve**

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

30 OTHER RESERVES (Continued)

(c) Capital reserve

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

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

(d) Shares held for share award scheme

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

During the year, the Share Scheme Trustee acquired and withheld 1,941,000 ordinary shares of the Company (2016: 5,577,000) from the open market with funds provided by the Company by way of contributions, for an aggregate consideration of approximately HK$5,546,529 (equivalent to approximately RMB4,665,000) (2016: RMB14,872,000), which had been deducted from shareholders' equity.

31 EQUITY-SETTLED SHARE-BASED COMPENSATION

(a) Pre-IPO Share Award Scheme

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

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

	Year ended 31 December	
	2017	2016
At 1 January	**6,900,000**	21,645,000
Vested	**–**	(11,895,000)
Forfeited	**(6,900,000)**	(2,850,000)
At 31 December	**–**	6,900,000

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

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

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

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

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

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

(b) 2016 Share Award Scheme

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

No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 31 December 2017.

(c) Employee Option Plan

The establishment of the Company Employee Option Plan was approved by the board of Directors on 31 October 2017. The Employee Option Plan is designed to provide long-term incentives for senior managers and above (including executive Directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Vesting of the options is conditional upon the achievement of certain performance targets during the periods prior to each vesting date and the exercise period of the options. Subject to the Listing Rules, the Board reserves its rights to specify appropriate performance targets and conditions that must be achieved before the exercise of the options for each of the individual grantees at its absolute discretion.

Each option shall entitle the holder of the option to subscribe for one share upon exercise of such option at an exercise price of HK$3.288 per share, being the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares as quoted on the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(c) Employee Option Plan (Continued)

Set out below are summaries of options granted under the plan:

	2017		2016	
	Average exercise price per option	Number of options	Average exercise price per share option	Number of options
As at 1 January	–	–	–	–
Granted	HK$3.288	79,100,000	–	–
Forfeited	HK$3.288	(4,100,000)	–	–
As at 31 December	HK$3.288	75,000,000	–	–
Vested and exercisable at 31 December	–	–	–	–

Share options outstanding at the end of the year have the following expiry date and exercise prices:

			As at 31 December	
Grant Date	Expiry date	Exercise price	2017	2016
31 October 2017	30 October 2027	HK$3.288	75,000,000	–

(i) Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2017 was HK$1.1598 to HK$1.2502 per option (2016: Nil). The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model, Binomial Model and its variants that take into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(c) Employee Option Plan (Continued)

(i) Fair value of options granted (Continued)

The model inputs for options granted during the year ended 31 December 2017 included:

(a) options are granted for no consideration and vest based on the achievement of certain performance targets during the periods prior to each vesting date and the exercise period of the options. Vested options are exercisable for a period of 12 months after vesting

(b) exercise price: HK$3.288

(c) grant date: 31 October 2017

(d) expiry date: 30 October 2027

(e) share price at grant date: HK$3.12

(f) expected price volatility of the Company's shares: 42%

(g) expected dividend yield: 2.4%

(h) risk-free interest rate: 1.778%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The Company further assumed the volatility remains unchanged during the option life.

(d) Expenses arising from share-based payment transactions

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
General and administrative expenses:		
Options issued under employee option plan	**2,717**	–
Pre-IPO Share Award Scheme	**(1,063)**	2,350
Selling and marketing expenses		
Options issued under employee option plan	**1,924**	–
Pre-IPO Share Award Scheme	**(529)**	1,023
	3,049	3,373

32 TRADE PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Due to third parties	**577,900**	552,305
Due to related parties *(Note 39(d))*	**5,668**	1,949
	583,568	554,254

As at 31 December 2017, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

As at 31 December 2017, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 31 December 2017 is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables		
– Within 30 days	**158,783**	42,492
– Over 30 days and within 60 days	**125,781**	113,089
– Over 60 days and within 90 days	**107,847**	159,195
– Over 90 days and within 180 days	**170,253**	187,537
– Over 180 days and within 360 days	**14,633**	41,169
– Over 360 days	**6,271**	10,772
	583,568	554,254

33 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Payables for purchases of property, plant and equipment and intangible assets	**54,504**	61,588
Receipts in advance from customers	**50,703**	37,634
Salaries and welfare payables	**58,188**	50,257
Accrued taxes other than income tax	**6,956**	7,885
Deposits from franchisees	**61,134**	78,524
Provision for sales return	**2,419**	3,811
Other accrued expenses and payables	**71,353**	65,915
	305,257	305,614

As at 31 December 2017, accruals and other payables of the Group are non-interest bearing, and their fair values, except for the provision for sales return and receipts in advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2017, accruals and other payables of the Group are denominated in RMB.

34 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current	**211,260**	200,000
Current	**11,820**	–
	223,080	200,000

34 BORROWINGS (Continued)

Movements in borrowings is analysed as follows:

	RMB'000
Opening amount as at 1 January 2017	200,000
Repayments of bank borrowings	(6,920)
Proceeds from bank borrowings	30,000
Closing amount as at 31 December 2017	223,080

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

The Group's bank borrowings are unsecured and repayable until 2019 and 2020, and bearing interest at 5.20% per annum (2016: 4.75%). The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.20% (2016: 4.75%) and are within level 2 of the fair value hierarchy.

35 DEFERRED INCOME

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Non-current	15,445	–
Current	2,958	–
	18,403	–

Deferred income represented government grants relating to property, plant and equipment. See Note 7 for further details.

36 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit before income tax	**425,271**	323,744
Adjustments for:		
– Depreciation of property, plant and equipment *(Note 17)*	**73,712**	78,382
– Amortization of land use rights *(Note 18)*	**2,080**	2,080
– Amortization of intangible assets *(Note 19)*	**5,862**	7,758
– Provision for impairment of other receivables *(Note 9)*	**3,326**	2,829
– Provision for impairment of trade receivables *(Note 9)*	**393**	1,628
– Write-down of inventories *(Note 25)*	**19,574**	46,877
– Fair value gains on financial asset at fair value through profit or loss *(Note 8)*	**(2,606)**	–
– Finance income *(Note 12)*	**(18,763)**	(22,707)
– Finance expense *(Note 12)*	**11,564**	4,412
– Foreign exchange losses/(gains) *(Note 8)*	**4,332**	(1,093)
– Equity-settled share-based compensation *(Note 10)*	**3,049**	3,373
– Gain on disposal of a subsidiary *(Note 16)*	**(1,378)**	–
– Share of losses of an associate	**1,493**	–
– Loss on disposal of property, plant and equipment – net	**571**	391
	528,480	447,674
Changes in working capital:		
– (Increase)/decrease in trade receivables	**(103,442)**	64,847
– Increase in deposits, prepayments and other receivables	**(45,814)**	(62,286)
– Decrease/(increase) in inventories	**19,146**	(397,179)
– Increase in financial asset at fair value through profit or loss	**(5,802)**	–
– Increase in trade payables	**29,314**	58,843
– Increase in accruals and other payables	**6,448**	11,094
– Increase in deferred income	**18,403**	–
Cash generated from operations	**446,733**	122,993

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

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Net book amount of property, plant and equipment *(Note 17)*	**1,132**	4,955
Loss on disposal of property, plant and equipment – net	**(571)**	(391)
Proceeds from disposal of property, plant and equipment	**561**	4,564

36 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Net cash reconciliation

	Year ended 31 December 2017 RMB'000	2016 RMB'000
Bank balances and cash	**1,515,140**	809,178
Liquid investment *(Note)*	**8,408**	–
Borrowings – repayable within one year *(Note 34)*	**(11,820)**	–
Borrowings – repayable after one year *(Note 34)*	**(211,260)**	(200,000)
Net cash	**1,300,468**	609,178
Cash and liquid investment	**1,523,548**	809,178
Gross debt – variable interest rates	**(223,080)**	(200,000)
Net cash	**1,300,468**	609,178

	Other assets			Liabilities from financing activities		
	Cash, cash equivalents RMB'000	Term deposits and restricted bank deposits RMB'000	Liquid investment *(Note)* RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
Net cash as at 31 December 2016	799,533	9,645	–	–	(200,000)	609,178
Cash flows	628,119	100,210	5,802	(11,820)	(11,260)	711,051
Foreign exchange adjustments	(22,367)	–	–	–	–	(22,367)
Other non-cash movements	–	–	2,606	–	–	2,606
Net cash as at 31 December 2017	1,405,285	109,855	8,408	(11,820)	(211,260)	1,300,468

Note: Liquid investment comprises current investment that is traded in an active market, being the Group's financial asset held at fair value through profit or loss.

37 BALANCE SHEET AND RESERVES OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Assets		
Non-current assets		
Interests in subsidiaries *(Note (a))*	**1,145,957**	1,182,117
Current assets		
Other receivables	**383**	–
Amounts due from a subsidiary *(Note (b))*	**146,281**	203,228
Financial asset at fair value through profit or loss	**8,408**	–
Bank balances and cash	**342,784**	11,579
	497,856	214,807
Total assets	**1,643,813**	1,396,924
Equity		
Capital and reserves		
Share capital *(Note 29)*	**133,792**	117,320
Share premium *(Note 29)*	**1,603,035**	1,254,574
Other reserves	**67,050**	178,843
Accumulated losses	**(164,802)**	(159,866)
Total equity	**1,639,075**	1,390,871
Liabilities		
Current liabilities		
Accruals and other payables	**4,738**	6,053
Total liabilities	**4,738**	6,053
Total equity and liabilities	**1,643,813**	1,396,924

Zheng Yaonan
Director

Zhang Shengfeng
Director

37 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Accumulated losses of the Company

	RMB'000
At 1 January 2016	(159,719)
Loss for the year	(147)
At 31 December 2016	(159,866)
Loss for the year	(4,936)
At 31 December 2017	(164,802)

Other reserves of the Company

	Shares held for share award scheme RMB'000	Capital contribution reserve RMB'000	Equity – settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2016	–	9,119	12,477	79,978	101,574
Equity-settled share-based compensation					
– Value of employee services	–	–	3,373	–	3,373
– Transfer upon vested	–	9,310	(9,310)	–	–
Shares purchased for share award scheme	(14,872)	–	–	–	(14,872)
Currency translation differences	–	–	–	88,768	88,768
At 31 December 2016	(14,872)	18,429	6,540	168,746	178,843
Equity-settled share-based compensation					
– Value of employee services	–	–	3,049	–	3,049
– Transfer upon vested	–	4,948	(4,948)	–	–
Shares purchased for share award scheme	(4,665)	–	–	–	(4,665)
Currency translation differences	–	–	–	(110,177)	(110,177)
At 31 December 2017	**(19,537)**	**23,377**	**4,641**	**58,569**	**67,050**

37 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Other reserves of the Company (Continued)

Notes:

(a) Interests in subsidiaries

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Capital contribution relating to share-based payment	**27,341**	24,969
Loans to subsidiaries	**1,118,616**	1,157,148
	1,145,957	1,182,117

The capital contribution relates to shares granted to employees of subsidiaries under Share Award Scheme. Refer to Note 30(d) for further details on the Group's share award scheme.

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

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

38 COMMITMENTS

(a) Capital commitments

As at 31 December 2017, the Group had the following capital commitments not provided for:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Contracted but not provided for:		
Property, plant and equipment	**34,757**	107,894
Intangible assets	**2,417**	2,313
	37,174	110,207

38 COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2017, the future aggregate minimum lease payments in respect of buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
No later than 1 year	**202,095**	235,187
Later than 1 year and no later than 5 years	**292,960**	358,945
Later than 5 years	**3,678**	18,539
	498,733	612,671

The Group's lease terms range from 1 to 7 years.

39 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and balances arising from related party transactions as at 31 December 2017.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. Zhang Shengfeng	Director
Mr. Lin Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd ("Shantou Shengqiang")	Controlled by a brother of Mr. Zhang Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd ("Shantou Maosheng")	Controlled by a brother of Mr. Lin Zonghong
Guangdong Zhengji	Controlled by Mr. Zheng Yaonan
CLGIII	Controlled by Mr. Zheng Yaonan
Guangdong Dongdu Holdings Limited	Joint venture

39 RELATED PARTY TRANSACTIONS (Continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Continuing transactions:		
Shantou Shengqiang	**20,819**	10,901
Shantou Maosheng	**8,089**	9,592
	28,908	20,493

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

(c) Disposal of equity interest in a subsidiary

On 23 June 2017, the Group disposed of 95% equity interest in a wholly-owned subsidiary, which was engaged in property investment, to Guangdong Zhengji, for a consideration of RMB10,809,100. A gain on disposal of the equity interest was RMB1,378,000 (Note 16).

(d) Balances with related parties

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables balances *(Note 32)*:		
Shantou Shengqiang	**4,405**	1,903
Shantou Maosheng	**1,263**	46
	5,668	1,949

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

39 RELATED PARTY TRANSACTIONS (Continued)

(e) Key management compensation

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages, salaries and bonuses	**10,307**	8,679
Pension costs – defined contribution plans	**660**	469
Equity-settled share-based compensation	**2,146**	1,052
	13,113	10,200

40 IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On 7 February 2018, a wholly-owned subsidiary of the Company has entered into main terms for a non-legally binding cooperation agreement with a wholly-owned subsidiary of JD. Com. Inc. and Mr. Li Guo Cheng to establish a cooperation fund, which is primarily used for industry mergers and acquisitions and consolidation of resources which are suitable to the business of the Group. The main investment targets of the cooperation fund are domestic and foreign companies engaged in intimate wear brands, upstream and downstream and related peripheral industry. The size of the cooperation fund is estimated to be RMB1 billion and will be expanded based on the actual need in the future. The establishment of the cooperation fund is in progress and is expected to be completed in the second quarter of 2018.

On 21 March 2018, Cosmo Lady (Tianjin) E-commerce Company Limited ("Cosmo Lady (Tianjin)"), a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Kappa Sporting Goods Co., Ltd., a wholly-owned subsidiary of China Dongxiang (Group) Co., Ltd., in relation to the establishment of a joint venture ("JV") company, held as to 75% by Cosmo Lady (Tianjin). The principal business of the JV company will be online sales of men's intimate wear and women's sports underwear, and the JV company is authorized to use the "Kappa" trademarks on its bras, underpants, loungewear and socks for a contract term of 5 years, to be extended automatically for another 3 years.

41 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURE OF THE GROUP

(a) Particulars of the subsidiaries of the Group as at 31 December 2017 are set out below:

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2017	2016	
Directly held:					
Cosmo Lady (International) Holdings Company Limited	BVI	1 share of US$1	100%	100%	Investment holding/ Hong Kong
Indirectly held:					
Cosmo Lady Guangdong Holdings Limited	PRC	RMB420,000,000	100%	100%	Sale of intimate wear/ PRC
Beijing Ziseyangguang Sale Co., Ltd.	PRC	RMB1,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Shenzhen) Co., Ltd	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Guangzhou) Co., Ltd	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Changsha) Co., Ltd	PRC	RMB1,000,000	100%	100%	Sale of intimate wear/ PRC
Tianjin Dushifengshang Fashion Co., Ltd.	PRC	RMB30,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Chongqing) Co., Ltd	PRC	RMB20,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Shanghai) Co., Ltd	PRC	RMB3,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (TianJin) E-commerce Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Freeday (Tianjin) Fashion Company Limited	PRC	RMB15,000,000	100%	100%	Sale of intimate wear/ PRC
Ordifen (Tianjin) Fashion Company Limited	PRC	RMB100,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Guang Dong) Technology Company Limited	PRC	RMB3,000,000	100%	100%	Logistics warehousing and distribution services/PRC
Cosmo Lady (Shenzhen) Technology Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Guangdong Cosmo Logistics Technology Company Limited	PRC	RMB10,000,000	100%	100%	Logistics warehousing and distribution services/PRC
Cosmo Lady (International) Company Limited	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong

41 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURE OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2017 are set out below: (Continued)

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group 2017	Interests held by the Group 2016	Principal activities/ place of operation
Cosmo Lady (Hong Kong) Holdings Company Limited	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong
Freeday (Hong Kong) Holdings Company Limited	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Hong Kong) Holdings Company Limited	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Industrial Company Limited	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Shanghai) Corporate Management Consulting Co., Ltd	PRC	HK$10,000,000	100%	100%	Corporate consulting/PRC

(b) Particulars of the associate of the Group as at 31 December 2017 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2017	Interests held by the Group 2016	Principal activities/ place of operation
Zhong Rui Run He (Ningbo) Investment Management Company Limited	PRC	RMB4,000,000	40%	–	Investment management/PRC

(c) Particulars of the joint venture of the Group as at 31 December 2017 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2017	Interests held by the Group 2016	Principal activities/ place of operation
Guangdong Dongdu Holdings Limited	PRC	RMB100,000,000	19.9%	19.9%	Real estate development/PRC

The English names of the PRC companies referred to the above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

Five-year Financial Summary

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**4,542,483**	4,512,385	4,953,415	4,007,636	2,916,266
Gross profit	**1,964,523**	2,002,037	2,114,794	1,567,519	1,068,857
Gross profit margin	**43.2%**	44.4%	42.7%	39.1%	36.7%
Operating profit	**419,565**	305,449	688,803	575,056	371,466
Operating profit margin	**9.2%**	6.8%	13.9%	14.3%	12.7%
Profit attributable to equity holders of the Company	**317,002**	241,961	540,008	425,227	275,508
Net profit margin	**7.0%**	5.4%	10.9%	10.6%	9.4%

	As of 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash	**1,515,140**	809,178	960,074	1,080,562	306,252
Borrowings	**223,080**	200,000	–	–	–
Non-current assets	**807,084**	760,100	766,268	444,182	334,673
Current assets	**3,729,410**	3,019,286	2,716,499	2,324,689	972,423
Non-current liabilities	**228,129**	201,601	1,778	–	–
Current liabilities	**952,252**	883,956	842,127	531,339	619,539
Net current assets	**2,777,158**	2,135,330	1,874,372	1,793,350	352,884
Total assets	**4,536,494**	3,779,386	3,482,767	2,768,871	1,307,096
Total liabilities	**1,180,381**	1,085,557	843,905	531,339	619,539
Total equity	**3,356,113**	2,693,829	2,638,862	2,237,532	687,557

	2017	2016	2015	2014	2013
Current ratio (times)	**3.9**	3.4	3.2	4.4	1.6
Average inventory turnover period (days)	**160.2**	141.8	92.5	78.0	72.3
Average trade receivables turnover period (days)	**40.4**	39.2	29.4	20.6	22.0
Average trade payables turnover period (days)	**80.5**	76.3	49.2	36.6	45.1