La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.

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

INTERIM REPORT 2018

(Stock Code: 06116)

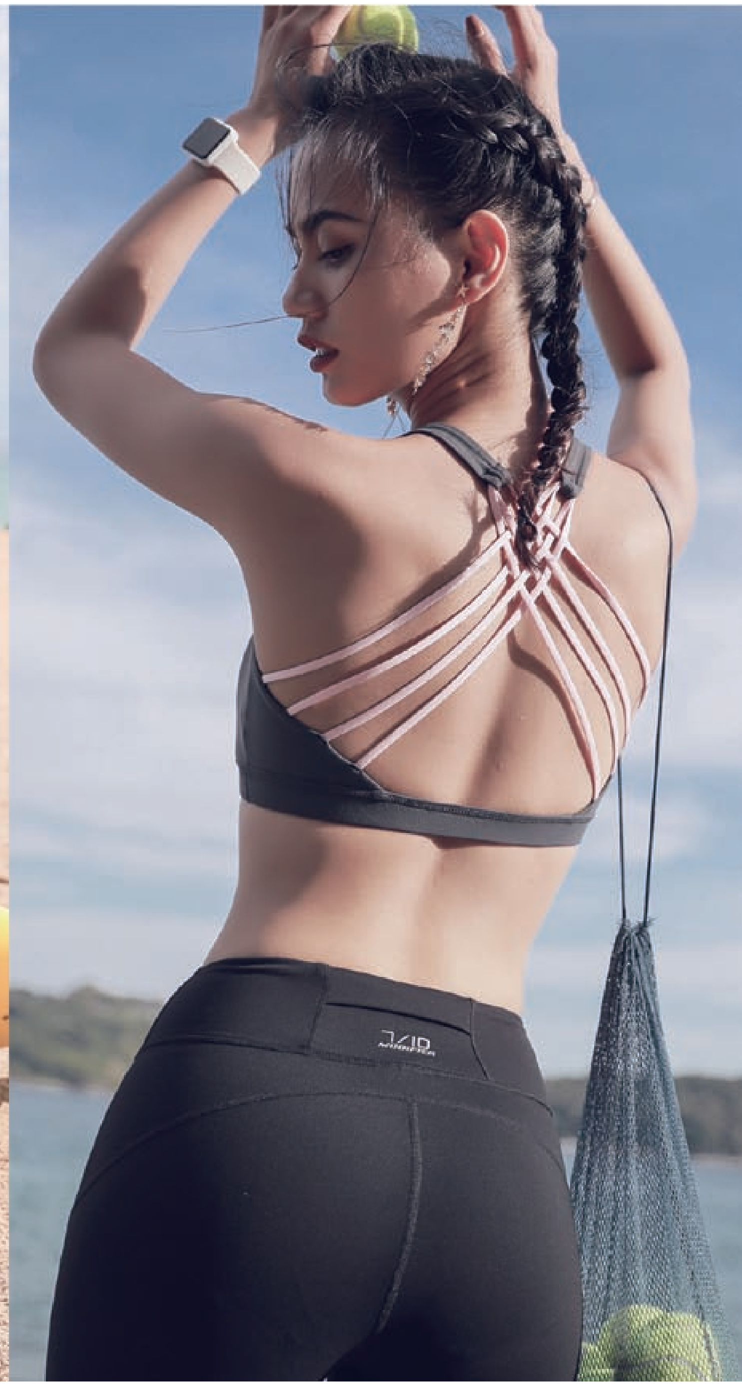

LA CHAPELLE

CONTENTS


LA CHAPELLE


PROPERTY
OF
NONE
Puella
Do My Best

7MODIFIER




KEEP


La Babité
拉·贝缇


Candie's

POT&


E AND SPACE TUNNEL


JACK WALK
DELITAP


MARC ECKŌ
NEW YORK


8ÉM

CORPORATE INFORMATION

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

ENGLISH NAME
Shanghai La Chapelle Fashion Co., Ltd.

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

PLACE OF BUSINESS IN HONG KONG
40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

COMPANY'S WEBSITE
www.lachapelle.cn

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

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

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

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

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

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

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

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

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

COMPANY SECRETARIES
Ms. Fang Xian Li *(resigned on 24 August 2018)*
Ms. Wong Wai Ling *(ACS, ACIS)*

AUTHORIZED REPRESENTATIVES
Mr. Xing Jiaxing
Mr. Yu Qiang

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

AUDITOR
PricewaterhouseCoopers Zhong Tian LLP
(Special General Partnership)

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

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

STOCK CODE
H share: 6116
A share: 603157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SON FESTIVA


LA CHAPELLE

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	Increase/ (decrease)
	RMB'000	RMB'000	%
	(unaudited)	(unaudited)	
Financial highlights			
Revenue	**4,378,817**	4,281,863	2.3
Gross profit	**2,757,068**	2,786,536	(1.1)
Operating profit	**323,240**	404,912	(20.2)
Profit before income tax	**320,764**	401,984	(20.2)
Income tax expense	**(79,295)**	(101,017)	(21.5)
Profit for the period	**241,469**	300,967	(19.8)
Basic and diluted earnings per share (RMB)	**0.43**	0.57	(24.6)
Financial Ratios			
Gross profit margin	**63.0%**	65.1%	
Operating margin	**7.4%**	9.5%	
Profit margin for the period	**5.5%**	7.0%	


LA CHAPELLE


LA CHAPELLE

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

From January to June 2018, macro-economic operation in China was generally stable. As a result of strict financial regulation, structural deleveraging and continuous implementation of real estate market control, macro-economic growth presented a strong resilience. There was an upgrade in consumption structure, but with a slow growth. The total sales of consumer goods amounted to RMB18.0 trillion for the first half of 2018, representing a period-on-period increase of 9.4%, which was 0.4 percentage point lower than the period-on-period increase of 9.8% for the first quarter of 2018; and 1 percentage point lower as compared to a growth rate of 10.4% for the corresponding period of last year. In the first half of 2018, the annual national per capita consumption expenditure amounted to RMB9,609. In the first half of 2018, the per capita expenditure on apparel consumption amounted to RMB710, representing a growth of 6.3% as compared to RMB668 for the corresponding period of last year, and accounted for 7.4% of the per capita consumption expenditure, representing a decrease of 0.2 percentage point as compared to 7.6% for the corresponding period of last year.

From January to June 2018, the Group's revenue was RMB4,378.8 million, representing an increase of 2.3% as compared with the corresponding period of last year. The net profit attributable to the shareholders of the Company was RMB235.8 million, representing a 16.3% decrease compared to the corresponding period of last year. As at 30 June 2018, the total assets of the Group was RMB7,486.3 million, representing a 4.9% decrease compared to the total assets as at 31 December 2017, and the net assets attributable to the shareholders of the Company was RMB3,996.7 million, representng a year-on-year increase by 3.1%.

Over the past years, the Group has been committed to becoming a leading multi-brand, direct-selling fashion group in China. The Group has been dedicated to providing fashionable, high-quality and cost-effective apparel products and lifestyles to mass domestic consumers.

FINANCIAL REVIEW

For the six months ended 30 June 2018 (the "**Reporting Period**"), the Group's revenue and operating profit reached RMB4,378.8 million and RMB323.2 million respectively, representing an increase of 2.3% and a decrease of 20.2%, respectively, as compared with the corresponding period of last year. The profit for the period over the first half of 2018 amounted to RMB241.5 million, representing an decrease of 19.8% as compared with the corresponding period of last year.

Revenue

The revenue of the Group in the first half of 2018 saw a slight growth, increasing from RMB4,281.9 million in the first half of 2017 to RMB4,378.8 million in the first half of 2018, representing an increase of 2.3%.

The growth in revenue was mainly attributable to the continuous expansion of retail network and online business of the Group. The number of retail points of the Group increased from 9,448 as at 31 December 2017 to 9,674 as at 30 June 2018.

Revenue by distribution channel

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

	Six months ended 30 June					
	2018			2017		
	Revenue (RMB'000)	**% of total**	**Gross Profit Margin %**	Revenue (RMB'000)	% of total	Gross profit margin increase or (decrease) compared to the corresponding period of last year (percentage point(s))
Concessionaire counters	**1,845,841**	**42.2**	**60.9**	1,976,011	46.1	(2.48)
Standalone retail outlets	**1,886,856**	**43.1**	**66.1**	1,763,448	41.2	(2.74)
Online platform	**626,357**	**14.3**	**59.0**	534,565	12.5	0.41
Franchise/Associate	**3,162**	**0.1**	**58.1**	841	0.0	(5.61)
Others Note 1	**16,601**	**0.3**	**50.8**	6,998	0.2	(49.24)
Total	**4,378,817**	**100.0**	**62.8**	4,281,863	100.0	(2.1)

The revenue from concessionaire counters decreased from RMB1,976.0 million in the first half of 2017 to RMB1,845.8 million in the first half of 2018, representing a decrease of 6.6%. The decrease in revenue from concessionaire counters was mainly attributable to the decrease of same store revenue and a customer traffic decline stemming from the ageing sales channel in traditional department stores. The revenue from standalone retail outlets increased from RMB1,763.4 million in the first half of 2017 to RMB1,886.9 million in the first half of 2018, representing an increase of 7.0%. The growth in revenue from standalone retail outlets was mainly attributable to the increasing number of new retail points opened in the first six months of 2018. Standalone retail outlets accounted for 43.1% of the total revenue of the Company during the first half of 2018, representing an increase of 1.9 percentage points compared to the corresponding period of last year. The online platform recorded a revenue of RMB626.4 million in the first half of 2018, accounting for 14.3% of the total revenue which represents an increase of 1.8% from the corresponding period of last year.

Note 1: "Others" mainly refers to revenue generated from non-apparel services, which is presented as a separate item due to the expansion of its business size and its increasing proportion to the total revenue.

Revenue by brand

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

	Six months ended 30 June					
	2018			2017		
	Revenue (RMB'000)	**% of total**	**Gross Profit Margin %**	Revenue (RMB'000)	% of total	Gross profit margin increase or (decrease) compared to the corresponding period of last year (percentage point(s))
La Chapelle	**1,014,262**	**23.2**	**66.2**	1,046,275	24.4	(1.2)
Puella	**804,072**	**18.4**	**65.0**	908,948	21.2	(2.1)
7m	**755,149**	**17.2**	**65.1**	702,949	16.4	(0.8)
La Babité	**637,270**	**14.6**	**65.8**	617,572	14.4	(2.6)
Candie's	**338,123**	**7.7**	**61.8**	275,084	6.4	2.0
JACK WALK/Pote	**277,214**	**6.3**	**56.9**	230,593	5.4	(3.6)
8em (Original name: La Chapelle Kids)	**89,211**	**2.0**	**62.5**	47,635	1.1	(2.8)
UlifeStyle	**158,620**	**3.6**	**47.8**	251,748	6.0	(11.5)
MARC ECKŌ	**16,432**	**0.4**	**57.9**	14,428	0.3	(10.4)
OTHERMIX	**170,558**	**3.9**	**53.2**	153,413	3.6	8.1
O.T.R	**70,943**	**1.6**	**32.0**	15,788	0.4	(16.7)
Siastella	**17,335**	**0.4**	**67.4**	10,164	0.2	(7.0)
Mum Meet Me/Kin	**8,837**	**0.2**	**21.7**	268	0.0	(28.3)
drömGalaxy[1]	**1,031**	**0.0**	**50.4**	0	0.0	–
GARTINE[1]	**3,159**	**0.1**	**75.8**	0	0.0	–
Others[2]	**16,601**	**0.4**	**88.9**	6,998	0.2	(10.6)
Total	**4,378,817**	**100.0**	**63.0**	4,281,863	100.0	(2.1)

Notes:

1) In the first half of 2018, the Group launched one new brand, namely, drömGalaxy and purchased one brand, namely GARTINE in addition to the existing brands.

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

In the first half of 2018, our men's apparel brands (JACK WALK, Pote, MARC ECKŌ), which remain in an developmental and brand adjustment phase, experienced an increase of 19.8% in revenue in the first half of 2018 compared to the corresponding period in 2017, mainly due to the increase of same store sales. In the first half of 2018, other major ladies' apparel brands of the Group except for Puella and La Chapelle (7m, La Babité) continued to maintain a good growing trend in terms of revenue, among which, revenue generated from 7m and La Babité witnessed a period-on-period increase of 7.4% and 3.2% respectively, mainly due to the expansion of retail network and the growth in same store sales. Revenue generated from Candie's saw a period-on-period increase of 22.9%, mainly due to the benefits from the growth in same store sales resulting from the optimization and upgrading of product structure. La Chapelle and Puella, which are our two major earlier brands, continue to be the top two brand in terms of their revenue contribution to the Group. Sales from both brands accounted for 41.6% of the Group's total sales, representing a decrease of 4 percentage points as compared to 45.6% in the first half of 2017. Among the above two brands, revenue generated from the brand, Puella, decreased by 2.8 percentage points period-on-period as a result of the decline in revenue contributed by existing stores as compared with that of the corresponding period last year while revenue generated from the brand, La Chapelle, decreased by 1.2 percentage points due to channel adjustment and the decline in revenue contributed by existing stores.

Revenue by tier of cities

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

	Six months ended 30 June			
	2018		2017	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
First-tier cities	**549,743**	**12.6**	544,526	12.7
Second-tier cities	**1,874,795**	**42.8**	1,766,297	41.3
Third-tier cities	**1,058,946**	**24.2**	1,037,467	24.2
Other cities	**895,333**	**20.4**	933,573	21.8
Total	**4,378,817**	**100.0**	4,281,863	100.0

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

Apart from other cities, the Group recorded an increase in revenue in all tiers of cities in the first half of 2018, mainly due to the expansion of the nationwide retail network and online platform of the Group. There is an increase of 1.5% in the contribution of second-tier cities to our revenue compared to the corresponding period of last year.

Revenue by product type

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

	Six months ended 30 June			
	2018		2017	
	Revenue (RMB'000)	% of total	Revenue (RMB'000)	% of total
Tops	2,881,110	65.8	2,751,922	64.3
Bottoms	503,515	11.5	494,493	11.5
Dresses	980,998	22.4	1,006,135	23.5
Accessories and others	13,194	0.3	29,313	0.7
Total	4,378,817	100.0	4,281,863	100.0

In the first half of 2018, revenue from our tops and bottoms experienced an increase by 4.7% and 1.8%, respectively, while revenue from dresses and accessories and others decreased. The contribution of tops towards our revenue increased by 1.5% from the corresponding period of last year while that by the dresses decreased by 1.1%.

Cost of Sales

The cost of sales of the Group increased by 8.5% from RMB1,495.3 million in the first half of 2017 to RMB1,621.7 million in the first half of 2018.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB2,786.5 million in the first half of 2017 to RMB2,757.1 million in the first half of 2018, down by 1.1%, mainly attributable to an increase in proportion of sales in products of the previous season, which resulted in a higher growth of cost than revenue growth.

The overall gross profit margin of the Group decreased to 63.0% in the first half of 2018 from 65.1% in the first half of 2017, mainly due to an increase in proportion of sales in products of the previous season, resulting in a slight period-on-period decrease in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in the first half of 2018 amounted to RMB2,143.1 million (the first half of 2017: RMB2,051.8 million), consisting primarily of sales staff salaries and benefits, rental expenses relating to retail points, department store expenses, utilities and electricity expenses and other expenses relating to selling and marketing activities. Expressed as a percentage, selling and distribution expenses in the first half of 2018 as a percentage of total revenue in the first half of 2018 was 48.9% (the first half of 2017: 47.9%), representing an increase in the share of sales staff salaries and benefits and logistics costs in term of revenue compared with the corresponding period of last year. General and administrative expenses in the first half of 2018 amounted to RMB226.5 million (the first half of 2017: RMB186.5 million), consisting primarily of administrative employee salaries and benefit expenses, rental expenses for offices, consulting service fees, amortization of intangible assets, logistic cost and traveling expenses. Expressed as a percentage, general and administrative expenses as a percentage of total revenue in the first half of 2018 was 5.2% (the first half of 2017: 4.4%). Expressed as a percentage, the administrative staff salaries and benefits and consulting service fees as a percentage to our revenue in the first half of 2018 has increased, compared with the corresponding period of last year.

Asset Impairment Loss

Loss on asset impairment was RMB151.4 million in the first half of 2018 (the first half of 2017: RMB155.4 million), of which RMB154.2 million was write-down in inventories (the first half of 2017: RMB121.1 million), and RMB2.8 million was provision for bad debts of accounts receivable and other receivables (the first half of 2017: provision for bad debts RMB34.4 million).

Other Income – Net

The Group's other income amounted to RMB85.1 million (the first half of 2017: RMB58.6 million) in the first half of 2018, mainly due to the financial subsidies of RMB85.1 million in the first half of 2018.

Finance Expenses/Income – Net

The Group's net finance expenses were RMB14.0 million in the first half of 2018 (the first half of 2017: net financial expenses of RMB5.2 million). The increase in the net financial expenses is mainly a result of the year-on-year increase of interest expenses from borrowing and the decrease of deposit interest income.

Profit before Income Tax

Profit before income tax of the Group decreased from RMB402.0million in the first half of 2017 to RMB320.8 million in the first half of 2018, representing a decrease of 20.2% from the corresponding period of last year. The decrease in the profit before income tax was primarily attributable to an increase in the proportion of selling and distribution expenses to revenue; and a slight decrease in the gross profit margin in this reporting period.

Income Tax Expense

Income tax expense amounted to RMB79.3 million in the first half of 2018 (the first half of 2017: RMB101.0 million). The effective income tax rate in the first half of 2018 was 24.7% (the first half of 2017: 25.1%).

Profit for the period and Profit Margin for the period

As a result of the foregoing, profit for the period of the Group in the first half of 2018 amounted to RMB241.5 million, representing an decrease by 19.8% from RMB301.0 million in the first half of 2017. In particular, profit for the period attributable to the owner of the Group was RMB235.8 million, representing an decrease by 16.3% from RMB281.7 million in the first half of 2017. Profit margin for the period of the Group was 5.5% in the first half of 2018, compared to 7.0% in the first half of 2017.

Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. In the first half of 2018, the capital expenditure incurred by the Company was RMB527.6 million (the first half of 2017: RMB323.3 million).

Cash and Cash Flow

In the first half of 2018, net cash generated from operating activities amounted to a net outflow of RMB256.3 million (first half of 2017: a net inflow of RMB40.3 million). The net cash outflow from operating activities was mainly due to the increases in expenditure related to brand-fostering and expansion and merchandizing as well as rises in prepayments for certain autumn and winter apparel procurement in the first half of 2018 as compared with the corresponding period of last year.

In the first half of 2018, net cash used in investing activities amounted to a net outflow of RMB768.3 million (the first half of 2017: net outflow of RMB371.4 million). In particular, the cash outflow in major investment activities in the first half of 2018 was for: 1) the net cash outflow of RMB201.5 million for investment in associates and joint venture; 2) purchase of properties, warehouses and equipment of RMB527.2 million; and 3) a net cash outflow relating to other investing activities amounted to RMB39.6 million.

In the first half of 2018, net cash generated in financing activities amounted to a net inflow of RMB480.0 million (the first half of 2017: net inflow of RMB275.3 million). Major financing activities in the first half of 2018 were: (i) obtaining bank loans of net cash inflow of RMB1,170.0 million; (ii) repayment of bank loans of net cash outflow of RMB437.6 million; and (iii) payment of dividends to shareholders of the Company of net cash outflow of RMB245.3 million.

As at 30 June 2018, the Group held cash and cash equivalents in the total amount of RMB270.9 million. (31 December 2017: RMB815.6 million), mainly due to the expenditure on operating activities and investing activities increased in the first half of 2018 as compared with the corresponding period of last year.

In the first half of 2018, the average inventory turnover of the Group was 243.1 days (the first half of 2017: 193.3 days), and the average receivables turnover was 37.0 days (the first half of 2017: 37.4 days). The decrease in our inventory turnover rate was mainly due to a longer winter this year, leading to a period-on-period growth in winter apparel inventory, and a slight decline in the sales rate of spring apparel products as a result of the long winter.

The Group's financial position remained solid. As at 30 June 2018, net current assets of the Group amounted to RMB862.7 million. Total assets less current liabilities amounted to RMB4,234.4 million, and gearing ratio (the formula used in gearing ratio: total liabilities/total assets) was 44.4%.

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

Bank loans and other borrowings

As at 30 June 2018, bank borrowings of the Group amounted to RMB1,740.0 million (31 December 2017: 1,006.0 million for outstanding balance of borrowings), which were credit borrowings repayable within one year.

Pledge of assets

As at 30 June 2018, no properties, warehouses and equipment, land use rights and investment properties were pledged by the Group in respect of any available bank facilities.

Contingent liabilities

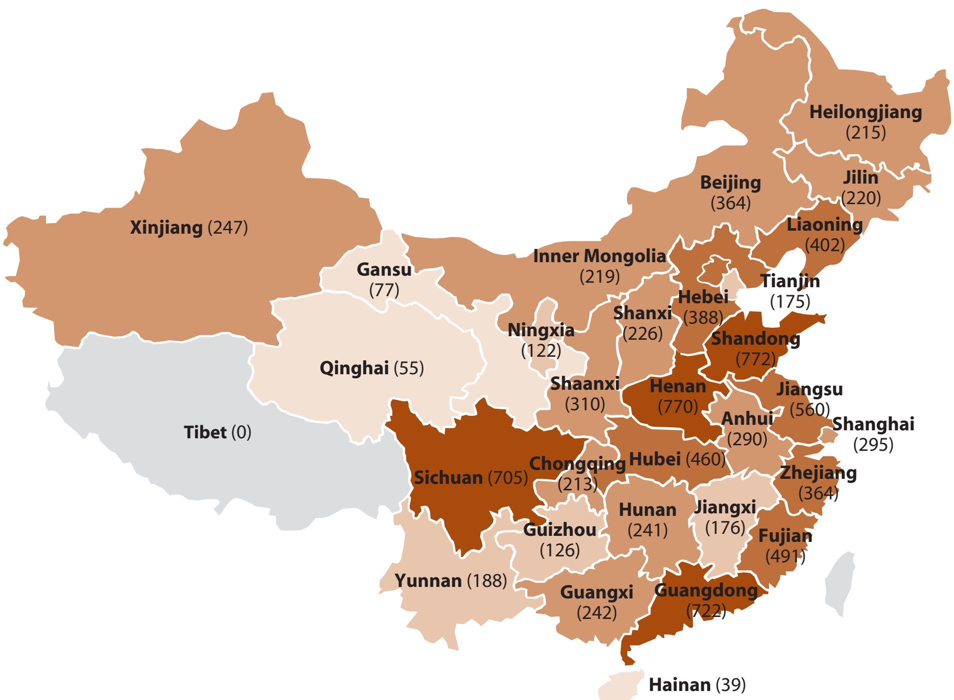
As at 30 June 2018, the Group had no material contingent liabilities.

BUSINESS REVIEW

Retail Network

For the six months ended 30 June 2018, the number of retail points of the Group were 9,674, which were situated at approximately 2,776 physical locations, increasing from 9,448 as at 31 December 2017. The number of retail points was counted on the basis used for that as at 31 December 2015, taking a UlifeStyle department store as a single retail point.

The map below shows the geographical distribution of the Group's retail points in the PRC as at 30 June 2018:



Hainan	39
Qinghai	55
Gansu	77
Ningxia	122
Guizhou	126
Tianjin	175
Jiangxi	176
Yunnan	188
Chongqing	213
Heilongjiang	215
Inner Mongolia	219
Jilin	220
Shanxi	226
Hunan	241
Guangxi	242
Xinjiang	247
Anhui	290
Shanghai	295
Shaanxi	310
Beijing	364
Zhejiang	364
Hebei	388
Liaoning	402
Hubei	460
Fujian	491
Jiangsu	560
Sichuan	705
Guangdong	722
Shandong	772
Henan	770

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2018 and as at 31 December 2017 by tier of cities:

	As at 30 June 2018		As at 31 December 2017	
	Number of retail points	**% of total**	Number of retail points	% of total
First-tier cities	**846**	**8.7**	845	8.9
Second-tier cities	**3,611**	**37.4**	3,505	37.1
Third-tier cities	**2,719**	**28.1**	2,677	28.4
Other cities	**2,498**	**25.8**	2,421	25.6
Total	**9,674**	**100.0**	9,448	100.0

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

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2018 and as at 31 December 2017 by type of the retail points:

	As at 30 June 2018		As at 31 December 2017	
	Number of retail points	**% of total**	Number of retail points	% of total
Concessionaire counters	**5,810**	**60.0**	5,707	60.4
Standalone retail outlets	**3,849**	**39.8**	3,728	39.5
Franchise/Associate	**15**	**0.2**	13	0.1
Total	**9,674**	**100.0**	9,448	100.0

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2018 and as at 31 December 2017 by brands:

	As at 30 June 2018		As at 31 December 2017	
	Number of retail points	**% of total**	Number of retail points	% of total
La Chapelle	**2,022**	**20.9**	1,975	20.9
Puella	**2,094**	**21.6**	2,116	22.4
7m	**1,766**	**18.3**	1,716	18.2
La Babité	**1,634**	**16.9**	1,562	16.5
Candie's	**947**	**9.8**	944	10.0
JACK WALK/Pote	**679**	**7.0**	638	6.8
8em (Original name: La Chapelle Kids)	**281**	**2.9**	202	2.1
UlifeStyle	**129**	**1.3**	152	1.6
MARC ECKŌ	**41**	**0.4**	37	0.4
O.T.R	**47**	**0.5**	51	0.5
Siastella	**28**	**0.3**	36	0.4
drömGalaxy	**6**	**0.1**	–	0.0
Mum Meet Me/Kin	**–**	**0.0**	19	0.2
Total	**9,674**	**100.0**	9,448	100.0

The table below sets out the distribution of the Group's net additional retail points in the PRC in the first half of 2018 by brands:

	For the six months ended 30 June 2018	
	Number of net additional retail points	**% of total**
La Chapelle	**47**	**20.7**
Puella	**-22**	**(9.7)**
7m	**50**	**22.1**
La Babité	**72**	**31.9**
Candie's	**3**	**1.3**
JACK WALK/Pote	**41**	**18.1**
8em (Original name: La Chapelle Kids)	**79**	**35.0**
UlifeStyle	**-23**	**(10.2)**
MARC ECKŌ	**4**	**1.8**
O.T.R	**-4**	**(1.8)**
Siastella	**-8**	**(3.5)**
Mum Meet Me/Kin [Note 1]	**-19**	**(8.4)**
drömGalaxy	**6**	**2.7**
Total	**226**	**100.0**

Note 1: Mum Meet Me/Kin, which was a brand of our subsidiary that has been disposed of in the Reporting Period.

In the first half of 2018, except for Puella and Siastella (our ladies' wear brands), UlifeStyle (our fast fashion brand) and OTR, which were affected by brand adjustment, and Mum Meet Me/Kin (a brand of our subsidiary which has been disposed of during the Reporting Period), the net additional retail points of all other brands increased.

Same store sales

Due to the adjustments of market structure, some customers of department stores moved to rapidly emerging shopping centers and online shopping platforms, causing reduction in same store sales of traditional clothing enterprises that relied on department stores as primary distribution channel. Regardless of our group's continuous strategy of reducing the reiabllity on income from department stores, proportion of sales from concessionaire counters is currently still at 42.2%. In the first half of 2018, same store sales of retail shops decreased by 3.0%, compared to that for the corresponding period of 2017. Same store sales of retail shops in first half of 2017 decreased by 8.1% compared to that for the corresponding period of 2016.

Adhere to multi-brand differentiation strategy

By applying the multi-brand differentiation strategy, the Company continues to create a rich and diverse multi-brand operating system. Through internal development, external investment or equity participation, the Group has come to owning nearly 20 fashion brands, and has formed a full coverage layout of ladies' wear, men's wear, children's wear and household products, with a focus on ladies' wear. The Group provides suitable products and creates special lifestyles for mass consumer groups, such as females aged 18-38, males aged 18-45 and children aged 7-16.

For ladies' wear: the existing five major ladies' wear brands, including La Chapelle, Puella, 7 Modifier, La Babité and Candie's, realized a total revenue of RMB3,548.9 million, accounting for 81.0% of the Group's revenue in the first half of 2018. In order to better shape our brand image and enhance our brand's market competitiveness, we introduced new images through refitting works done for stores of various brands and dedicated to creating iconic stores with new images in the first half of 2018. La Babité and 7 Modifier has poiloted new brands, Lyne&Leila and 7/10 Modifier respectively, during the first half of 2018. Lyne&Leila's development direction is to become a slightly high-end and culture-oriented fashion brand. It is dedicated to creating an exquisite lifestyle for consumers. Lyne&Leila has already established flagship image stores in Suzhou Center and Century Link Tower in Pudong District, Shanghai, and expanded brand recognition through various means such as promotions on WeChat public account, celebrities' try-on, fragrance sharing and photo-taking events. 7/10 Modifier is suitable for trendy young people with exercise habits to wear in everyday life and sporting occasions. It promotes a brand philosophy of "7 for Sports and All for craze", and is dedicated to becoming a light sports leading brand with fashion, quality and character. By the end of June 2018, the 7/10 Modifier community had 9,830 valid fans, with nine fan events organized, including try-on seminars, large-scale road running at Minhang Sports Park, thousand trailwalker charitable activities in Hangzhou, twin tower vertical marathon and 7/10& dröm Galaxy pop-up store in Han's Plaza, Beijing.

For men's wear: our men's wear brand Pote carried out essential reform for rebranding in the first half of 2018, focusing on the demands of younger comsumers with BE YOUR OWN FASHION IDOL as its slogan. In terms of product, the brand pays close attention to quality and caters for the consumption habits of the post-1995 and post-2000 generations. In respect of store image, the brand boldly engages young designers to create a trendy consumption space. JACK WALK has a simple, cozy and fashionable brand style and targets the post-1980 and post-1990 generations as its target customer base. In the first half of 2018, the brand increased the sales proportion of smart casual wear and introduced new images for stores through refitting works to enhance brand competitiveness and market recognition. In order to precisely define brand style and position and to make its product more in line with the needs of urban elite men aged 30 to 45 under various life and work scenarios, MARC ECKŌ strengthened the improvement in fabrics and process regarding their products in the first half of 2018. In particular, its summer polo shirts were made with mercerized cotton with higher-count yarns for excellent quality. In the first half of 2018, in order to further optimize the layout of men's wear brand and enhance our integrated competitiveness in e-commerce business of men's wear, the Company acquired Shanghai Bercent Industrial Co., Ltd.* (上海品呈實業有限公司) by capital injection. Shanghai Bercent Industrial Co., Ltd. owns GARTINE, an online brand, and at the same time, assists the operations of online marketplaces for Pote and JACK WALK, so as to achieve the integration and development among online and offline channels.

For children's wear: the Group launched 8em, a new brand for children's wear, in order to (i) undertake the parent-child clothing business under our original ladies' wear brands such as La Chapelle kids and Puella kids; and (ii) take full advantage of research and development and supply chain resources sharing to demonstrate personality, fashion and cost-effectiveness. The brand aims to provide personalized, fashionable and cost-effective apparel products to children aged 7-16.

A step forward to internationalization

To enhance the Company's penetration and influence in the international fashion market, and at the same time, to share resources such as product proposals, fashion design, supply chain management and terminal channels with international brands so as to create complementarity and synergy between brands, in the first half of 2018, the Company completed the acquisition of 40% equity interest in Naf Naf SAS incorporated in France. Naf Naf SAS, which is principally engaged in selling ladies' wear products and accessories, was established in 1973 in France and has over 400 stores in various regions including France, Spain, Belgium and Italy.

Optimize layout of channels and accelerate all-channel development

The Group has long been paying close attention to the changing trends of channels, keeping up with the changes in business format and consumption structure and actively adjusting ideas for the development of offline channels. In recent years, we have stepped up efforts to expand shopping malls, adjust urban layout and further explore market space. As of 30 June 2018, shopping centers accounted for 39.8% of the Group's total retail points, accounting for 43.1% of the Group's revenue. At the same time, we proactively make adjustments to our shops located in department stores by optimizing existing stores and closing down stores with poor sales, in order to enhance the quality of channels. In the aspect of offline channels, we focus on enhancing service quality and optimizing terminal display effects. By continuously upgrading of stores, we strive to improve images of our stores. In the aspect of online channels, we focus on flow operation and brand marketing to increase brand activity. We provide differentiated product mix to adopt to and satisfy the individual needs of different consumers, forming an all-channeled development pattern with department stores, shopping center and e-commerce.

Continuous optimization of supply chain management

In order to satisfy the ever changing demands of end consumers, the Group endeavors to constantly improve the quality of products, enhance our quick reaction capability and standardize supplier management. We standardize and strengthen supplier management, continue to cultivate core suppliers and select and reserve new suppliers according to brand positioning for newly cultivated brands. We continue to standardize supplier management, and secure and enhance product quality through multi-dimensional management such as regular assessment of various suppliers and inspections on products by third-party quality inspection agencies. For enhancing our quick reaction capability, we reinforce the refined synergy between demand and supply sides, optimize comprehensive system support for different aspects such as sample design development, production on orders, quality inspection, delivery and arrival at warehouse and reconciliation of accounts.

Intensify the application of information system

Information system is an important mean to increase the Company's operational efficiency. Therefore, it is the Company's long-term development objective to intensify the application of the information system.

With the full application of RFID (radio frequency identification) system, every piece of apparel product in warehouse, on the way of delivery and in store can be able to achieve sole digitalization, which speeds up commodity flow rate, improves transfer accuracy, enhances inventory transparency and improves the accuracy and efficiency of stock taking in stores. The application of RFID system in the Group's three major warehouse logistics centers plays an important role for establishing "smart" and automatic warehouse logistics centers. In the second half of 2018, the Group will further extend the application of the RFID system to product management in stores such as collecting try-on rate and display data, assisting assets management and "smart" matching, to prepare for the establishment of "smart" shops.

In addition, the Group started to establish full life-cycle implementation information system for products to achieve full chain informationization, establish big database and enhance overall operational efficiency in various dimensions such as merchandise financial plan (MFP), product research and development (PLM), product mix, supply chain (SCM) and marketing management, which is thereby beneficial to the healthy and steady development of the Group.

Emphasize on talent nurturing and focus on store service

The Group's long-term talent nurturing strategies are constantly providing trainings to professional talents and creating learning opportunities for our core team. In the first half of 2018, the Group launched an "executive education program" in collaboration with Parsons School of Design, a well-known fashion design institution in the United States. Members of our core team received a half-year professional enhancement course.

The Group focuses on the "improvement in store service" by creating celebrity-themed stores, implementing standardize and regularize management on product display, store appearance, service standard and so on. We enhance staff's awareness and ability when serving customers such as establishing benchmarks and training gold store managers.

HUMAN RESOURCES

As at 30 June 2018, the Group had a total of 37,395 full-time employees (31 December 2017: 37,554). The Group offers its staff appropriate remuneration schemes, including mandatory pension funds, general and commercial insurances, medical benefits and other subsidies. In addition, the Group has set up a union fund which aimed at helping employees with family difficulties or to whom accidents occurred. Concurrently, the Group is committed to building up a culture of learning and sharing within the organization. Since the Group's success depends on the effort of skilled employees in each department, the Group lays emphasis on employee skill training and team spirit fostering.

BUSINESS OUTLOOK

In the second half of 2018, the Group will focus on the improvement in operational efficiency and quality by pursuing the following items:

- establish full life-cycle management system for products and enhance product development accuracy and operational efficiency;
- constantly intensify the application of RFID system in stores and improve refined management capability;
- attempt new retail methods and strengthen service capability at the retail end;
- accelerate product turnover and reinforce inventory management.

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

As at 30 June 2018, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Name of Director	Nature of interest and capacity	Number of shares interested [2]	Approximate percentage of shareholding A shares as at 30 June 2018	Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2018
Mr. Xing Jiaxing[1]	Beneficial owner	141,874,425 A Shares (L)	42.62%	25.91%
	Interest in a controlled corporation, deemed interest pursuant to section 318 of the SFO	45,204,390 A Shares (L)	13.58%	8.25%
	Beneficial owner	75,000,000 A Shares (S)	22.53%	13.69%
	Interest in a controlled corporation, deemed interest pursuant to section 318 of the SFO	22,000,000 A Shares (S)	6.61%	4.02%

Notes:

1 Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.91% of the total issued share capital of the Company as at 30 June 2018. As Mr. Xing Jiaxing holds more than one-third of the equity interest in the registered capital of Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**"), he is deemed, pursuant to section 316 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being 45,204,390 A Shares), which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2018. In addition, Mr. Xing Jiaxing and Shanghai Hexia entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares mentioned above), which represents approximately 8.25% of the total issued share capital of the Company as at 30 June 2018.

Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017 and 7 December 2017, respectively, pursuant to which 75,000,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 35,000,000 A Shares and 40,000,000 A Shares will be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 13.69% of the total issued capital of the Company as at 30 June 2018.

Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018,pursuant to which 22,000,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 22,000,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 4.02% of the total issued capital of the Company as at 30 June 2018.

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

Save as disclosed above, as at 30 June 2018, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2018, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 30 June 2018, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest and capacity	Number of shares interested [6]	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2018	Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2018
Shanghai Hexia[1]	Beneficial owner	45,204,390 A Shares (L)	13.58%	8.25%
	Deemed interest pursuant to section 318 of the SFO	141,874,425 A Shares (L)	42.62%	25.91%
	Deemed interest pursuant to section 318 of the SFO	75,000,000 A Shares (S)	22.53%	13.69%
	Beneficial owner	22,000,000 A Shares (S)	6.61%	4.02%
The Goldman Sachs Group, Inc.[2]	Interest in controlled corporation	18,236,842 A Shares (L)	5.48%	3.33%
Haitong Securities Co., Ltd.	Person having a security interest in shares	75,000,000 A Shares (L)	22.53%	13.69%
Citic Securities Co., Ltd.	Person having a security interest in shares	22,000,000 A Shares (L)	6.61%	4.02%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%

Name of shareholder	Nature of interest and capacity	Number of shares interested [6]	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2018	Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2018
Gabriel Li[3]	Interest in controlled corporation	21,655,200 H Shares (L)	10.08%	3.95%
Lam Lai Ming[3]	Interest in controlled corporation	21,655,200 H Shares (L)	10.08%	3.95%
Zhejiang Longsheng Group Co., Ltd.[4]	Interest in controlled corporation	20,396,400 H Shares (L)	9.50%	3.72%
Senda International Capital Limited	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%
Wang Shenghong[5]	Beneficiary of a trust	26,179,200 H Shares (L)	12.19%	4.78%

Notes:

1 Shanghai Hexia was interested in 45,204,390 A Shares, which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2018. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested or having short positions in the Company's shares in which Mr. Xing Jiaxing is interested or having short positions (being the 141,874,425 A Shares (L) and 75,000,000 A Shares (S) held by Mr. Xing Jiaxing as at 30 June 2018), representing approximately 25.91% and 13.69% respectively of the total issued share capital as at 30 June 2018.

Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018,pursuant to which 22,000,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 22,000,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 4.02% of the total issued capital of the Company as at 30 June 2018.

2 The Goldman Sachs Group, Inc. is a company listed on the New York Stock Exchange. The Goldman Sachs Group, Inc., through its various entities, controls Beijing Kuanjie Bohua 2011 Investment Center (Limited Partnership), which was beneficially interested in 18,236,842 A Shares and The Goldman Sachs Group, Inc was deemed to be interested in such shares by virtue of the SFO.

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

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

5 Mr. Wang Shenghong was deemed to be interested as a beneficiary of a trust in 26,179,200 H shares of the Company held by Tibet Trust Co., Ltd. as trustee.

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

Other than as disclosed above, as at 30 June 2018, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

On 28 August 2018, the Board has proposed to pay an interim dividend (the "**2018 Interim Dividend**") of RMB 0.25 (tax inclusive) per share of the Company (the "**Share(s)**") for the six months ended 30 June 2018, subject to the approval by the shareholders of the Company (the "**Shareholder(s)**") at the extraordinary general meeting of the Company (the "**EGM**") to be held on 19 October 2018. For distribution of the 2018 Interim Dividend, dividends on A Shares will be paid in Renminbi and dividends on H Shares will be paid in Hong Kong dollars (calculated based on the average of the exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for five business days immediately prior to the date of EGM).

Profit Distribution for Investors of Northbound Trading

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

Profit Distribution for Investors of Southbound Trading

For investors investing in the H Shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) (the "**Southbound Trading**"), the Company has entered into the Agreement on Appropriation of Cash Dividends of H Shares for Southbound Trading（《港股通H股股票現金紅利派發協議》）with China Securities Depository and Clearing Corporation Limited, pursuant to which, China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depositary and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in Renminbi. Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81)（《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》（財稅[2014]81號））and Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127)（《關於深港通股票市場交易互聯互通機制試點有關稅收政策的通知》（財稅[2016]127號））: for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the H shares company shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong

Kong Stock Connect, the tax payable shall be the same as that for individual investors. The H shares company will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves. The record date and the date of appropriation of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES FOR PAYMENT OF THE 2018 INTERIM DIVIDEND

In order to determine the Shareholders of H Shares who are entitled to receive the 2018 Interim Dividend, the register of members for H Shares of the Company will be closed from 25 October 2018 to 30 October 2018 (both days inclusive), during which period no transfer of H Shares can be registered.

In order to be qualified to receive the 2018 Interim Dividend, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 24 October 2018.

The Shareholders of H Shares whose names appear on the register of members for H Shares of the Company at the close of business on 30 October 2018 are entitled to receive the 2018 Interim Dividend. Subject to Shareholders' approval at the EGM, the 2018 Interim Dividend is expected to be paid on or about 17 December 2018. The time and arrangement for distribution of dividend in respect of A Shares will be announced seperately.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2018, save as to the deviation from the Code Provision A.2.1.

Code Provision A.2.1 requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Xing Jiaxing i s currently the chairman and chief executive officer of the Company, responsible for the overall management of the Group. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of three independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing Jiaxing taking up both roles for continuous effective management and business development of the Group.

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in the Appendix 14 to the Listing Rules for the six months ended 30 June 2018.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the six months ended 30 June 2018.

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

In accordance with Rule 13.51B(1) of the Listing Rules, there was no change in the personal information regarding Directors and Supervisors.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee currently comprises one non-executive Director, namely Mr. Luo Bin, and two independent non-executive Directors, namely Dr. Chen Jieping and Mr. Chan, Wing Yuen Hubert.

EVENT AFTER REPORTING PERIOD

On 30 July 2018, the Company changed its principal place of business in Hong Kong to 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong with immediate effect. For further information, please refer to the Company's announcement dated 30 July 2018.

On 24 August 2018, Ms. Fang Xian Li resigned as a joint company secretary of the Company with immediate effect. For further information, please refer to the Company's announcement dated 24 August 2018.

Saved as disclosed herein, there was no other material event that may possibly affect the Group since the end of the Reporting Period.

APPRECIATION

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

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

Shanghai, the PRC, 19 September 2018

Interim Consolidated Balance Sheet

As at 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

Assets	Notes	**30 June 2018 Consolidated**	31 December 2017 Consolidated (Restated)	1 January 2017 Consolidated (Restated)
Current assets				
Cash at bank and on hand	4(1)	**389,263**	930,580	701,914
Financial assets held for trading	4(2)	**17,000**	–	–
Notes receivable and accounts receivable	4(3),4(17),8(5)	**747,051**	1,053,436	1,052,184
Advances to suppliers	4(4)	**460,295**	243,098	324,590
Other receivables	4(5),4(17)	**387,164**	325,817	278,966
Inventories	4(6),4(17)	**2,036,633**	2,344,639	1,713,576
Other current assets	4(7)	**77,259**	157,070	7,486
Total current assets		**4,114,665**	5,054,640	4,078,716
Non-current assets				
Available-for-sale financial assets	4(2),4(8)	**–**	67,544	190,649
Other non-current financial assets	4(2)	**28,200**	–	–
Other equity instruments	4(8)	**53,159**	–	–
Long-term equity investments	4(9)	**681,567**	428,465	130,381
Fixed assets	4(10)	**454,201**	455,482	230,664
Construction in progress	4(11)	**904,440**	577,675	365,331
Intangible assets	4(12)	**208,720**	202,517	218,322
Goodwill	4(13)	**114,324**	113,555	105,722
Long-term prepaid expenses	4(14)	**651,847**	711,780	776,640
Deferred tax assets	4(16)	**260,176**	246,449	192,149
Other non-current assets	4(15)	**15,002**	13,605	15,069
Total non-current assets		**3,371,636**	2,817,072	2,224,927
TOTAL ASSETS		**7,486,301**	7,871,712	6,303,643

Interim Consolidated Balance Sheet

As at 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Liabilities and Equity	Notes	30 June 2018 Consolidated	31 December 2017 Consolidated (Restated)	1 January 2017 Consolidated (Restated)
Current liabilities				
Short-term borrowings	4(18)	**1,740,000**	1,006,000	300,000
Notes payable and accounts payable	4(19)	**642,830**	1,522,588	1,034,202
Advances from customers	4(20)	**1,021**	363	320
Employee benefits payable	4(21)	**173,178**	220,842	281,872
Taxes payable	4(22)	**117,279**	253,538	344,946
Other payables	4(23),8(5)	**548,964**	702,121	728,514
Current portion of non-current liabilities	4(24)	**28,677**	29,993	34,632
Total current liabilities		**3,251,949**	3,735,445	2,724,486
Non-current liabilities				
Deferred tax liabilities	4(16)	**38,121**	20,590	14,566
Other non-current liabilities	4(24)	**36,713**	46,449	54,373
Total non-current liabilities		**74,834**	67,039	68,939
Total liabilities		**3,326,783**	3,802,484	2,793,425
Equity				
Share capital	1,4(25)	**547,672**	547,672	492,902
Capital surplus	4(26)	**1,894,242**	1,894,097	1,537,825
Other comprehensive income/(losses)	4(27)	**4,969**	(723)	11,973
Surplus reserve	4(28)	**219,154**	219,154	148,768
Undistributed profits	4(29)	**1,330,695**	1,215,356	1,115,817
Total equity attributable to shareholders of the Company		**3,996,732**	3,875,556	3,307,285
Minority interests		**162,786**	193,672	202,933
Total equity		**4,159,518**	4,069,228	3,510,218
TOTAL LIABILITIES AND EQUITY		**7,486,301**	7,871,712	6,303,643

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Company Balance Sheet

As at 30 June 2018

(All amounts in RMB'000 unless otherwise stated)

Assets	Notes	30 June 2018 Company	31 December 2017 Company (Restated)	1 January 2017 Company (Restated)
Current assets				
Cash at bank and on hand		**184,865**	561,359	388,337
Note receivable and accounts receivable	15(1)	**611,979**	1,675,090	897,791
Advances to suppliers		**121,295**	56,342	92,094
Other receivables	15(2)	**2,141,484**	1,483,463	1,576,445
Inventories	15(3)	**1,714,540**	2,037,181	413,816
Other current assets		**50,362**	115,814	6,495
Total current assets		**4,824,525**	5,929,249	3,374,978
Non-current assets				
Available-for-sale financial assets		**–**	18,200	–
Other non-current financial assets		**18,200**	–	–
Long-term equity investments	15(4)	**1,267,432**	863,083	817,650
Fixed assets		**24,403**	11,102	11,269
Construction in progress		**6,187**	5,444	5,277
Intangible assets		**8,244**	10,610	14,345
Long-term prepaid expenses		**69,760**	61,522	78,428
Deferred tax assets		**62,676**	52,177	31,846
Other non-current assets		**–**	–	10,000
Total non-current assets		**1,456,902**	1,022,138	968,815
TOTAL ASSETS		**6,281,427**	6,951,387	4,343,793

Interim Company Balance Sheet

As at 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Liabilities And Equity	Notes	**30 June 2018 Company**	31 December 2017 Company (Restated)	1 January 2017 Company (Restated)
Current liabilities				
Short-term borrowings		**1,740,000**	1,006,000	300,000
Notes payable and accounts payable		**775,593**	2,065,508	642,887
Employee benefits payable		**37,919**	52,920	72,486
Taxes payable		**36,008**	57,150	109,097
Other payables		**341,601**	651,003	883,269
Current portion of non-current liabilities		**1,213**	2,192	3,721
Total current liabilities		**2,932,334**	3,834,773	2,011,460
Non-current liabilities				
Other non-current liabilities		**121**	366	2,387
Total liabilities		**2,932,455**	3,835,139	2,013,847
Equity				
Share capital	1,4(25)	**547,672**	547,672	492,902
Capital surplus	4(26)	**1,894,242**	1,894,097	1,537,825
Surplus reserve	4(28)	**219,154**	219,154	148,768
Undistributed profits		**687,904**	455,325	150,451
Total equity		**3,348,972**	3,116,248	2,329,946
TOTAL LIABILITIES AND EQUITY		**6,281,427**	6,951,387	4,343,793

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Consolidated Income Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

		For the 6 months ended 30 June	
Item	Notes	**2018 Consolidated**	2017 Consolidated
1. Revenue	4(30),8(4)	**4,378,817**	4,281,863
Less: Cost of sales	4(30),4(35),8(4)	**(1,621,749)**	(1,495,327)
Taxes and surcharges	4(31)	**(35,371)**	(42,558)
Selling and distribution expenses	4(32),4(35)	**(2,143,076)**	(2,051,818)
General and administrative expenses	4(33),4(35),8(4)	**(226,496)**	(186,485)
Financial expenses-net	4(34),8(4)	**(13,999)**	(5,220)
Asset impairment losses	4(36)	**(151,427)**	(155,444)
Investment income	4(38)	**51,526**	1,502
Including: share of net profit of associates and a joint venture		**63,658**	1,502
Losses on disposals of assets	4(39)	**(122)**	(191)
Other income	4(40)	**85,137**	58,590
8. Operating profit		**323,240**	404,912
Add: Non-operating income	4(41)	**3,491**	1,318
Less: Non-operating expenses	4(42)	**(5,967)**	(4,246)
3. Total profit		**320,764**	401,984
Less: Income tax expenses	4(43)	**(79,295)**	(101,017)
4. Net profit		**241,469**	300,967
Classified by continuity of operations			
Net profit from continuing operations		**241,469**	300,967
Net profit from discontinued operations		**–**	–
Classified by ownership of the equity			
Attributable to shareholders of the Company		**235,827**	281,747
Minority interests		**5,642**	19,220

Interim Consolidated Income Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

		For the 6 months ended 30 June	
Item	Notes	**2018 Consolidated**	2017 Consolidated
5. Other comprehensive income, net of tax	4(27)	**5,692**	15,887
Attributable to shareholders of the Company		**5,692**	15,887
Changes in fair value of available-for-sale financial assets		**–**	16,680
Translation differences on translation of foreign currency financial statements		**5,692**	(793)
6. Total comprehensive income		**247,161**	316,854
Attributable to shareholders of the Company		**241,519**	297,634
Attributable to minority interests		**5,642**	19,220
7. Earnings per share			
Basic earnings per share (RMB)	4(44)	**0.43**	0.57
Diluted earnings per share (RMB)		**0.43**	0.57

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Company Income Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June **2018** **Company**	 2017 Company
1. Revenue	15(5)	**2,265,029**	1,919,812
Less: Cost of sales	15(5)	**(1,482,649)**	(1,188,119)
Taxes and surcharges		**(5,008)**	(9,636)
Selling and distribution expenses		**(542,362)**	(447,233)
General and administrative expenses		**(116,733)**	(95,290)
Financial expenses-net		**(18,105)**	(8,840)
Asset impairment losses		**(128,546)**	(123,443)
Investment income	15(6)	**340,816**	583,277
Including: share of losses of associates		**(20,651)**	–
Losses on disposals of assets		**179**	–
Other income		**42,092**	26,722
2. Operating profit		**354,713**	657,250
Add: Non-operating income		**1,059**	333
Less: Non-operating expenses		**(5,216)**	(349)
3. Total profit		**350,556**	657,234
Less: Income tax expenses		**2,511**	(19,274)
4. Net profit		**353,067**	637,960
Classified by continuity of operations			
Net profit from continuing operations		**353,067**	637,960
Net profit from discontinued operations		**–**	–
5. Other comprehensive income, net of tax		**–**	–
6. Total comprehensive income		**353,067**	637,960

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Consolidated Cash Flow Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June 2018 Consolidated	 2017 Consolidated
1. Cash flows (used in)/from operating activities			
Cash received from sales of goods or rendering of services		**5,403,784**	5,338,879
Cash received relating to other operating activities	4(45)	**96,785**	77,134
Sub-total of cash inflows		**5,500,569**	5,416,013
Cash paid for goods and services		**(3,603,749)**	(3,219,084)
Cash paid to and on behalf of employees		**(1,253,794)**	(1,194,041)
Payments of taxes and surcharges		**(544,647)**	(674,664)
Cash paid relating to other operating activities	4(45)	**(354,677)**	(287,875)
Sub-total of cash outflows		**(5,756,867)**	(5,375,664)
Net cash flows (used in)/from operating activities	4(46)	**(256,298)**	40,349
2. Cash flows used in investing activities			
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		**392**	618
Cash received relating to other investing activities	4(45)	**4,981**	14,893
Sub-total of cash inflows		**5,373**	15,511
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(527,561)**	(323,253)
Net cash paid to acquire associates and a joint venture	4(9)	**(201,494)**	(25,900)
Cash paid relating to other investing activities	4(45)	**(44,618)**	(37,800)
Sub-total of cash outflows		**(773,673)**	(386,953)
Net cash flows used in investing activities		**(768,300)**	(371,442)

Interim Consolidated Cash Flow Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	For the 6 months ended 30 June 2018 Consolidated	 2017 Consolidated
3. Cash flows from financing activities			
Cash received from capital contributions		–	1,150
Including: cash received from capital contributions by minority shareholders		–	1,150
Cash received from borrowings		**1,170,000**	636,000
Cash received relating to other financing activities		**2,310**	–
Sub-total of cash inflows		**1,172,310**	637,150
Cash repayments of borrowings		**(437,602)**	(150,000)
Cash payments for distribution of dividends, profits or interest expenses		**(254,750)**	(211,260)
Cash payments relating to other financing activities	4(45)	–	(624)
Sub-total of cash outflows		**(692,352)**	(361,884)
Net cash flows from financing activities		**479,958**	275,266
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(35)**	–
5. Net decrease in cash and cash equivalents	4(46)	**(544,675)**	(55,827)
Add: cash and cash equivalents at beginning of period		**815,580**	581,389
6. Cash and cash equivalents at end of period		**270,905**	525,562

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Company Cash Flow Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	For the 6 months ended 30 June 2018 COMPANY	2017 COMPANY
1. Cash flows (used in)/from operating activities		
Cash received from sales of goods or rendering of services	**3,739,465**	2,714,419
Cash received relating to other operating activities	**65,903**	36,265
Sub-total of cash inflows	**3,805,368**	2,750,684
Cash paid for goods and services	**(3,298,498)**	(2,074,840)
Cash paid to and on behalf of employees	**(267,862)**	(285,492)
Payments of taxes and surcharges	**(117,784)**	(277,518)
Cash paid relating to other operating activities	**(239,093)**	(62,681)
Sub-total of cash outflows	**(3,923,237)**	(2,700,531)
Net cash flows (used in)/from operating activities	**(117,869)**	50,153
2. Cash flows used in investing activities		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**281**	353
Cash received relating to other investing activities	**333,923**	584,242
Sub-total of cash inflows	**334,204**	584,595
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(73,757)**	(18,860)
Net cash paid to acquire subsidiaries and other business units	**(405,000)**	(36,000)
Cash paid relating to other investing activities	**(654,918)**	(909,500)
Sub-total of cash outflows	**(1,133,675)**	(964,360)
Net cash flows used in investing activities	**(799,471)**	(379,765)

Interim Company Cash Flow Statements

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	For the 6 months ended 30 June 2018 COMPANY	 2017 COMPANY
3. Cash flows from financing activities		
Cash received from borrowings	**1,170,000**	636,000
Cash repayments of borrowings	**(436,000)**	(150,000)
Cash payments for distribution of dividends, profits or interest expenses	**(193,154)**	(161,530)
Cash payments relating to other financing activities	**–**	(624)
Sub-total of cash outflows	**(629,154)**	(312,154)
Net cash flows from financing activities	**540,846**	323,846
4. Effect of foreign exchange rate changes on cash and cash equivalents	**–**	–
5. Net decrease in cash and cash equivalents	**(376,494)**	(5,766)
Add: cash and cash equivalents at beginning of period	**561,359**	388,337
6. Cash and cash equivalents at end of period	**184,865**	382,571

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Consolidated Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Item	Notes	**Share capital**	**Capital surplus**	**Other comprehensive (losses)/income**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' equity**
Balance at 31 December 2016		492,902	1,537,825	11,973	148,768	1,115,817	202,933	3,510,218
Balance at 1 January 2017		492,902	1,537,825	11,973	148,768	1,115,817	202,933	3,510,218
Movements for the 6 months ended 30 June 2017								
Total comprehensive income								
Net profit	4(29)	–	–	–	–	281,747	19,220	300,967
Other comprehensive income	4(27)	–	–	15,887	–	–	–	15,887
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	4(25), 4(26)	–	–	–	–	–	3,460	3,460
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(26)	–	2,858	–	–	–	–	2,858
Minority interests arising from business combination	5(1)	–	–	–	–	–	8,111	8,111
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(28), 4(29)	–	–	–	–	–	–	–
Profit distribution to shareholders	4(29)	–	–	–	–	(147,871)	(59,745)	(207,616)
Balance at 30 June 2017		492,902	1,540,683	27,860	148,768	1,249,693	173,979	3,633,885

Interim Consolidated Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Item	Notes	**Share capital**	**Capital surplus**	**Other comprehensive (losses)/income**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' equity**
Balance at 31 December 2017		**547,672**	**1,894,097**	**(723)**	**219,154**	**1,215,356**	**193,672**	**4,069,228**
Changes in accounting policies	2(28)(c)	-	-	-	-	-	-	-
Balance at 1 January 2018		**547,672**	**1,894,097**	**(723)**	**219,154**	**1,215,356**	**193,672**	**4,069,228**
Movements for the 6 months ended 30 June 2018								
Total comprehensive income								
Net profit	4(29)	**-**	**-**	**-**	**-**	**235,827**	**5,642**	**241,469**
Other comprehensive income	4(27)	**-**	**-**	**5,692**	**-**	**-**	**-**	**5,692**
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	4(25), 4(26)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(26)	**-**	**145**	**-**	**-**	**-**	**-**	**145**
Minority interests arising from business combination	5(1)	**-**	**-**	**-**	**-**	**-**	**27,008**	**27,008**
Minority interests on disposal of subsidiaries		**-**	**-**	**-**	**-**	**-**	**(1,503)**	**(1,503)**
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(28), 4(29)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit distribution to shareholders	4(29)	**-**	**-**	**-**	**-**	**(120,488)**	**(62,033)**	**(182,521)**
Balance at 30 June 2018		**547,672**	**1,894,242**	**4,969**	**219,154**	**1,330,695**	**162,786**	**4,159,518**

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

Interim Company Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2018
(All amounts in RMB'000 unless otherwise stated)

Item	Notes	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance at 31 December 2016		492,902	1,537,825	148,768	150,451	2,329,946
Balance at 1 January 2017		492,902	1,537,825	148,768	150,451	2,329,946
Movements for the 6 months ended 30 June 2017						
Total comprehensive income						
Net profit		–	–	–	637,960	637,960
Capital contribution and withdrawal by shareholders						
Capital contribution by shareholders	4(25),4(26)	–	–	–	–	–
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(26)	–	2,858	–	–	2,858
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(28),4(29)	–	–	–	–	–
Profit distribution to shareholders	4(29)	–	–	–	(147,871)	(147,871)
Balance at 30 June 2017		492,902	1,540,683	148,768	640,540	2,822,893
Balance at 31 December 2017		**547,672**	**1,894,097**	**219,154**	**455,325**	**3,116,248**
Changes in accounting policies	2(28)(c)	**–**	**–**	**–**	**–**	**–**
Balance at 1 January 2018		**547,672**	**1,894,097**	**219,154**	**455,325**	**3,116,248**
Movements for the 6 months ended 30 June 2018						
Total comprehensive income						
Net profit		**–**	**–**	**–**	**353,067**	**353,067**
Capital contribution and withdrawal by shareholders						
Capital contribution by shareholders	4(25),4(26)	**–**	**–**	**–**	**–**	**–**
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(26)	**–**	**145**	**–**	**–**	**145**
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(28),4(29)	**–**	**–**	**–**	**–**	**–**
Profit distribution to shareholders	4(29)	**–**	**–**	**–**	**(120,488)**	**(120,488)**
Balance at 30 June 2018		**547,672**	**1,894,242**	**219,154**	**687,904**	**3,348,972**

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

Legal representative:	Principal in charge of accounting:	Head of accounting department:
Xing Jiaxing	Shen Jiaming	Yu Luwen

1 GENERAL INFORMATION

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

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

In October 2014, the Company completed its global initial public offering and its H Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited by issuing 138,643 thousands of overseas-listed shares ("H Shares") at par value of RMB1 (including the Over-Allotment Option of 17,064 thousands of H Shares). Stock code: 06116, stock short name "La Chapelle".

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

For the 6 months ended 30 June 2018, the share capital of the Company was RMB547,672 thousands and the total number of the Company's shares was 547,672 thousands of shares, including 332,882 thousands of A Shares and 214,790 thousands of H Shares respectively.

Subsidiary newly included in the scope of consolidation during the current period is Shanghai Pincheng Industry Co., Ltd. ("Pincheng") (Note 5(1)). Subsidiary excluded from the scope of consolidation during the current period is Shanghai Jiuwo Fashion Co., Ltd. ("Jiuwo") (Note 5(2)).

The unaudited interim financial statements have been approved and authorised for issue by the Company's Board of Directors on 28 August 2018.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including impairment of financial instruments (Note 2(9)(a)(ii)), valuation of inventories (Note 2(10)), expected useful lives and expected residual values of fixed assets, intangible assets and long-term prepaid expenses (leasehold improvements) (Note 2(12), Note 2(15) and Note 2(17), respectively), impairment losses of long-term assets, valuation of income taxes, impairment of goodwill, etc.

The areas including significant judgements to determine the critical accounting policies are disclosed in Note 2(29).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Basis of preparation

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

The unaudited interim financial statements are prepared on a going concern basis.

Certain disclosures in the unaudited interim financial statements have been included to reflect the requirements under the new Hong Kong Company Ordinance.

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

The unaudited interim financial statements of the Company for the 6 months ended 30 June 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position as at 30 June 2018 and their financial performance, cash flows and other information for the 6 months ended 30 June 2018.

(3) Accounting year

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

(4) Recording currency

The Company's recording currency of the is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment where they incorporated and operated. The recording currency of LaCha Fashion I Limited ("LaCha Fashion") and LaCha Apparel I Ltd (BVI) ("Apparel") is Hong Kong Dollar (HKD) and United States Dollar (USD) respectively. The consolidated financial statements of the Group are represented in RMB.

(5) Business combinations

Business combinations involving enterprises not under common control

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Preparation of consolidated financial statements

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

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

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

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

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

(7) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(8) Foreign currency translation

(a) Foreign currency transactions

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

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

(b) Translation of foreign currency financial statements

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

(9) Financial instruments

Financial instrument refers to any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

(a) Financial assets

(i) Classification and measurement

On the basis of the business model for managing financial assets and their contractual cash flow characteristics, the Group classifies financial assets as: a) financial assets at amortised cost; b) financial assets at fair value through other comprehensive income; and c) financial assets at fair value through profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and measurement (continued)

Financial assets are measured at fair value at initial recognition. All transaction costs related to financial instruments designated as fair value through profit or loss are expensed in profit or loss. Transaction costs related to other categories of financial assets are attributable to the initial amount of the financial assets. Notes receivable and accounts receivable derived from sales of goods or rendering of services, which do not contain or consider significant financing components are recognised at the amount that the Group expects to have the right to collect.

Debt instruments

Debt instruments held by the Group are instruments which meet the definition of financial liabilities analysed from the issuers perspective. There are three measurement categories into which the group classifies its debt instruments.

Amortised cost

The financial asset is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Such financial assets mainly include cash at bank and on hand, notes receivable and accounts receivable, other receivables, debt invenstments and long-term receivables. The debt investments and long-term receivables with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current; debts with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

Fair value through other comprehensive income

The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. Such financial assets are presented as other debt investments. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current assets; other debts investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and measurement (continued)

Fair value through profit or loss

Debt instruments that do not meet the criteria of amortised cost or fair value through other comprehensive income are measured at financial assets at fair value through profit or loss, presented in financial assets held for trading. In order to eliminate or significantly reduce accounting mismatch at initial recognition, the Group designates part of financial assets in financial assets at fair value through profit or loss. The assets with maturity more than 1 year and expected to be held for more than 1 year are presented in other non-current financial assets.

Equity instruments

The group measures all equity investments without existence of control, joint control or significant influence over investees at financial assets at fair value through profit or loss, presented in financial assets held for trading. The assets which are expected to be held for more than 1 year are presented in other non-current financial assets.

In addition, the Group designates part of financial assets which are not held for trading as financial assets at fair value through other comprehensive income, presented in other equity instrument investment. The dividend income is recognised in profit or loss.

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets at amortised cost, debt instrument investments at fair value through other comprehensive income, contract assets and financial guarantee contracts.

The expected credit loss is measured as the difference between the receivables agreed upon the contracts and present value of estimated future cash flows weighted at the risk of default discounted, according to reasonable and reliable information of historical experience and future macroeconomic data.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets (continued)

The Group assesses the expected credit losses in different stages respectively at the end of each reporting period. In stage 1: If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses; In stage 2: If the credit risk on that financial instrument has increased significantly since initial recognition, but a credit impairment has not occurred, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses; In stage 3: If the impairment loss has incurred since initial recognition, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with related low credit risk at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group calculates interest income of financial instruments in stage 1, stage 2 and with relatively low credit risk by using the effective interest rate and the carrying amount before impairment. The interest income of financial instruments in stage 3 is calculated by using carrying amount after impairment and effective interest rate.

The Group measures the loss allowance of accounts receivable and contract assets at an amount equal to the lifetime expected credit losses, regardless of whether they contain any significant financing component.

The Group classifies receivables into the groups of accounts receivable and other receivables. The criteria of classification of groups based on the credit risk characteristics are listed as following:

Receivables group	Receivables derived from sales of goods
Other receivables group	Deposits
Other receivables group	Staff advance and others
Other receivables group	Amounts due from subsidiaries
Other receivables group	Dividend receivable
Other receivables group	Interests receivable from fixed deposits

To calculate expected credit losses for accounts receivable, the Group prepares tables comparing days past due of accounts receivable and lifetime expected credit loss after considering historical experience of credit losses which are adjusted for forward looking macroeconomic data.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets (continued)

For other receivables designated as a group, the Group calculates expected credit loss by exposure of default and 12-month or lifetime expected credit loss rates, after considering historical experience of credit losses which are adjusted for forward looking macroeconomic data.

The Group recognises the impairment loss and the reversal of previously recognised impairment loss in profit or loss. For the debt instruments at fair value through other comprehensive income, the Group recognises the impairment loss in profit or loss and simultaneously adjust other comprehensive income accordingly.

(iii) De-recognition of financial assets

A financial asset is derecognised when any of the following criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; or (2) the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have substantially been transferred to the transferee; or (3) although the Group neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset, the financial asset has been transferred and the Group has not retained control of the financial asset.

On de-recognition of other equity instrument investments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that have been recognised directly in equity, is recognised in retained earnings. On de-recognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes has been recognised in other comprehensive income, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

The financial liabilities of the Group are mainly financial liabilities at amortised cost, including notes payable and accounts payable, other payables, borrowings and debts payable, etc. The financial liabilities are initially measured at fair value exclusive transaction costs and subsequently measured at effective interest rate method. Financial liabilities with maturities within 1 year (inclusive) are presented in current liabilities. Financial liabilities with maturities more than 1 year but are due within 1 year (inclusive) at the balance sheet date are presented in current portion of non-current liabilities. Others are presented in non-current liabilities.

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximize the use of relevant observable inputs. When related observable inputs can't be acquired or are not feasible to be acquired, then use unobservable inputs.

(10) Inventories

(a) Classification

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

(b) Costing of inventories

Cost is determined using the weighted average method.

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

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

(d) The Group adopts the perpetual inventories system.

(e) Amortisation method of low value consumables

Low value consumables are written off once used.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments

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

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

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

(a) Determination of investment cost

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments (continued)

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

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

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

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

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(18)).

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Fixed assets

(a) Recognition and initial measurement of fixed assets

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

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

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

(b) Depreciation method of fixed assets

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

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

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

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

(c) The carrying amount of fixed assets is reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(18)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Fixed assets (continued)

(d) Disposal of fixed assets

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

(13) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(18)).

(14) Borrowing costs

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Intangible assets

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

(a) Land use rights

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

(b) Trademark

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

(c) Purchased software

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

(d) Brands

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

(e) Favorable contracts

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

(f) Periodical review of useful life and amortisation method

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

(g) Impairment of intangible assets

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(18)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(16) Goodwill

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

(17) Long-term prepaid expenses

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

(18) Impairment of long-term assets

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(19) Employee benefits

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

(a) Short-term employee benefits

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

(b) Post-employment benefits

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

Basic pensions

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

(20) Dividends distribution

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Provisions

Provisions for sales returns etc. are recognised when the Group has a present obligation. It is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

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

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

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

(22) Revenue recognition

Sales are recognised when control of the products or service has transferred, at the amount equal to the price expected to have rights to collect.

(a) Sale of goods – wholesale

The Group sells products in wholesale in different areas. Sales are recognised when products have been shipped to specific locations agreed in sales contracts and the customers have inspected the products and both parties confirm the delivery by signing delivery sheets. No element of financing is deemed present as the sales are made with a credit term which is normally 90 days for wholesale, which is consistent with market practice.

The products are often sold with retrospective volume discounts based on aggregate sales over a period of time. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts.

(b) Sale of goods – retail

The Group directly sells products to customers in retail, and recognises revenue once the products have been sold to customers. Customers are granted the right to return the products within 7 days after the purchase. Accumulated experience and historical data are used to estimate such returns at the time of purchase and net off the revenue. A return liability (included in other current liability) is recognised for the products expected to be returned. Simultaneously, cost of the returned goods (included in other current assets) are recognised, to the amount of the carrying amount of the products expected to be returned minus by the expected cost of recalling the products.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Revenue recognition (continued)

(c) Rendering of services

The Group provides online platform operation service to its related parties. Revenue is recognised in the period when the service is rendered. The percentage of completion of service is determined by the percentage of cost occurred by the budgeted total cost. As at balance sheet date, the Group reassesses the percentage of completion of service, in order to reflect any change of performance of contracts.

Accounts receivable are recognised at the amount of which the Group has already obtained the unconditional right to collect the consideration, when the Group recognises revenue for service provided. The remaining consideration is recognised as contract assets. The impairment of accounts receivable and contract assets are determined based on the expected credit losses. The contract asset and contract liability under the same contract are presented in net basis.

(23) Government grants

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and

- tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Operating leases

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

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

Deferred income is recognised when a rental subsidy is received, and is deferred against rental fee over the lease term on a straight-line basis. The deferred income is classified as current liabilities when the lease term is within one year; those expected to be deferred within one year since the balance sheet date are classified as current portion of non-current liabilities; others are classified as non-current liabilities.

(26) Share-based payment

(a) Equity settled share-based payments

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

In the Group's consolidated financial statements, the share-based compensation plans are treated as equity settled share-based payments, as the Group does not have any obligation to settle these awards. The share-based compensation charges were pushed down to the Group during the vesting period and recorded as an expense in the consolidated statement of profit or loss, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Share-based payment (continued)

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

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

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

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

(27) Segment information

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

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

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Significant changes in accounting policies

(a) In 2018, the Ministry of Finance released 'Circular of Ministry of Finance on Amendment to Formats of 2018 Financial Statements of General Industry' (Cai Kuai [2018] 15). The Group's financial statements for the 6 months ended 30 June 2018 are prepared in accordance with the above circular, and the comparative financial statements are revised accordingly. The impact on the financial statements are as follows:

		The amounts affected	
The nature and the reasons of the changes in accounting policies	**The line items affected**	**31 December 2017**	**1 January 2017**
The Group records 'notes receivable' and 'accounts receivable' into 'notes receivable and accounts receivable'.	Accounts receivable	(1,053,436)	(1,052,184)
	Notes receivable and accounts receivable	1,053,436	1,052,184
The Group records 'interests receivable', 'dividends receivable' and 'other receivables' into 'other receivables'.	Interests receivable	(2,281)	(2,695)
	Other receivables	2,281	2,695
The Group records 'notes payable' and 'accounts payable' into 'notes payable and accounts payable'.	Accounts payable	(988,084)	(638,910)
	Notes payable	(534,504)	(395,292)
	Notes payable and accounts payable	1,522,588	1,034,202
The Group records 'interest payable', 'dividends payable' and 'other payables' into 'other payables'.	Interests payable	(3,036)	(381)
	Dividends payable	(168,729)	–
	Other payables	171,765	381

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Significant changes in accounting policies (continued)

(b) Revenue

In 2017, the Ministry of Finance issued the revised 'Accounting Standard for Business Enterprises No. 14—Revenue', ("New Revenue Standard"). The Group's interim financial statements for the 6 months ended 30 June 2018 are prepared in accordance with the New Revenue Standard.

According to the New Revenue Standard, the Group is not required to adjust the retained earnings at the beginning of 2018 due to the first adoption of the New Revenue Standard.

(c) Financial Instrument

In 2017, the Ministry of Finance issued the 'Accounting Standard for Business Enterprises No. 22—Recognition and Measurement of Financial Instruments', 'Accounting Standard for Business Enterprises No. 23—Transfer of financial assets', 'Accounting Standard for Business Enterprises No. 37—Disclosure of Financial Disclosure', etc. (together "the new financial instrument standard"), and issued 'Circular of Ministry of Finance on Amendment to Formats of 2018 Financial Statements of General Industry' (Cai Kuai [2018] 15) in 2018. The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

(i) As at 1 January 2018, financial assets classified and measured using the original and the new financial instruments standard are compared as below:

Original Financial Instrument Principle			New Financial Instrument Principle		
Items	**Measurement categories**	**Carrying amounts**	**FSLI**	**Measurement categories**	**Carrying amounts**
Cash at bank and on hand	Amortised cost	930,580	Cash at bank and on hand	Amortised cost	930,580
Other current assets	Fair value through other comprehensive income	17,000	Financial assets held for trading	Fair value through profit or loss	17,000
Notes receivable and accounts receivable	Amortised cost	1,053,436	Notes receivable and accounts receivable	Amortised cost	1,053,436
Other receivables	Amortised cost	325,817	Other receivables	Amortised cost	325,817
	Fair value through other comprehensive income (equity instrument)	67,544	Other non-current financial assets	Fair value through profit or loss	28,200
Available-for-sale financial asstes	Cost (equity instruments)	–	Other equity instrument investments	Fair value through other comprehensive income	39,344

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Significant changes in accounting policies (continued)

(c) Financial Instrument

(ii) As at 1 January 2018, according to the measurement categories under the new financial instrument standard, the original carrying amount of financial instruments are reconciled to the carrying amounts under the new financial instruments standard as follows:

The measurement categories under the new financial instrument standard	Notes
Financial assets at fair value through profit or loss	Table 1
Financial assets at fair value through other comprehensive income	Table 2

Table 1: financial assets at fair value through profit or loss under the new financial instrument standard

	Notes	**Carrying amounts**
Financial assets held for trading (including other non-current financial assets)		
31 December 2017		–
Add: transferred from available-for-sale financial assets (including other current assets) (under the original financial instrument standard)	i),ii)	45,200
1 January 2018		45,200
Total financial assets at fair value through profit or loss (under the new financial instrument standard)		45,200

Table 2: financial assets at fair value through other comprehensive income under the new financial instrument standard

	Notes	**Carrying amounts**
Other equity instruments investments		
31 December 2017		–
Add: transferred from available-for-sale financial assets (under the original financial instrument standard)	iii)	39,344
1 January 2018		39,344
Available-for-sale financial assets (including other current assets)		
31 December 2017		84,544
Less: transferred to financial assets at fair value through profit or loss (under the new financial instrument standard)	i),ii)	(45,200)
Less: transferred to financial assets at fair value through other comprehensive income (under the new financial instrument standard)	iii)	(39,344)
1 January 2018		–
Total financial assets at fair value through other comprehensive income (under the new financial instrument standard)		39,344

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) As at 1 January 2018, according to the measurement categories under the new financial instrument standard, the original carrying amount of the financial instrument are reconciled to the carrying amounts under the new financial instruments as follows: (continued):

i) Wealth management products with principal guaranteed, floating interest rate

As at 31 December 2017, the Group held the wealth management products are with principal guaranteed, floating interest rate, and the term is 365 days with fair value of RMB17,000,000. After the Group applying the new financial instrument standard, since the contractual cash flow characteristics of the asset do not represent solely payments of principal and interest on the principal amount, as at 1 January 2018, the asset was reclassified out of other current assets-available-for-sale financial assets to financial assets at fair value through profit or loss, which are presented in financial assets held for trading.

ii) Equity investment

As at 31 December 2017, the Group held investment of 19.96% interest in Hangzhou Zhitou Investment Partnership (Limited Partnership) (杭州智投股權投資合夥企業(有限合夥)) as a limited partner with a total consideration of RMB10,000,000. Considering the objective of holding the financial asset is for short-term trading, which is an equity instrument held for trading, the Group reclassified the asset out of available-for-sale financial assets to financial assets at fair value through profit or loss as at 1 January 2018 after applying the new financial instrument standard. Since the asset has been held for more than 1 year and is expected to be held for more than 1 year, it is presented in other non-current financial assets.

As at 31 December 2017, the Group held the investment of 11.89% interests in Ningbo Langsheng Qianhui Investment Partnership (Limited Partnership)(寧波朗盛千匯投資合夥企業(有限合夥)) as a limited partner with a total consideration of RMB18,200,000. Considering the objective of holding the financial asset is for short-term trading, which is an equity instrument held for trading, the Group reclassified the asset out of available-for-sale financial assets to financial assets at fair value through profit or loss as at 1 January 2018 after applying the new financial instrument standard. Since the asset has been held for more than 1 year and is expected to be held for more than 1 year, it is presented in other non-current financial assets.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) As at 1 January 2018, according to the measurement categories under the new financial instrument standard, the original carrying amount of the financial instrument are reconciled to the carrying amounts under the new financial instruments as follows: (continued):

iii) Equity instruments designated as financial assets at fair value through other comprehensive income

As at 31 December 2017, the Group held investment of 3.74% interest in Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司) with fair value of RMB15,000,000. Considering the objective of holding the financial asset is not for short-term trading, which is not an equity instrument held for trading, the Group has the option to designate a non-trading equity instrument investment as a financial asset at fair value through other comprehensive income. As at 1 January 2018, the Group chose to designate the asset as a financial asset at fair value through other comprehensive income, which is presented in other equity investments.

As at 31 December 2017, the Group held investment of 20.75% interest in TNPI HK Co., Limited("TNPI") with fair value of RMB24,344,000. Considering the objective of holding the financial asset is not for short-term trading, which is not a trading equity instrument, the Group has the option to designate a non-trading equity instrument investment as a financial asset at fair value through other comprehensive income. As at 1 January 2018, the Group chose to designate the asset as a financial asset at fair value through other comprehensive income, which is presented in other equity investments.

iv) As at 1 January 2018, the Group adjusted the original provisions of financial assets to provisions of credit losses in accordance with the new financial instrument standard. The provisions of financial assets at amortised cost, including notes receivable and accounts receivable did not change significantly since 31 December 2017.

(29) Critical accounting estimates and judgements

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

(a) Critical accounting estimates and key assumptions

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

(i) Net realizable value of inventories

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Critical accounting estimates and judgements (continued)

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

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

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

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

(iii) Long-term impairment losses

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Critical accounting estimates and judgements (continued)

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

(iv) Income taxes

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

(v) Measurement of expected credit losses

The expected credit losses are calculated by using exposure of default risk and expected credit loss rates which are determined based on the risk of default and loss rate of a default. Internal historical credit losses adjusted to reflect current and forward-looking information are used to determine expected credit loss rates. When considering forward-looking information, the data used include the risk of decrease of economics, expected increase of unemployment rates, external market environment, technology environment and the changes of customers' situation. The Group monitors and reviews the assumptions related to expected credit losses. The valuation technique and key assumptions did not change significantly in the 6 months ended 30 June 2018.

(vi) Accounting estimates on impairment of goodwill

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies

(i) Classification of financial assets

The Group's significant judgements of classification of financial assets involve the analysis of business model and contractual cash flow characteristics.

The Group determines the business model of managing financial assets at the level of financial asset groups. The factors considered include how the performance of financial assets are evaluated and reported to the entity's key management personnel, the way in which those risks are managed and the risks that affect the performance of the business model and how managers of the business are compensated.

The Group has the following main judgements when evaluating whether the contractual cash flow of the financial assets are solely payments of principal and interest on the principal amount outstanding: a) whether the timing or the amount of principal may vary due to advanced repayment; b) whether interest is consideration for the time value of money and the credit risk associated with the issuer of the instrument and with the instrument itself, for instance, whether the amount paid in advance only reflects unpaid principal and unpaid basic interest and the reasonable compensation of the early termination of the contracts.

(ii) The judgement that the credit risk has increased significantly

Credit risk has been significantly increased when a contractual payment is more than 30 days past due, or one or more of the following factors have changed significantly: the operating environment of the debtor, internal credit rating, actual or expected operating results have been changed significantly; or the value of collaterals or the credit rating of the guarantors have decreased significantly.

A credit impairment has incurred when a contractual payment is more than 90 days past due (i.e., default has incurred), or one or more of the following criteria are met: the debtor has significant financial difficulties, is in progress of debt restructure, or is likely to go bankrupt.

(All amounts in RMB'000 unless otherwise stated)

3 TAXATION

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

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	25%
Hong Kong profit tax	Taxable income	16.5%
Value added tax ("VAT")	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current year)	17%,16%,11%,10%, 6% and 3%
City maintainance and construction tax	The payment amount of VAT and business tax	7%, 5% and 1%
Educational surcharge	The payment amount of VAT and business tax	3%
Local educational surcharges	The payment amount of VAT and business tax	2%
River maintenance fee	The payment amount of VAT and business tax	1%

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	30 June 2018	31 December 2017
Cash on hand	**4,351**	11,438
Cash at bank	**266,554**	804,142
Other cash balances	**118,358**	115,000
	389,263	930,580
Including: cash at bank and on hand overseas	**531**	579

As at 30 June 2018 and 31 December 2017, other cash balances are deposites held in separate bank accounts with more than three months to maturity when placed.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Financial assets held for trading

	30 June 2018	31 December 2017
Equity instrument investment held for trading (a),(b)	**28,200**	–
Wealth management products with principal guaranteed, floating interest rate (c)	**17,000**	–
	45,200	–
Less: equity instrument investment listed in other non-current financial assets	**(28,200)**	–
	17,000	–

(a) In 2017, the Group invested in Hangzhou Zhitou Investment Partnership (Limited Partnership) (杭州智投股權投資合夥企業(有限合夥)) as a limited partner by acquiring 19.96% interests with a total consideration of RMB10,000,000. Shanghai Yuanji Asset Management Limited (上海元吉資產管理有限公司) contributed RMB100,000 as the general partner. Considering the objective of holding the financial asset is for short-term trading, which is an equity instrument held for trading, the Group reclassified the asset out of available-for-sale financial assets to financial assets at fair value through profit or loss as at 1 January 2018 after applying the new financial instrument standard. Since the asset has been held for more than 1 year and is expected to be held for more than 1 year, it is presented in other non-current financial assets. As at 30 June 2018, the fair value of such equity instrument is RMB10,000,000.

(b) In 2017, the Group invested in Ningbo Langsheng Qianhui Investment Partnership (Limited Partnership) (寧波朗盛千匯投資合夥企業(有限合夥)) as a limited partner by acquiring 11.89% interests with a total consideration of RMB18,200,000. Ningbo Zhenhai Langsheng Baihui Investment Management Co., Ltd. (寧波朗盛百匯投資管理有限公司) contributed RMB1,000,000 as the general partner. Considering the objective of holding the financial asset is for short-term trading, which is an equity instrument held for trading, the Group reclassified the asset out of available-for-sale financial assets to financial assets at fair value through profit or loss as at 1 January 2018 after applying the new financial instrument standard. Since the asset has been held for more than 1 year and is expected to be held for more than 1 year, it is presented in other non-current financial assets. As at 30 June 2018, the fair value of such equity instrument is RMB18,200,000.

(c) In 2017, the Group purchased the RMB wealth management products "Harvest • Benjiali" through Zhejiang Hangzhou Yuhang Rural Commercial Bank Company Limited, with the consideration of RMB17,000,000. The wealth management products are with principal guaranteed, floating interest rate, and the term is 365 days. After the Group applying the new financial instrument standard, since the contractual cash flow characteristics of the asset do not represent solely payments of principal and interest on the principal amount, as at 1 January 2018, the asset was reclassified out of other current assets-available-for-sale financial assets to financial assets at fair value through profit or loss, which are presented in financial assets held for trading. As at 30 June 2018, the fair value of the financial asset was RMB17,000,000.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Financial assets held for trading (continued)

(d) The aforementioned financial assets are listed as follows before applying the new financial instrument assets standards:

Available-for-sale financial assets

Presented in financial assets held for trading (Note 4(2)) in current period.

	1 January 2018	31 December 2017
Measured at fair value		
– Available-for-sale equity instruments	–	28,200
– Wealth management products	–	17,000
Less: provision for impairment	–	–
	–	45,200
Less: available-for-sale financial assets presented in other current assets	–	(17,000)
	–	28,200
Presented in other equity investment investments (Note 4(8))		
Measured at fair value		
– Available-for-sale equity instruments	–	39,344
Less: provision for impairment	–	–
	–	39,344
	–	67,544

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable and accounts receivable

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Accounts receivable	**797,613**	1,110,215	1,080,280
Less: provision for bad debts	**(50,562)**	(56,779)	(28,096)
	747,051	1,053,436	1,052,184

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

(i) As at 30 June 2018, the top five accounts receivable are analysed as follows:

	Amount	**Provision of bad debts**	**% of total accounts receivable balance**
Total amount of the top five accounts receivable	99,207	(2,375)	12%

(ii) As at 30 June 2018, there are no accounts receivable derecognised due to the transfer of financial assets.

(iii) As at 30 June 2018, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Amount	**Lifetime expected credit loss rate**	**Provision for bad debts**	**Reason**
Amounts due from department stores	24,822	100%	(24,822)	i)

i) As at 30 June 2018, amounts due from department store are RMB24,822,000. Due to the overall poor operation situation and difficulties in cash flow turnover, part of department stores have shut down. The management of the Group is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable and accounts receivable (continued)

(iv) As at 30 June 2018, the Group reserves provision of bad debts based on lifetime expected credit losses. The amount is RMB 25,740,000.

	30 June 2018		
	Carrying amount	Provision of bad debts	
	Amount	Lifetime expected credit loss rates	Amount
Within credit period (90 days)	**679,689**	**2%**	**(13,594)**
Overdue (90 days) to one year	**78,194**	**5%**	**(3,910)**
Above one year to two years	**5,252**	**20%**	**(1,050)**
Above two years to three years	**4,940**	**50%**	**(2,470)**
Above three years	**4,716**	**100%**	**(4,716)**
	772,791	**3%**	**(25,740)**

(v) The reversal of previously reserved provision of bad debts in the current period is RMB 6,217,000. There is no significant receipt or reversal, or write-off in current period.

(4) Advances to suppliers

(a) As at 30 June 2018 and 31 December 2017, the Group's advances are mainly advances for inventories and rental fees within one year.

(b) As at 30 June 2018, the total amount of the top five advances to suppliers are analysed as follows:

	Amount	% of total advances to suppliers balance
Total amount of the top five advances to suppliers	134,927	29%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Deposits	**383,648**	338,239	277,337
Staff advance	**20,566**	9,081	6,957
Interests receivable of fixed deposits	**914**	2,281	2,695
Others	**11,615**	2,389	490
	416,743	351,990	287,479
Less: provision for bad debts	**(29,579)**	(26,173)	(8,513)
	387,164	325,817	278,966

(a) Movement of provision of bad debts carrying amount

	Stage 1					Stage 3		
	12-month expected credit losses (in group)		12-month expected credit losses (individually)		Total	Lifetime expected credit losses (credit impairment incurred)		Total
	Amount	Provision for bad debts	Amount	Provision for bad debts	Provision for bad debts	Amount	Provision for bad debts	Provision for bad debts
31 December 2017	347,418	(23,882)	–	–	(23,882)	2,291	(2,291)	(26,173)
Changes of accounting policies (Note 2(28)(c))	–	–	–	–	–	–	–	–
1 January 2018	347,418	(23,882)	–	–	(23,882)	2,291	(2,291)	(26,173)
Additions	66,120	(3,406)	–	–	(3,406)	–	–	(3,406)
Reversals	–	–	–	–	–	–	–	–
Transferred to stage 3	–	–	–	–	–	–	–	–
30 June 2018	413,538	(27,288)	–	–	(27,288)	2,291	(2,291)	(29,579)

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(a) Movement of provision of bad debts carrying amount (continued)

(i) As at 30 June 2018, bad debt accounts receivable in Phase 1 are analysed as follows:

	Amount	12-month expected credit losses	Provision for bad debts	Reason
Allowance of group:				
Deposits	381,357	7%	(25,679)	According to
Staff advance and others	32,181	5%	(1,609)	12-month expected credit losses
	413,538		(27,288)	

(ii) As at 30 June 2018, the Group has no accounts receivable in Phase 2.

(iii) As at 30 June 2018, accounts receivable in Phase 3 are analysed as follows:

	Amount	Lifetime expected credit losses	Provision for bad debts	Reason
Subject to separate assessment for provision				
Deposits	2,291	100%	(2,291)	i)

i) As at 30 June 2018, amounts due from department stores are RMB2,291,000. Part of the department stores have shut down and are involved in several litigations, and the communication with these stores are ineffective. Group withdrew the counters from other stores. Therefore, the Group determines it is unlikely to collect the amounts. The amounts are impaired at full amount.

(b) The provision of bad debt in the current period is RMB3,406,000. There is no significant receipt or reversal, or write-off in current period.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(c) As at 30 June 2018, the top five other receivables are analysed as follows:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Hangzhou Huaying Xintang eiderdown Products Co., Ltd.	Deposits	9,590	Within 1 Year	2%	(480)
Hangzhou Fang Xiang feather products Limited company	Deposits	6,360	Within 1 Year	2%	(318)
Anhui Dong Long down share Limited Company	Deposits	5,951	Within 1 Year	1%	(298)
Shanghai Dongyi Industrial Co., Ltd. Company	Deposits	5,574	Within 1 Year	1%	(279)
Shanghai Cloud Nine Stores Limited	Deposits	4,722	Within 1 Year	1%	(236)
		32,197		7%	(1,611)

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Inventories

(a) Classification of inventories is as follows:

	30 June 2018			31 December 2017		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**14,824**	**(588)**	**14,236**	9,399	(588)	8,811
Finished goods	**2,294,897**	**(287,311)**	**2,007,586**	2,555,226	(235,503)	2,319,723
Low value consumables	**14,811**	**–**	**14,811**	16,105	–	16,105
	2,324,532	**(287,899)**	**2,036,633**	2,580,730	(236,091)	2,344,639

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

		Increase in the current year		Decrease in the current year		
	31 December 2017	Business combination	Accrual	Reversed	Resold	**30 June 2018**
Raw materials	(588)	–	–	–	–	**(588)**
Finished goods	(235,503)	–	(154,238)	–	102,430	**(287,311)**
	(236,091)	–	(154,238)	–	102,430	**(287,899)**

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

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

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Other current assets

	30 June 2018	31 December 2017
Dividends and related deposits for 2017 (a)	**38,152**	–
Borrowings from related parties (Note 8(5)(d))	**19,285**	–
Entrusted loan	**11,759**	5,000
Input VAT to be certified	**8,063**	29,323
Available-for-sale financial assets (Note 4(2))	**–**	17,000
Dividends and related deposits for the third quarter of 2017 (a)	**–**	105,747
	77,259	157,070

(a) Pursuant to the resolution of Shareholders' General Meeting Resolution on 15 May 2018, the Company approved a cash dividend of RMB0.22 per share for 2017 to the shareholders of the Company, representing a total amount of RMB120,488,000 based on a total number of 547,672 thousands of shares. As at 25 June 2018, the Group has paid dividend amounted to RMB38,152,000 to the public shareholders of capital stocks listed overseas via Bank of China (Hong Kong) Trustee Limited (excluding H Share with Shanghai-Hong Kong Stock Connect Program or Shenzhen-Hong Kong Stock Connect Program). As at the reporting date, Bank of China (Hong Kong) Trustee Limited has not paid the dividend to the public shareholders of capital stocks listed overseas. The dividends for 2017 to A Share shareholders were paid in full.

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Other equity instrument investment

	30 June 2018	31 December 2017
Equity instrument investments		
Stocks of non-listed companies (Note2(9)(a))		
– TNPI	**24,554**	–
– Beijing Mingtongsiji Technology Co., Ltd. (Note4(2))	**15,000**	–
– O2bra Co. Ltd.	**13,605**	–
	53,159	–

	30 June 2018	31 December 2017
TNPI		
– Cost	**25,026**	–
– Accumulative changes through other comprehensive losses	**(472)**	–
	24,554	-

In 2016, the Group invested in TNPI by acquiring 20.75% interests with a total consideration of USD3,750,000 (equivalent to RMB25,026,000). As at 1 January 2018, Considering the objective of holding the financial assets is not for short-term trading, which is not an equity instrument held for trading, the Group has the option to designate a non-trading equity instrument investment as a financial asset at fair value through other comprehensive income. As at 1 January 2018, the Group chose to designate the assets in financial assets at fair value through other comprehensive income at initial recognition, which are presented in other equity investment. As at 30 June 2018, the fair value of the equity instrument is RMB24,554,000 (as at 31 December 2017: RMB24,344,000).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Other equity instrument investment (continued)

	30 June 2018	31 December 2017
Beijing Mingtongsiji Technology Co., Ltd.		
– Cost	**15,000**	–
– Accumulative changes in fair value	**–**	–
	15,000	–

In 2017, the Group acquired 1,075,000 shares, or 3.74% equity interests in Beijing Mingtongsiji Technology Co., Ltd. through National Equities Exchange and Quotations with a consideration of RMB15,000,000. As at 1 January 2018, the Group regard the objective of holding the financial assets is not for trading in short-term and is not an equity instrument held for trading. In such situation, the Group has the option to designate non-trading equity instrument investment in financial assets at fair value through other comprehensive income. As at 1 January 2018, the Group chose to designate the assets as financial assets at fair value through other comprehensive income, presented in other equity investment. As at 30 June 2018, the fair value of the equity instrument was RMB15,000,000

	30 June 2018	31 December 2017
O2bra Co. Ltd.		
– Cost	**13,605**	–
– Accumulative changes in fair value	**–**	–
	13,605	–

In July 2017, Shanghai Yanghe Culture Communication Co., Ltd. entered into an acquisition agreement with the Group whereby it transferred its 9.07% equity interest in O2bra Co. Ltd. to the Group at the consideration of RMB13,605,000. In March 2018, O2bra Co. Ltd. completed the aforementioned transaction. The Group chose to designate the equity investment as financial assets at fair value through other comprehensive income, which are presented in other equity instrument investments. As at 30 June 2018, the fair value of the equity instrument is RMB13,605,000.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments

	30 June 2018	31 December 2017
Joint venture (a)	162,011	–
Associates (b)	519,556	428,465
Less: provision for impairment of long-term equity investments	–	–
	681,567	428,465

(a) Joint venture

	31 December 2017	Movement in the current period: Additions	Transfers to subsidiaries	Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equity	Exchange differences	Cash dividends declared	Provision for impairment	Disposals of joint ventures	30 June 2018	Balance of provision for impairment at the end of period
NafNaf	-	156,494	-	-	-	-	5,517	-	-	-	162,011	-

In April 2018, the Group, together with Trendy Pioneer Limited and East Links International (HK) Co., Ltd (東方聯合國際投資(香港)有限公司) established Lacha Apparel II S.a r.l., with initial equity investment of interest of 40%, 30% and 30%, respectively. Lacha Apparel II S.a r.l. holds 100% equity interests in Naf Naf SAS. The transaction was completed on 29 June 2018. Since only shareholders with more than 50% of equity interest have the right to determine the appointment of board directors of Lacha Apparel II S.a r.l., the investment is recognised as a long-term equity investment of joint venture.

See Note 6(2) for the information of the equity in associates.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments (continued)

(b) Associates

	31 December 2017	Movement in the current period: Additions	Transfers to subsidiaries	Share of net profit or loss using the equity method (Note 4(38))	Share of other comprehensive income	Changes in other equity	Exchange differences	Cash dividends declared	Provision for impairment	Disposals of associates	30 June 2018	Balance of provision for impairment at the end of period
Tibet Baoxin Equity Investment Partnership Enterprise	107,712	45,000	–	3,190	–	–	–	–	–	–	**155,902**	–
Hong Che Industrial (Shanghai) Co., Ltd.	56,241	–	–	(4,414)	–	–	–	–	–	–	**51,827**	–
Beijing Ao Ni Trading Co., Ltd.	20,000	–	–	–	–	–	–	–	–	–	**20,000**	–
Hangzhou Mixin E-commerce Co., Ltd.	1,235	–	–	–	–	–	–	–	–	(1,235)	**-**	–
Hangzhou KaiHui E-Commerce Co., Ltd.	2,582	–	–	1,618	–	–	–	–	–	–	**4,200**	–
Hangzhou Jianing E-Commerce Co., Ltd.	739	–	–	(37)	–	–	–	–	–	(702)	**-**	–
Pincheng	15,775	15,000	(30,630)	(145)	–	–	–	–	–	–	**-**	–
Fuzhou Badi Fashion Co., Ltd.	8,658	–	–	(506)	–	–	–	–	–	–	**8,152**	–
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership)	215,523	–	–	63,952	–	–	–	–	–	–	**279,475**	–
	428,465	60,000	(30,630)	63,658	–	–	–	–	–	(1,937)	**519,556**	–

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Total
Original cost					
31 December 2017	390,962	41,350	9,120	136,080	577,512
Increases in the current period					
Purchase	–	2,481	313	21,926	24,720
Transferred from construction in progress (Note 4(11))	3	–	–	–	3
Reclassification of fixed assets	3,093	2,723	–	(5,816)	–
Acquired from business combination (Note 5(1))	–	–	–	585	585
Decrease in the current period					
Disposal and retirement	–	–	(1,064)	(3,046)	(4,110)
Disposal of subsidiaries	–	–	(71)	(896)	(967)
30 June 2018	394,058	46,554	8,298	148,833	597,743
Accumulated depreciation					
31 December 2017	(29,962)	(10,297)	(2,944)	(78,827)	(122,030)
Increases in the current period					
Accrual	(9,882)	(3,012)	(997)	(11,567)	(25,458)
Decrease in the current period					
Disposal and retirement	–	–	1,012	2,584	3,596
Disposal of subsidiaries	–	–	14	336	350
30 June 2018	(39,844)	(13,309)	(2,915)	(87,474)	(143,542)
Provision for impairment					
31 December 2017	–	–	–	–	–
Increases in the current period					
Accrual	–	–	–	–	–
Decrease in the current period					
Disposal	–	–	–	–	–
30 June 2018	–	–	–	–	–
Carrying amount					
30 June 2018	354,214	33,245	5,383	61,359	454,201
31 December 2017	361,000	31,053	6,176	57,253	455,482

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Fixed assets (continued)

For the 6 months ended 30 June 2018, accrued depreciation of fixed assets are RMB25,458,000 (For the 6 months ended 30 June 2017: RMB17,799,000), of which RMB19,185,000 and RMB6,273,000 (For the 6 months ended 30 June 2017: RMB15,550,000 and RMB2,249,000) have been charged to selling and distribution expenses, general and administrative expenses respectively.

(11) Construction in progress

	30 June 2018			31 December 2017		
	Carrying amount before provision	**Provision for impairment**	**Carrying amount**	Carrying amount before provision	Provision for impairment	Carrying amount
Wu Jing headquarter project	**636,871**	**–**	**636,871**	380,343	–	380,343
Tianjin logistics center project	**131,285**	**–**	**131,285**	114,263	–	114,263
Chengdu logistics center project	**95,435**	**–**	**95,435**	77,625	–	77,625
Taicang logistics center project phase II and III	**34,662**	**–**	**34,662**	–	–	–
ERP system upgrade	**4,867**	**–**	**4,867**	4,867	–	4,867
Others	**1,320**	**–**	**1,320**	577	–	577
	904,440	**–**	**904,440**	577,675	–	577,675

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Construction in progress (continued)

(a) Movement in significant construction in progress

Project	Budget	31 December 2017	Increase in the current period	Transferred to intangible assets (Note4(12))	Transferred to fixed assets (Note4(10))	Transferred to Long-term prepaid expenses (Note4(14))	**30 June 2018**	Investment percentage of budget	Completion percentage	Accumulative capitalization of borrowing costs	Capitalization of borrowing costs in this period	Interest rate of capitalized borrowing costs	Sources of funds
Wu Jing headquarter project	1,228,682	380,343	256,528	–	–	–	**636,871**	50%	50%	19,725	10,755	4.52%	borrowing and working capital
Taicang logistics center project phase II and III	688,910	–	52,143	(543)	(3)	(16,935)	**34,662**	37%	37%	13,789	2,169	4.52%	borrowing and working capital
Tianjin logistics center project	374,382	114,263	17,022	–	–	–	**131,285**	33%	33%	8,290	2,652	4.52%	borrowing and working capital
Chengdu logistics center project	379,585	77,625	17,810	–	–	–	**95,435**	24%	24%	4,881	1,820	4.52%	borrowing and working capital
ERP system upgrade	5,898	4,867	–	–	–	–	**4,867**	83%	83%	–	–	–	working capital
Others	2,984	577	743	–	–	–	**1,320**	44%	44%	–	–	–	working capital
		577,675	344,246	(543)	(3)	(16,935)	**904,440**			46,685	17,396		

As at 30 June 2018 and 31 December 2017, the Group did not provide for impairment of construction in progress.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Intangible assets

	Trademark	Purchased software	Land use rights	Brands	Favorable contracts	Total
Original cost						
31 December 2017	4,086	69,424	162,818	48,130	1,550	286,008
Increase in current period						
Purchase	–	536	–	–	–	536
Transferred from construction in progress (Note 4(11))	–	543	–	–	–	543
Acquired from business combination (Note 5(1))	–	–	–	12,685	–	12,685
Decrease in current period						
Disposal and retirement	–	–	–	–	–	–
Disposal of subsidiaries	–	(60)	–	–	–	(60)
30 June 2018	4,086	70,443	162,818	60,815	1,550	299,712
Accumulated amortisation						
31 December 2017	(1,485)	(56,313)	(10,086)	(15,114)	(493)	(83,491)
Increase in current period						
Accrual	(216)	(2,990)	(1,637)	(2,569)	(102)	(7,514)
Decrease in current period						
Disposal	–	13	–	–	–	13
30 June 2018	(1,701)	(59,290)	(11,723)	(17,683)	(595)	(90,992)
Provision for impairment loss						
31 December 2017	–	–	–	–	–	–
Increase in current period						
Accrual	–	–	–	–	–	–
Decrease in current period						
Disposal	–	–	–	–	–	
30 June 2018	–	–	–	–	–	–
Carrying amount						
30 June 2018	2,385	11,153	151,095	43,132	955	208,720
31 December 2017	2,601	13,111	152,732	33,016	1,057	202,517

For the 6 months ended 30 June 2018, amortisation amount of the Group is RMB7,514,000(For the 6 months ended 30 June 2017: RMB15,578,000), of which RMB4,678,000 and RMB2,836,000 (For the 6 months ended 30 June 2017: RMB5,766,000 and RMB9,812,000) are charged to selling expenses and general and administrative expenses respectively.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Goodwill

	31 December 2017	Increase in the current period	Decrease in the current period	**30 June 2018**
Goodwill–				
Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	92,339	–	–	**92,339**
Jack Walk (Shanghai) Fashion Limited ("Jack Walk")	13,383	–	–	**13,383**
Jiuwo	7,833	–	(7,833)	**–**
Pincheng	–	8,602	–	**8,602**
	113,555	8,602	(7,833)	**114,324**
Less: provision for impairment				
Hangzhou Anshe	–	–	–	**–**
Jack Walk	–	–	–	**–**
Jiuwo	–	–	–	**–**
Pincheng	–	–	–	**–**
	113,555	8,602	(7,833)	**114,324**

Goodwill increased arose from purchase of the equity interests in Pincheng (Note 5(1)). Goodwill decreased arose from disposal of the equity interests in Jiuwo (Note 5(2)).

(14) Long-term prepaid expenses

		Increase in the current period			Decrease in the current period		
	31 December 2017	Business combination	Additions	Transferred from construction in progress (Note 4(11))	Amortisation	Disposal of subsidiaries	**30 June 2018**
Leasehold improvement	711,780	389	130,073	16,935	(204,510)	(2,820)	**651,847**

For the 6 months ended 30 June 2018, amortisation amount was RMB204,510,000 (For the 6 months ended 30 June 2017: RMB177,907,000), of which RMB200,196,000 and RMB4,314,000 (For the 6 months ended 30 June 2017: RMB174,862,000 and RMB3,045,000) were charged to selling expenses and general and administrative expenses respectively.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Other non-current assets

	30 June 2018	31 December 2017
Prepayments for long-term equity investment (a)	**15,002**	13,605

(a) As at 30 June 2018, the balance was the prepayments for long-term equity investment in Beijing Mingtongsiji Technology Co., Ltd. The transaction was still in the progress as at the balance sheet date. As at 31 December 2017, the balance was the prepayments for long-term equity investment in Shanghai Yanghe Culture Communication Co., Ltd. In March 2018, O2bra Co. Ltd. completed the transaction.

(16) Deferred tax assets and liabilities

(a) Deferred tax assets before offsetting:

	30 June 2018		31 December 2017	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Tax losses carried forward	**524,076**	**131,015**	453,691	113,420
Provision for inventories impairments	**287,899**	**71,975**	236,091	59,023
Rental incentives recognised on a straight-line basis	**121,688**	**30,422**	136,513	34,128
Elimination of intra-group unrealised profit	**93,088**	**23,272**	114,763	28,691
Provision for bad debt	**80,141**	**20,035**	82,952	20,738
Differences in amortisation of long-term prepaid expense between tax and accounting	**11,356**	**2,839**	11,188	2,797
Employee benefits payable	**7,340**	**1,835**	7,338	1,834
Deductible loss acquired with acquisition of subsidiaries	**5,862**	**1,466**	–	–
	1,131,450	**282,859**	1,042,536	260,631
Including:				
Expected to be reversed within one year (inclusive)	**124,457**		114,735	
Expected to be reversed after one year	**158,402**		145,896	
	282,859		260,631	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities (continued)

(b) Deferred tax liabilities before offsetting:

	30 June 2018		31 December 2017	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Business combination involving enterprises not under common control	**51,740**	**12,935**	34,073	8,519
Capitalized borrowing costs	**56,104**	**14,026**	36,778	9,194
Other fair value changes	**135,372**	**33,843**	68,235	17,059
	243,216	**60,804**	139,086	34,772
Including:				
Expected to be reversed within one year (inclusive)	**8,238**		817	
Expected to be reversed after one year	**52,566**		33,955	
	60,804		34,772	

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

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

	30 June 2018		31 December 2017	
	Offsetting amount	**Net amount**	Offsetting amount	Net amount
Deferred tax assets	**(22,683)**	**260,176**	(14,182)	246,449
Deferred tax liabilities	**22,683**	**38,121**	14,182	20,590

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Provision for asset impairment

	31 December 2017	Increase in the current period Accrual	Decrease in the current period Reversal	Resold	**30 June 2018**
Provision for bad debts of accounts receivable	(56,779)	(227)	6,444	–	**(50,562)**
Provision for bad debts of other receivables	(26,173)	(6,159)	2,753	–	**(29,579)**
Subtotal	(82,952)	(6,386)	9,197	–	**(80,141)**
Decline in the value of inventories	(236,091)	(154,238)	–	102,430	**(287,899)**
	(319,043)	(160,624)	9,197	102,430	**(368,040)**

(18) Short-term borrowings

	Currency	**30 June 2018**	31 December 2017
Unsecured loan	RMB	**1,740,000**	1,006,000

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

	30 June 2018	31 December 2017
Interest rate range	**4.35%-5.50%**	4.13%-4.57%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Notes and Accounts payable

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Notes payable(a)	**128,630**	534,504	395,292
Accounts payable(b)	**514,200**	988,084	638,910
	642,830	1,522,588	1,034,202

(a) Notes payable

	30 June 2018	31 December 2017
Trade acceptance notes	**112,406**	398,728
Bank acceptance notes	**16,224**	135,776
	128,630	534,504

(b) Accounts payable

	30 June 2018	31 December 2017
Payable for purchase	**514,200**	988,084

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

	30 June 2018	31 December 2017
Within 30 days	**70,026**	139,759
Above 30 days to 60 days	**124,571**	310,679
Above 60 days to 90 days	**180,430**	393,666
Above 90 days to 180 days	**100,491**	128,297
Above 180 days to 365 days	**18,373**	2,821
Above 365 days	**20,309**	12,862
	514,200	988,084

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Advances from customers

As at 30 June 2018 and 31 December 2017, advances from customers are all within 1 year.

(21) Employee benefits payable

	30 June 2018	31 December 2017
Short-term employee benefits (a)	**155,030**	197,566
Defined contribution plans (b)	**18,148**	23,276
	173,178	220,842

(a) Short-term employee benefits

	31 December 2017	Increase in the current period	Decrease in the current period	**30 June 2018**
Wages and salaries, bonus, allowances and subsidies	178,534	976,965	(1,015,346)	**140,153**
Staff welfare	2,202	10,976	(11,429)	**1,749**
Social security contributions	10,173	55,482	(57,723)	**7,932**
Including: medical insurance	6,421	34,978	(36,395)	**5,004**
others	3,752	20,504	(21,328)	**2,928**
Housing funds	6,657	36,184	(37,645)	**5,196**
Labour union funds and employee education funds	–	241	(241)	**–**
	197,566	1,079,848	(1,122,384)	**155,030**

(b) Defined contribution plans

	31 December 2017	Increase in the current period	Decrease in the current period	**30 June 2018**
Basic pension	21,263	115,306	(119,996)	**16,573**
Unemployment insurance	2,013	10,976	(11,414)	**1,575**
	23,276	126,282	(131,410)	**18,148**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Taxes payable

	30 June 2018	31 December 2017
Corporate income tax payable	**92,255**	166,471
Unpaid VAT	**7,707**	53,745
City maintenance and construction tax payable	**6,466**	9,892
Withholding income tax	**6,123**	15,096
Educational surcharge payable	**4,548**	7,963
Others	**180**	371
	117,279	253,538

(23) Other payables

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Payables for construction and refurbishment of department stores	**231,186**	203,128	338,659
Payable for rental fees	**120,655**	137,275	220,264
Suppliers' deposits	**89,035**	78,533	55,945
Common stock dividends payable	**43,485**	168,729	-
Vendors' deposits	**37,687**	40,927	43,275
Payables for promotion expense	**8,298**	16,032	9,474
Payables for logistic expense	**4,876**	24,327	43,313
Interest payable for borrowings	**4,475**	3,036	381
Payables for software purchase	**–**	691	–
Others	**9,267**	29,443	17,203
	548,964	702,121	728,514

As at 30 June 2018, other payables over 1 year with carrying amount of RMB49,125,000 (31 December 2017: RMB61,856,000) are mainly deposits payables to vendors and department stores which are still under discussion and has not been finally settled.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Current portion of non-current liabilities

	30 June 2018	31 December 2017
Incentive to compensate the costs for leasehold improvements (a)	**58,788**	69,822
Government grants (b)	**6,602**	6,620
	65,390	76,442
Less: due within one year	**(28,677)**	(29,993)
	36,713	46,449

(a) Incentive to compensate the costs for leasehold improvements

	30 June 2018	31 December 2017
Incentive to compensate the costs for leasehold improvements	**58,788**	69,822
Less: due within one year	**(28,640)**	(29,956)
	30,148	39,866

	For the 6 months ended 30 June	
	2018	2017
Beginning balance	**69,822**	82,348
Increase in the current period	**5,937**	16,385
Decrease in the current period	**(16,971)**	(25,622)
Ending balance	**58,788**	73,111

The Group recognises the aggregate benefit of incentives as deferred benefits and they are amortised as deduction of rental fees over the lease term on a straight-line basis. The incentives with amortisation term within 1 year (inclusive) are presented in current liabilities. For incentives with amortisation term more than 1 year, the portion with amortisation term within 1 year (inclusive) since balance sheet date are presented in current portion of non-current liabilites, and the remaining balance are recorded as non-current liabilities.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Current portion of non-current liabilities (continued)

(b) Government grants

	30 June 2018	31 December 2017
Government grants	**6,602**	6,620
Less: due within one year	**(37)**	(37)
	6,565	6,583

	For the 6 months ended 30 June 2018	2017
Beginning balance	**6,620**	6,657
Increase in the current period	**–**	–
Decrease in the current period	**(18)**	(19)
Ending balance	**6,602**	6,638

				Decrease in the current period							
	31 December 2017	1 January 2018	Increase in the current period	Deduction in the costs of fixed assets	Recorded as other income	Recorded as selling and distribution expenses	Recorded as financial expenses	Recorded as non-operating income	Recorded as non-operating expenses	30 June 2018	Related to assets or income
Tianjin logistics project grants	6,000	6,000	–	–	–	–	–	–	–	**6,000**	Related to assets
Taicang logistics project grants	620	620	–	–	–	(18)	–	–	–	**602**	Related to assets
	6,620	6,620	–	–	–	(18)	–	–	–	**6,602**	

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Share capital

	31 December 2017	Movement in the current period	**30 June 2018**
Domestic listed RMB-denominated ordinary shares (A Shares)	332,882	–	**332,882**
Overseas listed foreign shares (H Shares)	214,790	–	**214,790**
Total share capital	547,672	–	**547,672**

	31 December 2016	Movement in the current period	30 June 2017
Domestic listed RMB-denominated ordinary shares (A shares)	336,809	(58,697)	278,112
Overseas listed foreign shares (H Shares)	156,093	58,697	214,790
Total share capital	492,902	–	492,902

(26) Capital surplus

	31 December 2017	Increase in the current period	Decrease in the current period	**30 June 2018**
Share premium	1,850,708	–	–	**1,850,708**
Other capital surplus (a)	43,389	145	–	**43,534**
	1,894,097	145	–	**1,894,242**

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

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Capital surplus (continued)

(a) Other capital surplus

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

Shanghai Hexia, which holds certain equity interests in the Company, operates a series of share-based compensation plans in exchange for employee services to the Group. Details of the share-based compensation plans are summarised as follows:

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

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

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

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

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

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Capital surplus (continued)

(a) Other capital surplus (continued)

(i) Contribution from Shanghai HeXia by awarding its equity instruments to the employees (continued)

The percentage of equity interest in the Company indirectly held by through Shanghai Hexia as follow:

	For the 6 months ended 30 June 2018	For the 6 months ended 30 June 2017
The percentage of equity interest in the Company indirectly held by the 1st Batch Employees, 2nd Batch Employees, 3rd Batch Employees and 4th Batch Employees	**6.21%**	6.55%

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

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

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

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

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Capital surplus (continued)

(a) Other capital surplus (continued)

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

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

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

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

The employee may choose the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service year. Accordingly, the share-based compensation plans were accounted for as compound financial instruments (Note2(26)(a)) in the financial statements of Shanghai Hexia. As the Company received the benefits associated with the services of these employees, the share-based compensation charges were pushed down to the Company during the vesting year and recorded as an expense in the consolidated income statements, with a corresponding contribution from Shanghai Hexia which increased the capital reserve of the Company.

For the 6 months ended 30 June 2018 and 2017, expenses arising from the share-based compensation plans were charged in the consolidated income statements as follows:

	For the 6 months ended 30 June	
	2018	2017
General and administrative expenses	**100**	2,294
Selling and distribution expenses	**45**	564
	145	2,858

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(27) Other comprehensive income

	Other comprehensive income in the consolidated balance sheet				For the 6 months ended 30 June 2018, other comprehensive income in the consolidated income statements					
	31 December 2017	Changes of accounting policies (Note 2(28)(c))	1 January 2018	Attributable to shareholders of the Company, net of tax	30 June 2018	The pre-tax amount in the current period	Less: transferred out from which was recognised in other comprehensive income in the previous periods (Note 4(8))	Less: Income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Other comprehensive income that may not be reclassified to profit or loss										
Currency translation of other equity instrument investment	(682)	-	(682)	210	(472)	3,185	-	-	3,185	-
Currency translation differences	(41)	-	(41)	5,482	5,441	2,507	-	-	2,507	-
	(723)	-	(723)	5,692	4,969	5,692	-	-	5,692	-

	Other comprehensive income/(loss) in the consolidated balance sheet			For the 6 months ended 30 June 2017, other comprehensive income in the consolidated income statements				
	31 December 2016	Attributable to shareholders of the Company, net of tax	30 June 2017	The pre-tax amount in the current period	Less: transferred out from which was recognised in other comprehensive income in the previous periods (Note 4(8))	Less: Income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Other comprehensive income that may be reclassified to profit or loss								
Fair value adjustments on available-for-sale financial assets	10,949	16,680	27,629	22,240	–	(5,560)	16,680	–
Currency translation differences	1,024	(793)	231	(793)	–	–	(793)	–
	11,973	15,887	27,860	21,447	–	(5,560)	15,887	–

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Surplus reserve

	31 December 2017	Increase in the current period	Decrease in the current period	**30 June 2018**
Statutory surplus reserve	219,154	–	–	**219,154**

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

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. For the 6 months ended 30 June 2018 and 2017, the Company did not appropriate the statutory surplus reserve.

Discretionary surplus reserves' plan should be suggested by the board of directors and approved by the shareholders' meeting. Discretionary surplus reserves can be used to make up for losses or to increase the share capital after approval from the appropriate authorities. For the 6 months ended 30 June 2018 and 2017, the Company did not appropriate the discretionary surplus reserve.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Undistributed profits

	For the 6 months ended 30 June 2018 Amount	2017 Amount
Undistributed profits at the beginning of period (a)	**1,215,356**	1,115,817
Add: net profit attributable to shareholders of the Company	**235,827**	281,747
Less: dividend declared(b)	**(120,488)**	(147,871)
Undistributed profits at the end of period	**1,330,695**	1,249,693

(a) For the 6 months ended 30 June 2018, the Group is not required to adjust the accumulated retained earnings for the first-adoption of the New Revenue Standard and the new financial instrument standard.

(b) Pursuant to the resolution of Shareholders' General Meeting Resolution on 15 May 2018, the Company approved a cash dividend of RMB0.22 per share related to the fourth quarter of 2017 to the shareholders of the Company, representing a total amount of RMB120,488,000 based on a total number of 547,672 thousands of shares.

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Revenue and cost of sales

Revenue and cost of main operation

	For the 6 months ended 30 June			
	2018		2017	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail (i)	**4,370,391**	**(1,619,348)**	4,274,025	(1,495,022)
Rendering services (Note 8(4)(d))	**5,264**	**(1,075)**	6,998	–
Wholesale	**3,162**	**(1,326)**	840	(305)
	4,378,817	**(1,621,749)**	4,281,863	(1,495,327)

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

(a) Revenue from main operation

	For the 6 months ended 30 June	
	2018	2017
The revenue from the end consumers	**5,132,980**	4,995,400
Less: concessionaire fee (i)	**(762,589)**	(721,375)
Rendering of services	**5,264**	6,998
Wholesale	**3,162**	840
Revenue from main operation	**4,378,817**	4,281,863

(i) Revenue is generated from sales of retail points and e-commerce platforms. The retail points are operated in the form of concessionaire counters and standalone retail outlets. The concessionaire counters are located within department stores. Revenue generated from concessionaire counters and certain e-commerce platform, are calculated on the basis of the revenue earned from the end customers being net of concessionaire fees charged by the department stores and certain e-commerce platform.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Taxes and surcharges

	For the 6 months ended 30 June		
	2018	2017	Payment Standard
City maintenance and construction tax	**19,130**	22,281	Note 3
Educational surcharge	**14,055**	16,859	Note 3
Others	**2,186**	3,418	
	35,371	42,558	

(32) Selling and distribution expenses

	For the 6 months ended 30 June	
	2018	2017
Employee benefits expenses	**1,067,926**	966,216
Rental fees	**435,872**	521,709
Amortisation of long-term prepaid expenses	**200,196**	174,862
Department store expenses	**128,571**	121,375
E-commerce expenses	**71,330**	50,873
Logistic expenses	**58,633**	39,430
Utilities and electricity expenses	**53,672**	73,971
Costs of low value consumables	**25,637**	24,583
Marketing expenses	**21,891**	20,728
Administrative expenses	**20,628**	13,728
Depreciation of fixed assets	**19,185**	15,550
Travelling and communication expenses	**12,337**	10,952
Quality inspection fee	**9,169**	3,134
Consulting expenses	**7,981**	3,197
Refurbishment and maintenance expenses	**5,292**	5,744
Amortisation of intangible assets	**4,678**	5,766
Others	**78**	–
	2,143,076	2,051,818

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) General and administrative expenses

	For the 6 months ended 30 June	
	2018	2017
Employee benefits expenses	**138,204**	118,727
Consulting expenses	**22,755**	11,488
Rental fees	**11,116**	12,624
Administrative expenses	**9,749**	4,499
Travelling and communication expenses	**9,495**	8,038
Sample expenses	**8,998**	10,074
Depreciation of fixed assets	**6,273**	2,249
Costs of low value consumables	**4,804**	1,781
Amortisation of long-term prepaid expenses	**4,314**	3,045
Amortisation of intangible assets	**2,836**	9,812
Utilities and electricity expenses	**2,394**	1,683
Logistic expenses	**1,876**	1,145
Refurbishment and maintenance expenses	**1,583**	388
Others	**2,099**	932
	226,496	186,485

(34) Financial expenses-net

	For the 6 months ended 30 June	
	2018	2017
Interest expenses	**(31,623)**	(13,999)
Add: capitalised interests (Note 4(11)(a))	**17,396**	9,385
Add: interest income	**5,753**	7,287
Exchange gains – net	**3,378**	279
Bank charges	**(8,903)**	(8,172)
	(13,999)	(5,220)

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Expenses by nature

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

	For the 6 months ended 30 June 2018	2017
Costs of inventories	**1,621,749**	1,495,327
– original value	**1,724,179**	1,601,518
– provisions for decline in the value of inventories in prior years-resold	**(102,430)**	(106,191)
Employee benefits expenses	**1,206,130**	1,084,943
Rental fees	**446,988**	534,333
Amortisation of long-term prepaid expenses	**204,510**	177,907
Department store expenses	**128,571**	121,375
E-commerce expenses	**71,330**	50,873
Logistic expenses	**60,509**	40,575
Utilities and electricity expenses	**56,066**	75,654
Consulting expenses	**30,736**	14,685
Costs of low value consumables	**30,441**	26,364
Administrative expenses	**30,377**	18,227
Depreciation of fixed assets	**25,458**	17,799
Marketing expenses	**22,123**	20,878
Travelling and communication expenses	**21,832**	18,990
Quality inspection fee	**9,169**	3,134
Sample expenses	**8,998**	10,074
Refurbishment and maintenance expenses	**6,875**	6,132
Amortisation of intangible assets	**7,514**	15,578
Others	**1,945**	782
	3,991,321	3,733,630

(36) Asset impairment losses

	For the 6 months ended 30 June 2018	2017
Decline in the values of inventories	**154,238**	121,061
Bad debt provision	**(2,811)**	34,383
	151,427	155,444

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Profit or loss due to the change of fair value

For the 6 months ended 30 June 2018 and 2017, the Group does not hold any profit or loss due to the change of fair value.

(38) Investment income

	For the 6 months ended 30 June 2018	2017
Share of net profit of associates and a joint venture accounted for using the equity method	**63,658**	1,502
Losses of remeasurement of equity of Pincheng (Note 5(1))	**(2,043)**	–
Investment loss of disposal of long-term equity investment (Note 5(2))	**(10,089)**	–
	51,526	1,502

(39) Losses on disposals of assets

	For the 6 months ended 30 June 2018	2017	The amount regarded as non-recurring profit or loss for the 6 months ended 30 June 2018
Losses on disposal of fixed assets	**122**	191	122

(40) Other income

	For the 6 months ended 30 June 2018	2017	Related to assets or income
Funds for enterprises development	**85,055**	57,392	Related to income
Refunds from individual income tax	**82**	1,009	Related to income
Others	**–**	189	Related to income
	85,137	58,590	

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(41) Non-operating income

	For the 6 months ended 30 June 2018	2017	The amount included in non-recurring profit or loss for the 6 months ended 30 June 2018
Penalty gains	**3,232**	–	3,232
Others	**259**	1,318	259
	3,491	1,318	3,491

(42) Non-operating expenses

	For the 6 months ended 30 June 2018	2017
Donations	**3,997**	3,706
Others	**1,970**	540
	5,967	4,246

(43) Income tax expenses

	For the 6 months ended 30 June 2018	2017
Current income tax calculated according to the tax law	**84,766**	96,979
Deferred income tax	**(5,471)**	4,038
	79,295	101,017

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

	For the 6 months ended 30 June 2018	2017
Total profit	**320,764**	401,984
Income tax expenses calculated at applicable tax rates	**80,191**	100,496
Expenses not deductible for tax purposes (i)	**201**	896
Non-taxable income	**(1,097)**	(375)
Income tax expenses	**79,295**	101,017

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(43) Income tax expenses (continued)

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

(44) Earnings per share

(a) Basic earnings per share

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

	For the 6 months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company	**235,827**	281,747
Weighted average number of ordinary shares outstanding (thousands of shares)	**547,672**	492,902
Basic earnings per share (RMB per share)	**0.43**	0.57

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the 6 months ended 30 June 2018 (For the 6 months ended 30 June 2017: nil), diluted earnings per share equals to basic earnings per share.

(45) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the 6 months ended 30 June	
	2018	2017
Government grants	**81,387**	58,590
Customers' deposits and suppliers' deposits	**7,262**	13,194
Interest income	**4,645**	4,032
Others	**3,491**	1,318
	96,785	77,134

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) Cash paid relating to other operating activities

	For the 6 months ended 30 June	
	2018	2017
Net increase in staff advances	**11,485**	4,488
Utilities, electricity expenses	**56,066**	112,866
Increase in deposits	**45,409**	21,774
Bank charges	**8,903**	17,863
Consulting expenses and technical service fee	**30,736**	15,209
Marketing and E-commerce expenses	**199,901**	115,135
Miscellaneous	**2,177**	540
	354,677	287,875

(c) Cash received relating to other investing activities

	For the 6 months ended 30 June	
	2018	2017
Interest income generated from other cash balances	**2,735**	4,345
Cash inflow on disposal of subsidiaries (Note 4(9))	**1,937**	–
Cash inflow on business combination (Note 5(1))	**309**	–
Net decrease in other cash balances	**–**	5,525
Cash inflow on acquisition of Jiuwo (Note 5(1))	**–**	5,023
	4,981	14,893

(d) Cash paid relating to other investing activities

	For the 6 months ended 30 June	
	2018	2017
Prepayment for equity instrument investment (Note4(15))	**15,002**	10,000
Net increase in entrusted loan	**26,044**	5,000
Net increase in other cash balances	**3,358**	–
Cash paid for disposal of subsidiaries	**214**	–
Purchase of available-for-sale financial assets	**–**	22,800
	44,618	37,800

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(e) Cash paid relating to other financing activities

	For the 6 months ended 30 June	
	2018	2017
Prepayment for A Shares listing expenses	**–**	624

(46) Supplementary information of cash flow statement

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

	For the 6 months ended 30 June	
	2018	2017
Net profit	**241,469**	300,967
Add: amortisation of long-term prepaid expenses	**204,510**	177,907
decrease in inventories	**166,013**	97,510
asset impairment losses	**151,427**	155,444
depreciation of fixed assets	**25,458**	17,799
financial expenses	**9,741**	1,044
increase/(decrease) in deferred tax liabilities	**14,360**	(1,964)
amortisation of intangible assets	**7,514**	15,578
amortisation of share-based payment	**145**	2,858
losses on disposal of fixed assets	**122**	191
Less: investment income	**(51,526)**	(1,502)
(increase)/decrease in deferred tax assets	**(19,831)**	6,002
decrease in deferred income	**(11,052)**	(9,256)
decrease in operating receivables	**54,766**	120,784
decrease in operating payables	**(1,049,414)**	(843,013)
Net cash flows (used in)/from operating activities	**(256,298)**	40,349

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(b) *Net change in cash and cash equivalents*

	For the 6 months ended 30 June	
	2018	2017
Cash and cash equivalents at end of period	**270,905**	525,562
Less: cash and cash equivalents at beginning of period	**(815,580)**	(581,389)
Net decrease in cash and cash equivalents	**(544,675)**	(55,827)

(c) *Acquisition of subsidiaries*

	For the 6 months ended 30 June 2018
Cash paid to third party for acquisition in the current period	
Including: Pincheng	–
Less: cash held on acquisition date	
Including: Pincheng	**309**
Net cash inflow on acquisition	**309**

(d) *Cash and cash equivalents*

	For the 6 months ended 30 June	
	2018	2017
Cash and cash equivalents	**270,905**	525,562
Including: Cash on hand	**4,351**	6,409
Cash at bank that can be readily drawn on demand	**266,554**	519,153
Cash and cash equivalents at end of period	**270,905**	525,562

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(47) Foreign currency items

	30 June 2018		
	Foreign currency balance	**Exchange rate**	**RMB balance**
Cash at bank and on hand –			
HKD	**589**	**0.8431**	**497**
EUR	**5**	**7.6515**	**38**

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

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

5 CHANGE OF SCOPE OF CONSOLIDATION

(1) Business combination not under common control

(a) Business combination not under common control occurred in the 6 months ended 30 June 2018

Acquiree	Date of addition	Purchase consideration (RMB'000)	% of equity interest	Method of acquisition	Date of acquisition	Basis for acquisition	Revenue of the acquiree from the date of acquisition to the end of the period	Net loss of the acquiree from the date of acquisition to the end of the period	Cash flows used in operating activities of the acquiree from the date of acquisition to the end of the period	Net cash outflow of the acquiree from the date of acquisition to the end of the period
Pincheng(i)	30 April 2018	31,000	38.75%	Capital increment	30 April 2018	Contract terms	3,159	(3,119)	(10,033)	3,357

(i) The Company increased the capital of Pincheng by RMB31,000,000. As a result, the Company holds 57.125% equity interests of Pincheng and obtained the control of Pincheng.

As at 30 June 2018, the Comapany has invested RMB15,000,000 in Pincheng.

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

	Pincheng
Combination cost	
Fair value before combination	13,587
Cash	31,000
Total cost of combination	44,587
Less: the fair value of the identifiable net assets acquired	(35,985)
Goodwill	8,602

The Group determined the fair value of non-cash assets and liabilities by using valuation technique.

(All amounts in RMB'000 unless otherwise stated)

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(1) Business combination not under common control (continued)

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

(i) Pincheng

	Fair value on the acquisition date	Carrying amounts on the acquisition date
Cash and cash equivalents	309	309
Notes receivable and accounts receivable	2,013	2,013
Inventories	17,017	17,017
Other receivables	33,271	33,271
Prepayment	2,422	2,422
Fixed assets	585	585
Intangible assets	12,685	–
Long-term prepaid expenses	389	389
Deferred tax assets	969	969
Short-term borrowings	(1,602)	(1,602)
Advances from customers	(10)	(10)
Notes payable and accounts payable	(1,922)	(1,922)
Taxes payable	106	106
Other payables	(68)	(68)
Deferred tax liabilities	(3,171)	–
Net assets	62,993	53,479
Less: minority interests	(27,008)	(22,929)
Net assets acquired	35,985	30,550

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(2) Disposal of Subsidiaries

(a) The relevant information for the disposal of subsidiaries for the 6 months ended 30 June 2018 is analysed as follows:

Subsidiary	Consideration received	% of equity interests disposed	Method of diaposal	Date of losing control	Basis of losing control	The difference between the disposal consideration and the share of subsidiary's net assets in the consolidated financial statements	The amount of other comprehensive income related to the equity investment of the subsidiary transferred to the investment gains and losses
Jiuwo(i)	–	60%	Equity transfer	30 April 2018	Contract terms	(10,089)	–

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

(i) Jiuwo

The disposal losses is calculated as below:

	Amount
Consideration received form diaposal	–
Less: The share of Jiuwo's net assets at the consolidated financial statements level	(10,089)
Other comprehensive income which is accounted into the current profits and losses	–
Investment income generated by disposal	(10,089)

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS

(1) Equity in subsidiaries

(a) The structure of the Group

Name of subsidiaries	Kind of legal entity	Place of operation	Place of incorporate	Principle activities	Issued share and share capital	Share proportion Direct	Indirect	Acquisition method
Shanghai La Chapelle Casual Fashion Co.,Ltd. ("LaCha Xiuxian")	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	5,000	100%	–	Wholly owned subsidiary
Candie's Shanghai Fashion Co., Ltd. ("Shanghai Le'ou")	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	16,000	65%	–	Holding subsidiary
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei")	Limited liability company	Chongqing	Chongqing	Design and sales of apparel products	500	100%	–	Wholly owned subsidiary
Beijing La Chapelle Lewei Fashion Co.,Ltd. ("Beijing LaCha")	Limited liability company	Beijing	Beijing	Design and sales of apparel products	500	100%	–	Wholly owned subsidiary
Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	500	100%	–	Wholly owned subsidiary
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	50,000	100%	–	Wholly owned subsidiary
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	–	Wholly owned subsidiary
Shanghai Xiawei Fashion Co., Ltd ("Shanghai Xiawei")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	–	Wholly owned subsidiary
La Chapelle Fashion (Taicang) Co., Ltd ("Taicang LaCha")	Limited liability company	Taicang	Taicang	Sales of apparel products	100,000	95%	5%	Wholly owned subsidiary
La Chapelle (Tianjin) Co., Ltd. ("Tianjin LaCha")	Limited liability company	Tianjin	Tianjin	Sales of apparel products	10,000	100%	–	Wholly owned subsidiary
Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	10,000	100%	–	Wholly owned subsidiary
Hangzhou Anshe	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	59,465	54%	–	Holding subsidiary
Zhejiang Qigege Fashion Co., Ltd. ("Qigege")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	10,000	–	54%	Holding sub-subsidiary
Hangzhou Fushe Fashion Co., Ltd. ("Hangzhou Fushe")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	1,000	–	54%	Holding sub-subsidiary
Xinyugexia E-Commerce Co., Ltd. ("Xinyugexia")	Limited liability company	Hangzhou	Xinyu	Sales of apparel products	–	–	54%	Holding sub-subsidiary
Hangzhou Chenge Technology Co., Ltd. ("Hangzhou Chenge")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	2,000	–	54%	Holding sub-subsidiary
Jack Walk	Limited liability company	Shanghai	Shanghai	Sales of apparel products	16,194	69%	–	Holding subsidiary

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) The structure of the Group (continued)

Name of subsidiaries	Kind of legal entity	Place of operation	Place of incorporate	Principle activities	Issued share and share capital	Share proportion Direct	Share proportion Indirect	Acquisition method
Shanghai Chongan Fashion Co., Ltd. ("Shanghai Chongan")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	15,000	85%	–	Holding subsidiaries
Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	20,000	100%	–	Wholly owned subsidiary
Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei")	Limited liability company	Pucheng	Pucheng	Sales of apparel products	10,000	100%	–	Wholly owned subsidiary
Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management")	Limited liability company	Shanghai	Shanghai	Investment	300,000	100%	–	Wholly owned subsidiary
LaCha Fashion	Not applicable	HongKong	HongKong	Investment	25,685	100%	–	Wholly owned sub-subsidiary
Shanghai Nuoxing Fashion Co., Ltd. ("Shanghai Nuoxing")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	–	100%	–	Wholly owned subsidiary
Shanghai Jiatuo Information Technology Co., Ltd. ("Shanghai Jiatuo")	Limited liability company	Shanghai	Shanghai	IT technology	1,000	100%	–	Wholly owned subsidiary
Shanghai Xingji Industry Co., Ltd. ("Xingji")	Limited liability company	Shanghai	Shanghai	Home furnishing	12,000	–	60%	Holding sub-subsidiaries
Dongguan Dianlan Xinlong Fashion Co. Ltd. ("Dianlan Xinlong")	Limited liability company	Dongguan	Dongguan	Design and sales of apparel products	1,000	–	55%	Holding sub-subsidiaries
Guangzhou Xichen Fashion Co., Ltd ("Guangzhou Xichen")	Limited liability company	Guangzhou	Guangzhou	Sales of apparel products	19,000	–	80%	Holding sub-subsidiaries
Apparel	Limited liability company	BVI	BVI	Investment	–	100%	–	Wholly owned sub-subsidiaries
Shanghai Pincheng Industry Co., Ltd. ("Pincheng")	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	25,656	57.125%	–	Holding subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(b) Subsidiaries with significant minority interests

Name of subsidiaries	Shareholding proportion of minority interests	Net profit attributable to minority interests for the 6 months ended 30 June 2018	Dividends distributed to minority interests for the 6 months ended 30 June 2018	Minority interests on 30 June 2018
Hangzhou Anshe Group	45.95%	31,291	(62,032)	150,203

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

	30 June 2018						30 June 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Anshe Group	336,574	56,599	393,173	63,011	3,278	66,289	330,283	51,802	382,085	52,851	6,129	58,980

	For the 6 months ended 30 June 2018				For the 6 months ended 30 June 2017			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Anshe Group	249,688	68,099	68,099	40,865	229,696	78,523	78,523	108,532

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(2) Equity in joint venture and associates

Summarised financial information of non-significant joint venture and associates:

Joint venture:	For the 6 months ended 30 June 2018
Carrying amount	**162,011**
The following items are calculated based on the share percentage in the joint venture	
Net income (i) (Note 6(38))	**–**
Total comprehensive income	**–**

Associates:	For the 6 months ended 30 June 2018
Carrying amount	**591,556**
The following items are calculated based on the share percentage in the associates	
Net income (i) (Note 6(38))	**63,658**
Total comprehensive income	**63,658**

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

7 SEGMENT INFORMATION

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

For the 6 months ended 30 June 2018 and and 2017, there are not any sales to a single customer which accounted for over 10% of the total sales.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) The ultimate controlling party

(a) General information of the ultimate controlling party

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

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

	30 June 2018		31 December 2017	
	Shareholding (%)	**Voting rights (%)**	Shareholding (%)	Voting rights (%)
Mr. Xing Jiaxing	**26%**	**34%**	26%	34%

Since the director appointed by Shanghai Hexia agreed to take a concerted approach with Mr.Xing Jiaxing in exercising Shanghai Hexia's voting rights in the Company, the percentage of share holding differs from that of voting rights.

(2) Information of subsidiaries

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

(3) Other related parties

	Relationship with the Group
Hangzhou Kaihui E-Commerce Co., Ltd.	Associate of the Group
Hangzhou Mixin E-Commerce Co., Ltd.	Associate of the Group
Hangzhou Jianing E-Commerce Co., Ltd.	Associate of the Group
Shanghai Pincheng Industry Co., Ltd.	Associate of the Group from June 2017 to April 2018
Hongche Industry (Shanghai) Co., Ltd.	Associate of the Group
Fuzhou Badi Fashion Co., Ltd.	Associate of the Group
Cao Qing	The minority shareholder holding more than 10% interests of the significant subsidiary

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions

(a) Remuneration of key management

	For the 6 months ended	
	30 June 2018	30 June 2017
Remuneration of key management	**6,171**	11,265

Key management are also the Group's employees. The remuneration of key management from 1 January 2018 to 30 June 2018 disclosed also include the employment salaries paid before or after the appointment as key management.

(b) Provision of funds to

	For the 6 months ended	
	30 June 2018	30 June 2017
Hongche Industry (Shanghai) Co., Ltd.	**19,000**	–
Cao Qing	**–**	28,000
	19,000	28,000

(c) Repayment of funds from

	For the 6 months ended	
	30 June 2018	30 June 2017
Cao Qing	**–**	28,000

(d) Rendering of services

	For the 6 months ended	
	30 June 2018	30 June 2017
Hangzhou Kaihui E-Commerce Co., Ltd.	**5,077**	4,640
Hangzhou Mixin E-Commerce Co., Ltd.	**187**	650
Hangzhou Jianing E-Commerce Co., Ltd.	**–**	303
	5,264	5,593

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions (continued)

(e) Interest income

	For the 6 months ended	
	30 June 2018	30 June 2017
Hongche Industry (Shanghai) Co., Ltd.	**285**	–
Cao Qing	**–**	440
	285	440

(f) Purchase of goods

	For the 6 months ended	
	30 June 2018	30 June 2017
Fuzhou Badi Fashion Co., Ltd.	**145**	–
Shanghai Pincheng Industry Co., Ltd.	**–**	3,253
	145	3,253

(g) Acceptance of service

	For the 6 months ended	
	30 June 2018	30 June 2017
Shanghai Pincheng Industry Co., Ltd.	**710**	1,025
Hangzhou Kaihui E-Commerce Co., Ltd.	**666**	–
Hongche Industry (Shanghai) Co., Ltd.	**539**	747
	1,915	1,772

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions (continued)

(h) Funds received on behalf of

	For the 6 months ended	
	30 June 2018	30 June 2017
Hangzhou Kaihui E-Commerce Co., Ltd.	**15,594**	–

(i) Joint investment with related parties

For the 6 months ended 30 June 2017, the Group and Legend Minzhi (Tianjin) Enterprise Management and Consultancy Partnership (L.P.) (天津君聯敏智企業管理諮詢合夥企業(有限合夥)), who is controlled by the Group's shareholder Legend Capital Management Co., Ltd. (君聯資本管理股份有限公司), jointly invested in Beijing Mingtongsiji Technology Co., Ltd. The Group acquired 1,075,000 ordinary shares, or 3.74% equity interests with a total consideration of RMB15,000,000, while Legend Minzhi (Tianjin) Enterprise Management and Consultancy Partnership (L.P.) acquired 2.5% equity interests with a total consideration of RMB10,000,000.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Receivables from and payables to related parties

(a) Notes receivable and accounts receivable

	30 June 2018		31 December 2017	
	Ending Balance	**Provision**	Ending Balance	Provision
Hangzhou Kaihui E-Commerce Co., Ltd.	**2,563**	**–**	1,707	–
Hangzhou Mixin E-Commerce Co., Ltd.	**–**	**–**	88	–
	2,563	**–**	1,795	–

(b) Notes payable and accounts payable

	30 June 2018	31 December 2017
Fuzhou Badi Fashion Co., Ltd.	**150**	–
Hongche Industry (Shanghai) Co., Ltd.	**–**	104
	150	104

(c) Other payables

	30 June 2018	31 December 2017
Hangzhou Kaihui E-Commerce Co., Ltd	**1,640**	2,134
Shanghai Pincheng Industry Co., Ltd.	**–**	527
	1,640	2,661

(All amounts in RMB'000 unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

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

	30 June 2018	31 December 2017
Fixed assets	**513,087**	285,607
Long-term prepaid expenses	**7,071**	16,620
Long-term equity investments	**4,000**	4,781
	524,158	307,008

(2) Operating lease commitments

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

	30 June 2018	31 December 2017
Within 1 year	**826,117**	921,027
1 to 2 years	**724,362**	782,471
2 to 3 years	**595,971**	655,294
3 to 4 years	**467,196**	492,321
4 to 5 years	**356,525**	381,691
Over 5 years	**355,583**	461,444
	3,325,754	3,694,248

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

10 EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a resolution of the Board of Directors on 28 August 2018, a dividend of RMB0.25 per share representing an approximate amount of RMB136,918,000 was proposed.

As at 3 August 2018, the Company entered into a termination agreement with Hangzhou Anshe to terminate the continuing connected transaction dated 29 April 2016. Afterwards, Anshe will no longer provide any E-commerce service to the Company.

11 BUSINESS COMBINATION

See Note 5.

12 FINANCIAL RISK

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's risk management policies to reduce the aforementioned risks are as follows:

Board of Directors is responsible for establishing the Group's risk management structure, determining the Group's risk management policies and related guidance and monitoring the performance of the practice of risk management. The Group has determined risk management policies to identify and analyse risks faced by the Group. The risk management policies definite specific risks, which cover market risk, credit risk, liquidity risk and other various risks. The Group assesses market environment and changes in the Group's operating activities in a regular basis to determine whether to update the risk management policies and systems. Risk Management Committee identifies, assesses and avoids risk by working with the Group's other departments closely. The Group's Internal Audit Department reviews risk management controls and procedures on a regular basis, and report the review results to the Group's Audit Committee.

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group's head office is responsible for monitoring the amount of assets and liabilities and transactions denominated in foreign currencies to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. For the 6 months ended 30 June 2018 and 30 June 2017, the Group did not enter into any forward exchange contracts or currency swap contracts.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the subsidiaries of the Group, whose recording currencies are RMB, are expressed in RMB as at 30 June 2018 and 31 December 2017 as follows:

	30 June 2018 **RMB'000**	31 December 2017 RMB'000
HKD		
Financial assets denominated in foreign currency–		
Cash and cash equivalents	**3**	4

As at 30 June 2018, if RMB had strengthened or weakened by 10% against HKD with all other variables held constant, the Group's net profit for the period would have been approximately RMB1,000 (31 December 2017: RMB1,000) lower or higher respectively, for cash and cash equivalents denominated in HKD.

12 FINANCIAL RISK (CONTINUED)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the subsidiaries of the Group, whose recording currencies are HKD,, are expressed in RMB as at 30 June 2018 and 31 December 2017 as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
EUR		
Financial assets denominated in foreign currency–		
Cash and cash equivalents	**36**	–
Total	**36**	–

As at 30 June 2018, if RMB had strengthened or weakened by 10% against EUR with all other variables held constant, the Group's net profit would have been approximately RMB3,000 (31 December 2017: nil) lower or higher respectively, for cash and cash equivalents denominated in EUR.

(b) Interest rate risk

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

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

	30 June 2018	31 December 2017
Bank borrowing		
– Fixed rate	**1,740,000**	1,006,000

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the 6 months ended 30 June 2018 and 2017, the Group did not enter into any interest rate swap agreements.

12 FINANCIAL RISK (CONTINUED)

(1) Market risk (continued)

(c) Other price risk

The Group's other price risk is given rise to equity instrument investment held for trading and other equity instrument investment with the risk of the change of price.

As at 30 June 2018, if the expected price of the Group's various equity instrument investment had increased or decreased by 10% with other factors unchanged, the Group's net profit for the current period would have been increased or decreased by approximately RMB2,820,000 (as at 31 December 2017: approximately RMB2,820,000), and the other comprehensive income would have been increased or decreased by approximately RMB3,987,000 (as at 31 December 2017: approximately RMB2,951,000).

(2) Credit risk

Credit risk mainly arises from cash at bank, notes receivable and accounts receivable, other receivables and debt instrument investments at fair value through profit or loss out of the scope of impairment assessment. As at the balance sheet date, the carrying amount of financial assets represents the maximum credit exposure.

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

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

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

(3) Liquidity risk

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

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(3) Liquidity risk (continued)

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

	30 June 2018				
	Within 1 year	**Above 1 to 2 years**	**Above 2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities –					
Short-term borrowings	**1,740,000**	**–**	**–**	**–**	**1,740,000**
Notes payable and Accounts payable	**642,830**	**–**	**–**	**–**	**642,830**
Other payables	**541,311**	**–**	**–**	**–**	**541,311**
	2,924,141	**–**	**–**	**–**	**2,924,141**

	31 December 2017				
	Within 1 year	Above 1 to 2 years	Above 2 to 5 years	Over 5 years	Total
Financial liabilities –					
Short-term borrowings	1,006,000	–	–	–	1,006,000
Notes payable and Accounts payable	1,522,588	–	–	–	1,522,588
Other payables	725,780	–	–	–	725,780
	3,254,368	–	–	–	3,254,368

As at 30 June 2018, the repayment terms of bank borrowing of the Group are all within 1 year(31 December 2017: within 1 year).

13 FAIR VALUE ESTIMATES

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONTINUED)

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

As at 30 June 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading-(Note 4(2))				
Equity instruments held for trading	–	–	**28,200**	**28,200**
Wealth management products	–	–	**17,000**	**17,000**
Other equity instruments investment–				
Other equity instruments	–	–	**53,159**	**53,159**
Total financial assets	–	–	**98,359**	**98,359**
Total assets	–	–	**98,359**	**98,359**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets–				
Available-for-sale equity instruments	–	–	234,915	234,915
Other current assets–				
Wealth management products	–	–	17,000	17,000
Total financial assets	–	–	251,915	251,915
Total assets	–	–	251,915	251,915

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There is no transfer between Level 1 and Level 2 for the current year.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier, liquidity discount and etc.

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONTINUED)

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

The changes in Level 3 financial assets are analysed below:

	financial assets
1 January 2018	**101,544**
Differences of foreign currency conversion	**(3,185)**
30 June 2018	**98,359**
1 January 2017	**190,649**
Investment	**22,800**
Differences of foreign currency conversion	**(774)**
Gains that are included in other comprehensive income(Note4(27))	**22,240**
30 June 2017	**234,915**

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

Financial assets and liabilities of the Group measured at amortised cost mainly include notes receivable and accounts receivable, other receivable, short-term borrowings and payables. The differences between the carrying amount and fair value of those financial assets and liabilities not measured at fair value are minor.

14 CAPITAL MANAGEMENT

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

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

The total capital of the Group is the equity listed in the consolidated financial statement. The Group is not subject to external mandatory capital requirements and monitors capital on the basis of the gearing ratio.

As at 30 June 2018 and 31 December 2017, the Group's asset-liability ratio is as follows:

	30 June 2018	31 December 2017
Total liabilities	**1,740,000**	1,006,000
Total equity	**4,159,518**	4,069,228
Asset-liability ratio	**42%**	25%

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Notes receivable and accounts receivable

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Accounts receivable	**627,574**	1,692,373	905,113
Less: provision for bad debts	**(15,595)**	(17,283)	(7,322)
	611,979	1,675,090	897,791

The accounts receivable of the Company are from concessionaire counters through department stores and from sales of goods to subsidiaries. The accounts receivable are generally collected within 90 days from the invoice date.

(i) As at 30 June 2018, the top five accounts receivable are analysed as follows:

	Amount	Provision of bad debts	% of total balance
Total amount of the top five accounts receivable	255,725	–	41%

(ii) The aging of accounts receivable are analysed below:

As at 30 June 2018, there are no accounts receivable derecognized due to the transfer of financial assets.

(iii) As at 30 June 2018, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Amount	Expected credit loss rating in the whole lifetime	Provision for bad debts	Reason
Amounts due from department stores	9,214	100%	(9,214)	i)

i) As at 30 June 2018, amounts due from department stores are RMB9,214,000. Due to the overall poor operation situation and difficulties in cash flow turnover, part of department stores have shut down. The management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(All amounts in RMB'000 unless otherwise stated)

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

(1) Notes receivable and accounts receivable (continued)

(iv) As at 30 June 2018, the Group reserves provision of bad debts based on lifetime credit losses. The amount is RMB6,381,000.

	30 June 2018		
	Carrying amount	Provision of bad debts	
	Amount	Lifetime expected credit loss rating	Amount
Within credit period (90 days)	**157,051**	**2%**	**(3,141)**
Overdue (over 90 days) to one year	**14,687**	**5%**	**(734)**
Above one year to two years	**1,826**	**20%**	**(365)**
Above two years to three years	**201**	**50%**	**(101)**
Above three years	**2,040**	**100%**	**(2,040)**
	175,805	**4%**	**(6,381)**

(v) The reversal of previously reserved allowance of bad debts is RMB1,688,000. There is no significant receipt or reversal, nor write-off in current period.

(2) Other receivables

	30 June 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Other receivables from subsidiaries	**2,040,482**	1,431,903	1,532,762
Deposits	**91,496**	53,392	42,584
Dividend receivable	**7,481**	-	-
Staff advances	**3,109**	2,641	1,285
Interests receivable of bank deposits	**142**	79	1,245
Others	**5,979**	186	1,457
	2,148,689	1,488,201	1,579,333
Less: provision for bad debts	**(7,205)**	(4,738)	(2,888)
	2,141,484	1,483,463	1,576,445

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables (continued)

(a) Movement of loss allowance and carrying amount

	Stage 1					Stage 3		
	12-month expected credit losses (in group)		12-month expected credit losses (individually)		Total	Lifetime expected credit losses (credit impairment incurred)		Total
	Amount	Provision for bad debts	Amount	Provision for bad debts	Provision for bad debts	Amount	Provision for bad debts	Provision for bad debts
31 December 2017	55,703	(4,222)	–	–	(4,222)	516	(516)	(4,738)
Changes of accounting policies (Note 2(28)(c))	–	–	–	–	–	–	–	–
1 January 2018	55,703	(4,222)	–	–	(4,222)	516	(516)	(4,738)
Additions	44,365	(2,467)	–	–	(2,467)	–	–	(2,467)
Reversals	–	–	–	–	–	–	–	–
Transfers to stage 3	–	–	–	–	–	–	–	–
As at 30 June 2018	**100,068**	**(6,689)**	**-**	**-**	**(6,689)**	**516**	**(516)**	**(7,205)**

(i) As at 30 June 2018, provision of bad debts of accounts receivable in Stage 1 are analysed as follows:

	Amount	12-month expected credit losses	Provision for bad debts	Reason
Provision reserved in group:				
Deposits	90,980	7%	(6,235)	Based on 12-month
Staff advance and others	9,088	5%	(454)	expected credit risk
	100,068		(6,689)	

(ii) As at 30 June 2018, the Group has no other receivables in Phase 2

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables (continued)

(a) Movement of loss allowance and carrying amount (continued)

(iii) As at 30 June 2018, provision of bad debts of accounts receivables in stage 3 are analysed as follows:

	Amount	Life time expected credit losses	Provision for bad debts	Reason
Subject to separate assessment for provision				
Deposits	516	100%	(516)	(i)

i) As at 30 June 2018, deposit receivable from a department store amounted to RMB516,000. Since the Company ceased all the transactions with the store, the management of the Company is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(b) The allowance of bad debts in the current period is RMB2,467,000. There is no significant receipt or reversal, or write-off of other receivables.

(c) As at 30 June 2018, the top five balances of other receivables are summarized as below:

	Nature	Amount	Aging	% of total other receivables balance	Provision for bad debts
Shanghai Weile	Receivable from subsidiaries	1,100,875	Within 1 year	51%	–
Shanghai Le'ou	Receivable from subsidiaries	262,380	Within 1 year	12%	–
Jack Walk	Receivable from subsidiaries	260,116	Within 1 year	12%	–
Shanghai Youshi	Receivable from subsidiaries	149,261	Within 1 year	7%	–
Guangzhou Xichen	Receivable from subsidiaries	84,602	Within 1 year	4%	–
		1,857,234		86%	–

(All amounts in RMB'000 unless otherwise stated)

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

(3) Inventories

(a) Classification of inventories is as follows:

	30 June 2018			31 December 2017		
	Carrying amount before provision	Provision	Carrying amount	Carrying amount before provision	Provision	Carrying amount
Raw materials	476	–	476	424	–	424
Finished goods	1,920,610	(220,408)	1,700,202	2,202,579	(178,841)	2,023,738
Low value consumables	13,862	–	13,862	13,019	–	13,019
	1,934,948	(220,408)	1,714,540	2,216,022	(178,841)	2,037,181

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

		Increase in the current period	Decrease in the current period		
	31 December 2017	Accrual	Reversed	Resold	30 June 2018
Finished goods	(178,841)	(127,767)	–	86,200	**(220,408)**

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

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

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

(All amounts in RMB'000 unless otherwise stated)

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

(4) Long-term equity investments

	30 June 2018	31 December 2017
Subsidiary (a)	1,259,280	838,650
Associates (b)	8,152	24,433
	1,267,432	863,083
Less: provision for impairment of long-term equity investments	–	–
	1,267,432	863,083

(a) Subsidiaries

	31 December 2017	Movement in the current period: Additional investment/ transferred from other equity instrument investments	Movement in the current period: Disinvestment	30 June 2018	Provision for impairment
Enterprise Management	300,000	400,000	–	700,000	–
Hangzhou Anshe	208,000	–	–	208,000	–
Taicang LaCha	95,000	–	–	95,000	–
Jack Walk	75,000	–	–	75,000	–
Shanghai Weile	50,000	–	–	50,000	–
Pincheng	–	30,630	–	30,630	–
Shanghai Youshi	20,000	–	–	20,000	–
Shanghai Chongan	12,750	–	–	12,750	–
Shanghai Le'ou	10,400	–	–	10,400	–
Nuoxin	–	10,000	–	10,000	–
Tianjin LaCha	10,000	–	–	10,000	–
Chengdu Lewei	10,000	–	–	10,000	–
Fujian Lewei	10,000	–	–	10,000	–
Shanghai Xiawei	5,000	–	–	5,000	–
Shanghai Langhe	5,000	–	–	5,000	–
Lacha Xiuxian	5,000	–	–	5,000	–
Shanghai Jiatuo	1,000	–	–	1,000	–
Chengdu Lacha	500	–	–	500	–
Chongqing LeWei	500	–	–	500	–
Beijing Lacha	500	–	–	500	–
Jiuwo (Note 5(2))	20,000	–	(20,000)	–	–
	838,650	440,630	(20,000)	1,259,280	–

(All amounts in RMB'000 unless otherwise stated)

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

(4) Long-term equity investments (continued)

(b) Associates

		Movement in the current period									
	31 December 2017	Additions	Transferred to subsidiaries	Share of net profit or loss using the equity method	Share of other comprehensive income	Changes in other equity	Cash dividends declared	Provision for impairment	Others	30 June 2018	Balance of provision for impairment at the end of period
Pincheng	15,775	-	(15,630)	(145)	-	-	-	-	-	-	-
Fuzhou Badi Fashion Co., Ltd.	8,658	-	-	(506)	-	-	-	-	-	(8,152)	-
	24,433	-	(15,630)	(651)	-	-	-	-	-	(8,152)	-

(5) Revenue and cost of sales

Revenue and cost of main operation

	For the 6 months ended 30 June			
	2018		2017	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail	**2,265,029**	**1,482,649**	1,919,812	1,188,119

(6) Investment income

	For the 6 months ended 30 June	
	2018	2017
Investment income from long-term equity investments using equity method	**361,467**	583,277
Loss of disposal of long-term equity investment	**(20,000)**	–
Share of net profit of associates accounted for using the equity method	**(651)**	–
	340,816	583,277

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

(All amounts in RMB'000 unless otherwise stated)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	For the 6 months ended 30 June	
	2018	2017
Losses from disposal of non-current assets	**(122)**	(191)
Government grants recognised in profits	**85,137**	58,590
Profit of remeasurement of Pincheng	**(2,043)**	–
Losses from disposal of long-term equity investments	**(10,089)**	–
Other non-operating income and expenses other than aforesaid items	**(2,476)**	(2,928)
Subtotal of non-recurring profit before tax	**70,407**	55,471
Less: impact of income tax expense	**17,602**	(13,944)
Less: impact on the minority interests, net of tax	**(2,233)**	(4,469)
Subtotal of non-recurring profit attributable to shareholders of the Company, net of tax	**50,572**	37,058

Basis for preparation of summary of non-recurring profit or loss

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public – non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

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

The Company is listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), on 28 July 2017, according to the approval of the shareholders' meeting, the Company started to use the consolidated financial statements prepared under CAS to file the annual report with the Stock Exchange from the year ended 31 December 2017. Since that, the Group did not prepare the reconciliation between the financial statements prepared used CAS and IFRS.

(All amounts in RMB'000 unless otherwise stated)

3 RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets (%) For the 6 months ended 30 June	
	2018	2017
Net profit attributable to ordinary shareholders of the Company	**5.93**	8.22
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**4.66**	7.14

	Basic earnings per share (RMB) For the 6 months ended 30 June	
	2018	2017
Net profit attributable to ordinary shareholders of the Company	**0.43**	0.57
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**0.34**	0.50

	Diluted earnings per share (RMB) For the 6 months ended 30 June	
	2018	2017
Net profit attributable to ordinary shareholders of the Company	**0.43**	0.57
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**0.34**	0.50