La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.

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

ANNUAL REPORT 2018

(Stock Code: 06116)

Contents

Corporate Profile

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

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

The Group sells apparel products directly to retail customers through both physical retail points and online platforms. As at 31 December 2018, the Group's extensive nationwide retail network comprised 9,269 retail outlets, including 9,238 direct retail outlets and 31 franchising retail outlets across all 31 provinces, autonomous regions and municipalities in Mainland China.


High
Spirited
Girls Team
La Babité
拉·贝缇


LA CHAPELLE

Corporate Information

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

ENGLISH NAME
Shanghai La Chapelle Fashion Co., Ltd.

HEADQUARTERS
Building 4
No. 50, Lane 2700, South Lianhua Road
Minhang District, Shanghai, PRC

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
248 Queen's Road East
Wanchai, Hong Kong

COMPANY'S WEBSITE
www.lachapelle.cn

DIRECTORS

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

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

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. Mao Jianong
Dr. Chen Jieping
Mr. Zhang Zeping

REMUNERATION AND APPRAISAL COMMITTEE
Mr. Zhang Zeping *(Chairman)*
Mr. Lu Weiming
Mr. Mao Jianong
Dr. Chen Jieping
Mr. Chan, Wing Yuen Hubert

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

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

SUPERVISORS
Ms. Liu Mei *(Chairman)*
Mr. Wu Jinying
Ms. Zhang Haiyun

COMPANY SECRETARY
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
China Everbright Bank Co., Ltd.
Bank of Communications Co., Ltd.

STOCK CODE
6116

* *for identification purpose only*


JACK WALK

Financial Highlights

FINANCIAL SUMMARY

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

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**10,175,853**	8,998,709	8,550,867	9,095,708	7,814,169
Gross profit	**6,647,516**	5,627,804	5,479,566	6,198,430	5,364,511
Gross profit margin	**65.33%**	62.5%	64.1%	68.1%	68.7%
Operating (loss)/profit	**(151,681)**	737,493	686,972	828,396	733,560
Operating profit margin	**(1.49%)**	8.2%	8.0%	9.1%	9.4%
(Loss)/profit for the year	**(199,182)**	537,440	572,267	658,398	511,211
Profit attributable to equity owners of the Company	**(159,513)**	498,527	531,963	615,251	503,452
Non-controlling interests	**(39,669)**	38,913	40,304	43,147	7,759

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**3,473,479**	2,817,072	2,224,927	1,538,487	1,095,561
Current assets	**5,216,019**	5,054,640	4,078,716	4,330,241	4,635,506
Total assets	**8,689,498**	7,871,712	6,303,643	5,868,728	5,731,067
EQUITY AND LIABILITIES					
Total equity	**3,561,957**	4,069,228	3,510,218	3,309,878	3,107,142
Non-current liabilities	**407,752**	67,039	68,939	57,573	51,042
Current liabilities	**4,719,789**	3,735,445	2,724,486	2,501,277	2,572,883
Total liabilities	**5,127,541**	3,802,484	2,793,425	2,558,850	2,623,925
TOTAL EQUITY AND LIABILITIES	**8,689,498**	7,871,712	6,303,643	5,868,728	5,731,067

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

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

MARC ECKŌ

NEW YORK

Chairman's Statement

Dear shareholders,

On behalf of the Group, I am honoured to report the audited annual results for the year ended 31 December 2018.

In 2018, for the first time in many years, development in China was affected by complicated range of internal and external conditions. The economy found itself under downward pressure and the growth rate of consumption slowed down. According to data from the National Bureau of Statistics, the per capita consumption expenditure of Chinese residents showed a year-on-year increase of 8.4% to RMB19,853 in 2018, with per capita clothing consumption expenditure rising by 4.1% to RMB1,289, but accounting for 6.5% of the per capita consumption expenditure, which was lower than 6.8% of 2017. In 2018, clothing enterprises increased their emphasis on the value enhancement of shops, integrating online and offline, channels reconstruction of venues for "people and goods", and establishment of social media e-commerce platform. Structural consumer upgrading based on consumer layering also drove clothing brands toward differentiation and a deeper exploration of market segments.

For the year ended 31 December 2018, the Group's revenue and operating loss in 2018 reached RMB10,175.9 million and RMB151.7 million respectively, representing a decrease of 2.58% in the Group's revenue and a decrease of 120.57% in operating profit as compared with that of 2017. The net loss attributable to shareholders of the Company in 2018 amounted to RMB159.5 million, representing a decrease of 132.00% as compared with that of 2017. From the 2nd half of the year, the Group accelerated the adjustment in the sales channel by closing lossmaking and inefficient stores and starting to expand its new distribution channels including the mode of affiliation and franchise.

The year 2018 was the 20th anniversary of the Group's development. In the last two decades, La Chapelle Group has always adhered to the development concept of "designing for a better life" and committed to providing quality, fashionable and cost-effective apparel products to Chinese consumers. However, the Group also faced considerable challenges in 2018. That year therefore became the start of a process of introspection and transformation.

Brands and products: The Group improved its product competitiveness and the effectiveness of its product lifecycle management. The Group strengthened its brand operation and management abilities using a core main-category responsibility system and by clarifying how its brands are differentiated. The Group regarded sales and returns on investment as core KPI indicators and focused on improving capital turnover efficiency.

Offline channel: The Group improved and refined the services and operational and management abilities of its shops. The Group fully streamlined its network of stores across the country, by analysing each location relative to its shopping mall location, layout, and competition. This enabled performance improvement objectives and priorities to be clarified, ensured that responsibility assignment and assessment were in place, and led to the closure of loss-making stores and a reduction in the number of direct outlets.

Planning for new retail model: The Group upgraded the membership management system, established or WeChat-based social e-commerce sales channel, connected online and offline operational data with the membership system, and increased members' sales conversion rates and repeat purchase ratio.

The year of 2019 is a crucial year for the internal consolidation, transformation and development, as well as reforms and breakthroughs of the Company. With the integration of changes in internal and external environments, the Company revised the strategic development plan for the next three years and analyzed the opportunities and challenges faced by the Company to further clarify the future strategic development and core strategic initiatives as well as continuously strengthen the Company's core competitiveness. On the other hand, the Company will actively respond to and strive to cope with the problem of operating losses in the current period and it adhered to the operating policy of "focusing on current operations, accelerating model innovation, reducing costs and increasing efficiency" to gather the operating resources on business development, be mindful on the healthy and balanced cash flow continually, reduce the costs by decreasing the unreasonable expenses and improve the efficiency by accelerating the inventory turnover, in order to ensure the operating objective of turning losses into profits can be achieved.

To reverse the outstanding problems of current operating losses, and adhere to the business policy of "focusing on current operations, accelerating model innovation, and reducing costs and increasing efficiency", shrinking management resources and focusing on core business development, and continuing to focus on cash. Flow health balance, control costs, reduce unreasonable expenses, improve efficiency, increase inventory turnover, and ensure the realization of the annual business goal of turning losses into profit.

"A building is not made of only one timber; and only one river will not form the sea." In 2019, the Group will continue to deepen its reform initiatives and seize opportunities presented by a period of industrial integration and change. It will "stay true to the mission and forge ahead from the heart", at the starting point of the Group's second venture, we return to the essence of retail and adapt to the new changes in consumers' demand in order to accelerate the process of reforms and transformations and give full play to the advantages of the Group's existing brands, channels, supply chains, etc., with equal emphasis on quality and efficiency, so as to effectively improve the Company's profitability and asset turnover efficiency and lay a more solid foundation for the Company's long-term sustainable development.

On behalf of the Company's board of directors (**the "Board"**), I would like to express sincere gratitude to the Group's shareholders, business partners, customers and employees for their unstinting support. Going forward, the Group will continue to strive for innovation and change, creating value for shareholders.

Xing Jiaxing
Chairman of the Company

17 April 2019

Management Discussion and Analysis

Management Discussion and Analysis

INDUSTRY REVIEW

Data from the National Bureau of Statistics shows that China's gross domestic product (GDP) for 2018 exceeded RMB90 trillion, an increase of 6.6% over the previous year, and above market expectations. The operation of the domestic economy stayed within a reasonable range, while downward pressure increased.

The growth of retail sales of consumer goods slowed down. According to data from the National Bureau of Statistics, total consumer goods retail sales for the whole of 2018 reached RMB38.10 trillion, a year-on-year increase of 9.0% (or an actual increase of 6.9%, after deducting the price factor). The pace of growth decreased by 1.2 percentage points compared to that of the corresponding period last year. During 2018, total retail sales of shoes, hats and apparel products in the country reached RMB1,370.7 billion, an increase of 8% over the corresponding period of last year – but representing a pace of growth that was 1 percentage point lower than that of total retail sales of consumer goods in the corresponding period of last year.

As they contended with a complex and changeable macroscopic situation and increasing developmental challenges, apparel industry enterprises in 2018 strove to make changes and pursue innovation while maintaining stability. They strengthened their online and offline connections, focused on domestic demand and stepped up their acquisition and merger activities. As one of the world's largest consumer apparel markets, China's consumption continues its growth trend for both urban and rural demographics.

In 2019 the situation will become even more complex and challenging, which will create strategic opportunities for industry development. The implementation of new tax reduction policies in China is expected to be favourable to the industry. Consumer apparel groups will continue to extend into non-first-tier cities, utilisation of online and offline data will deepen, and consumption scenarios will further diversify.

Over the past year, the Group has carried out comprehensive reform in terms of organisational structure, brand, personnel, products, supply chain and channels with a focus on "people efficiency, goods efficiency and space efficiency".

FINANCIAL REVIEW

Under the Gross Revenue Method for both 2018 and 2017, the Group's revenue and operating loss in 2018 reached RMB10,175.9 million and RMB151.7 million respectively, representing a decrease of 2.58% in the Group's revenue and a decrease of 120.57% in operating profit as compared with that of 2017. The net loss attributable to shareholders of the Company in 2018 amounted to RMB159.5 million, representing a decrease of 132.00% as compared with that of 2017.

The under-performance of the Company was caused by both downstream of the retail market and the Company's inability to adapt to the environment. In the future, the Company will take more constructive measures and focus on the implementation of the measures.

The Group recorded the first operating loss since listing. In general, in addition to factors such as the decline in ultimate sales and decrease in gross profit margin, the operating loss also reflected need for urgent adjustment in the business model of "multi-brand with priority on direct sales". The excessive fixed costs under the direct sales model resulted in the significant loss in the profitability of the Group under the circumstances of weak sales growth. At the same time, some of the Group's own and co-invested brands require the Group to invest more operating resources in the 3-5 year cultivation period, and the continuing operating loss within the cultivation period also resulted in the decrease of the Group's profit during the period.

All of these require the Group to take further steps to accelerate the adjustment subsequently, focusing on area such as enhancement of productivity, channel layout and model adjustment, optimization of capital structure and improvement of investment project, to utilize its brands and channel strength, strengthen the establishment of core capacity, enhance the results of the period and strive to turn loss into profit as soon as possible.

Revenue

Under the Gross Revenue Method for both 2018 and 2017, the revenue of the Group decreased by 2.58% from RMB10,445.8 million in 2017 to RMB10,175.9 million in 2018. The decrease in revenue was mainly attributable to the following reasons: (1) Revenue from two major women's wear brand La Chapelle and Puella decreased by RMB308.9 million (11.94%) and RMB284.2 million (13.35%), respectively, which could not be compensated by the increase in sale from women's wear brand Candie's, Kid's wear and Men's wear; (2) Affected by the downstream of the macro-economy and decrease of store traffic, the Group's self-operated stores performed poorly in the second half the year. Respective decrease of sales in the third and fourth quarter was 12.90% and 3.74% compared with that of 2017; (3) Revenue from concessionaire counters decreased by RMB369.2 million (7.02%) from 2017 to 2018 with the contribution to the Group's sales from 50.38% in 2017 to 48.08% in 2018; (4) From the 2nd half of the year, the Group accelerated the adjustment in the sales channel by closing loss-making and inefficient stores and starting to expand its new distribution channels including the mode of affiliation and franchise.

The number of retail points decreased from 9,448 by the end of 2017 to 9,269 by the end of 2018.

Revenue by distribution channel

The following table sets out the revenue breakdown (under the Gross Revenue Method) by type of retail points during the years indicated:

	Year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
Concessionaire counters	**4,893,042**	**48.08**	5,262,256	50.38
Standalone retail outlets	**3,806,358**	**37.41**	3,729,856	35.71
Online platform	**1,437,569**	**14.13**	1,425,796	13.65
Franchise/Associates	**7,798**	**0.07**	3,497	0.03
Others	**31,086**	**0.31**	24,423	0.23
Total	**10,175,853**	**100.00**	10,445,828	100.00

The revenue from concessionaire counters decreased from RMB5,262.3 million in 2017 to RMB4,893.0 million in 2018, representing a decrease of 7.02% which was due to (1) customer traffic decline stemming from the ageing of sales channel in traditional department stores and (2) the Group's initiative to optimize the sales network during the Reporting Period by closing some of the concessionaire counters (the number of concessionaire counters at the end of 2018 decreased by 426 as compared to that by the end of 2017). The revenue from standalone retail outlets increased from RMB3,729.9 million in 2017 to RMB3,806.4 million in 2018, representing an increase of 2.05%. The growth was mainly attributable to the increase in number of standalone retail points from 3,728 as at 31 December 2017 to 3,957 as at 31 December 2018. The group's online businesses generated revenue of RMB1,437.6 million in 2018, representing a year-on-year increase of 0.83%. The increase was mainly attributable to improved operational capability in e-commerce business and the positive influence of the Group's multi-brand strategy.

Revenue by brand

The following table sets out the revenue breakdown (under the Gross Revenue Method) by brand during the years indicated:

	Year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
La Chapelle	**2,278,000**	**22.39**	2,586,936	24.77
Puella	**1,844,072**	**18.12**	2,128,247	20.37
Candie's	**822,683**	**8.08**	668,603	6.40
7 Modifier	**1,717,182**	**16.88**	1,728,875	16.55
La Babité	**1,514,509**	**14.88**	1,533,793	14.68
JACK WALK/Pote	**618,611**	**6.08**	569,782	5.45
8éM	**205,061**	**2.02**	114,027	1.09
MARC ECKŌ	**38,066**	**0.37**	37,222	0.36
UlifeStyle	**364,632**	**3.58**	522,148	5.00
OTHERMIX	**476,016**	**4.68**	410,386	3.93
O.T.R	**185,143**	**1.82**	85,376	0.82
Siastella	**41,003**	**0.40**	32,250	0.31
Mum Meet Me/Kin	**10,214**	**0.10**	3,760	0.04
drömGalaxy	**6,346**	**0.06**	–	–
GARTINE	**23,229**	**0.23**	–	–
Others	**31,086**	**0.31**	24,423	0.23
Total	**10,175,853**	**100.00**	10,445,828	100.00

In 2018, La Chapelle and Puella continued to be top two of the brands in terms of their revenue contribution to the Group. Sales from both brands accounted for 40.51% of the Group's total sales, representing a decrease of 4.63 percentage points from 45.14% in 2017. Revenue from the brands La Chapelle and Puella decreased by 12.58% from the corresponding period of 2017 as a result of the drop in revenue contributed by existing stores, acceleration of closing of underperforming stores and slower expansion of new stores. In 2018, revenue from other major women's wear brands of the Group (7 Modifier, La Babité, etc.) decreased slightly. Revenue from Women's wear brand Candie's and Kid's wear brand 8éM increased by 23.04% and 79.84% respectively on a year-on-year basis and their total contribution to total revenue increased from 7.49% in 2017 to 10.10% in 2018. Menswear brands (JACK WALK/Pote, MARC ECKŌ), which are still in development phase, experienced an increase of 8.18% in revenue as compared to the corresponding period of last year with their contribution to the Group's sales increased from 5.81% in 2017 to 6.45% in 2018. Revenue from the brand UlifeStyle decreased by 30.17% as compared to 2017 mainly attributable to the decrease in store numbers as the Group intentionally reduced the scale of the business.

Revenue by tier of cities

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

	Year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	Percentage of total (%)	Revenue (RMB'000)	Percentage of total (%)
First-tier cities	**1,283,936**	**12.62**	1,314,793	12.59
Second-tier cities	**4,389,669**	**43.14**	4,445,016	42.55
Third-tier cities	**2,433,044**	**23.91**	2,589,803	24.79
Other cities	**2,069,204**	**20.33**	2,096,216	20.07
Total	**10,175,853**	**100.0**	10,445,828	100.0

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

The Group recorded a decrease in revenue from all tiers of cities in 2018, mainly attributable to the decrease in sales at existing stores, decrease in retail points and slow down of expansion of retail network. During the Reporting Period, there is no material change in the contribution of each tier of cities to the Group's revenue from the corresponding period of last year.

Revenue by product type

The following table sets out the revenue breakdown (under the Gross Revenue Method) by product type (including revenue from online platform) during the years indicated:

	Year ended 31 December			
	2018		2017	
	Revenue (RMB'000)	**Percentage of total (%)**	Revenue (RMB'000)	Percentage of total (%)
Tops	**6,946,402**	**68.26**	7,170,136	68.64
Bottoms	**1,130,926**	**11.11**	1,177,774	11.28
Dresses	**2,034,061**	**19.99**	2,024,200	19.38
Accessories	**33,378**	**0.33**	49,295	0.47
Others	**31,086**	**0.31**	24,423	0.23
Total	**10,175,853**	**100.00**	10,445,828	100.00

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

From the perspective of product classification, in 2018, revenue from both tops and bottoms, experienced a year-on-year decrease. Sales from tops decreased by 3.12%, while that from bottoms decreased by 3.98%. Sales from dresses increased by 0.49%.

Cost of Sales

The cost of sales of the Group increased by 4.67% from RMB3,370.9 million in 2017 to RMB3,528.3 million in 2018.

Gross Profit and Gross Profit Margin

Under the Gross Revenue Method, the gross profit of the Group decreased from RMB7,074.9 million in 2017 to RMB6,647.5 million in 2018 decreased by 6.04%, mainly attributable to decrease in sales, increase in inventory turnover days and the management's active control on discount policy.

The gross profit margin of the Group decreased to 65.33% in 2018 from 67.73% in 2017, mainly due to a year-on-year decrease in average unit selling price in 2018 and an increase in contribution of off-season sales to the Group's sales.

Selling and Distribution Expenses and Administrative Expenses

Selling and distribution expenses in 2018 amounted to RMB6,032.4 million (2017: RMB4,354.9 million), consisting primarily of employee benefits expenses, concessionaire fees, amortization of long-term prepaid expenses and rental fees, marketing and promotional expenses, travelling and communication expenses and other expenses relating to selling and marketing activities. According to the New Revenue Standards (Gross Revenue Method), selling and distribution expenses accounted for 59.28% (2017: 55.54%) of the total revenue in 2018, mainly attributable to the increase in amortization of long-term prepaid expenses. Administrative expenses for 2018 amounted to RMB504.2 million (2017: RMB389.3 million), consisting primarily of administrative employee benefit expenses, rental fees for offices, consulting expenses, administrative expenses and communication expenses. Administrative expenses as a percentage of total revenue of the Group in 2018 was 4.95% (2017: 4.33%), mainly attributable to an increase in salary of administrative employees in new business sectors as compared to those of the last year.

Asset impairment losses

Asset impairment losses recorded RMB274.5 million in 2018 (2017: RMB236.0 million), of which RMB269.3 million was provision for inventories (2017: RMB189.6 million).

Credit losses

Credit losses recorded RMB1.2 million in 2018 resulting from the adoption of New Financial Instruments Standards (2017: nil). Bad debt amounted of RMB46 million was recorded in Asset impairment losses in 2017.

Other Income – Net

The Group's other income amounted to RMB125.9 million (2017: RMB129.3 million) in 2018, mainly from the financial subsidies of RMB125.7 million received during 2018 (2017: RMB129.1 million).

Finance Expenses/Income – Net

Net finance expenses of the Group amounted to RMB52.5 million in 2018 (2017: RMB16.6 million). The increase in net finance expenses was mainly a result of a year-on-year increase in interest expense on borrowings.

Total Loss

Total loss of the Group amounted at RMB160.2 million in 2018 (2017: RMB730.2 million), representing a year on year decrease of 121.94%. The decrease in the total profit of the Group was primarily due to an increase in selling and distribution expense as a percentage of revenue.

Income Tax Expense

Income tax expense amounted to RMB39.0 million in 2018 (2017: RMB192.8 million). The effective income tax rate in 2018 was (24.32%) (2017: 26.40%).

Net Loss and Net Loss Margin

Based on the combined factors set out above, the Group recorded a net loss of RMB199.2 million, representing a decrease by 137.06% as compared to RMB537.4 million in 2017. In particular, loss attributable to the shareholders of the Company was RMB159.5 million, a decrease by 132.00% from RMB498.5 million in 2017. Net profit margin of the Group was (1.96%) for the year 2018, compared to 5.97% in 2017.

Capital Expenditure

Capital expenditure of the Group primarily consisted of long-term prepaid expenditure, amounts and deposits paid for construction in progress as well as those paid for the acquisition of fixed assets and intangible assets. In 2018, the capital expenditure incurred by the Group was RMB1,000.9 million (2017: RMB946.2 million), which was mainly due to an increase in expenditure in construction in progress.

Cash and Cash Flow

In 2018, net cash generated from operating activities amounted to an inflow of RMB157.6 million (2017: net cash inflow of RMB557.2 million). The decrease in net cash inflow from operating activities was mainly due to increases in expenditure related to procurement in 2018 as compared to corresponding period of 2017.

In 2018, net cash outflow in investing activities was RMB1,309.7 million (2017: net cash outflow of RMB1,097.0 million). Major investment activities were: 1) cash outflow of RMB1,000.9 million for purchase of properties, factories, equipment and intangible assets; and 2) net cash outflow of RMB204.8 million for investment in joint ventures and associates. In 2017, cash used for purchase of properties, factories and equipment was RMB946.2 million.

In 2018, net cash inflow from financing activities was RMB787.2 million (2017: net cash inflow of RMB774.1 million). The financing activities were: 1) obtaining bank loans of RMB1,252.4 million and 2) net cash outflow of RMB466.1 million for payment of dividends on share and interests.

As at 31 December 2018, the Group held cash and cash equivalents totalling RMB605.3 million (31 December 2017: RMB930.6 million).

In 2018, the average inventory turnover of the Group was 248.9 days (2017: 216.7 days), and the average receivables turnover was 36.9 days (2017: 42.1 days). The decline in inventory turnover rate compared with 2017 was mainly due to the further increase in purchases in 2018 compared with the previous year, but the decrease in the sales rate during the same period had led to the reduction of inventory turnover.

The Group's financial position remained solid. As at 31 December 2018, net current assets of the Group amounted to RMB496.2 million. Total assets less current liabilities amounted to RMB3,969.7 million, and gearing ratio (total liabilities/total assets) was 59.01%.

As the Group carries out its operations in mainland China, most of the transactions are settled in Renminbi. In 2018, the Group completed an acquisition of 40% equity in Naf Naf SAS, a French brand, and expanded its business to Europe. The Group also pays dividends to shareholders of H shares in Hong Kong dollars. The Group manages foreign exchange risk by monitoring foreign exchange rates on a regular basis.

Bank loans and other borrowings

As at 31 December 2018, bank borrowings of the Group amounted to RMB2,259.9 million (31 December 2017: RMB1,006.0 million), of which long-term borrowings amounted to RMB330.9 million and long-term loans due in one year amounted to RMB17.4 million. (31 December 2017: nil) while short-term credit borrowings repayable within one year amounted RMB1,911.6 million (31 December 2017: RMB1,006.0 million).

Pledge of assets

As at 31 December 2018, the Group's properties and plants of RMB206,567 thousand (original cost: RMB208,150 thousand), Wu Jing headquarters project of RMB525,861 thousand and the land use right of RMB54,297 thousand (original cost: RMB59,018 thousand), were used as collateral for a long-term loan of RMB330,911 thousand and a long-term loan due within one year of RMB17,416 thousand (31 December 2017: Nil).

As at 31 December 2018, the Group's properties and plants of RMB345,099 thousand (original cost: RMB394,938 thousand), Taicang logistics center project of RMB40,827 thousand and the land use right of RMB33,994 thousand (original cost: RMB37,627 thousand), were used as collateral for the bank's credit investment contract (31 December 2017: Nil).

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

Human Resources

As at 31 December 2018, the Group had 33,706 full-time employees in total (31 December 2017: 37,554). The Group offers competitive compensation package for its employees, including statutory social insurance, housing fund, commercial insurance, paid holiday and other benefits, etc.. Meanwhile, the Group is dedicated to building itself a learning organization by emphasizing employee training, individual development and team spirit.

Significant investments held

Please refer to notes 4(8) and 4(9) to the consolidated financial statements of the Group for the year ended 31 December 2018 for details of the investments held by the Group.

BUSINESS REVIEW

Retail Network

For the year ended 31 December 2018, the retail network of the Group shrank slightly, with the number of retail points decreased from 9,448 as at 31 December 2017 to 9,269 as at 31 December 2018. These retail points were situated at approximately 2,908 physical locations.

The map below shows the geographical distribution of the Group's retail points in the PRC as at 31 December 2018.

Hainan	36
Qinghai	46
Gansu	91
Ningxia	112
Guizhou	128
Jiangxi	163
Yunnan	180
Shanxi	184
Tianjin	185
Chongqing	205
Jilin	207
Heilongjiang	207
Inner Mongolia	217
Xinjiang	222
Guangxi	226
Hunan	235
Shaanxi	292
Anhui	298
Shanghai	301
Beijing	308
Zhejiang	355
Liaoning	371
Hebei	379
Hubei	463
Fujian	485
Jiangsu	522
Sichuan	644
Henan	710
Guangdong	739
Shandong	758

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

	As at 31 December			
	2018		2017	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
First-tier cities	**833**	**8.99**	845	8.94
Second-tier cities	**3,541**	**38.20**	3,505	37.11
Third-tier cities	**2,573**	**27.76**	2,677	28.33
Other cities	**2,322**	**25.05**	2,421	25.62
Total	**9,269**	**100.00**	9,448	100.00

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

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

	As at 31 December 2018		As at 31 December 2017	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
Concessionaire counters	**5,281**	**56.98**	5,707	60.40
Standalone retail outlets	**3,957**	**42.69**	3,728	39.46
Franchise/Associates	**31**	**0.33**	13	0.14
Total	**9,269**	**100.00**	9,448	100.00

Management Discussion and Analysis

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

	As at 31 December 2018		As at 31 December 2017	
	Number of retail points	**Percentage of total (%)**	Number of retail points	Percentage of total (%)
La Chapelle	**1,966**	**21.21**	1,975	20.90
Puella	**1,907**	**20.58**	2,116	22.40
Candie's	**927**	**10.00**	944	10.00
7 Modifier	**1,730**	**18.66**	1,716	18.16
La Babité	**1,540**	**16.61**	1,562	16.53
JACK WALK/Pote	**669**	**7.22**	638	6.75
8éM	**274**	**2.96**	202	2.14
MARC ECKŌ	**46**	**0.50**	37	0.39
UlifeStyle	**105**	**1.13**	152	1.61
O.T.R	**43**	**0.46**	51	0.54
Siastella	**46**	**0.50**	36	0.38
drömGalaxy	**15**	**0.16**	0	0.00
GARTINE	**1**	**0.01**	0	0.00
Mum Meet Me/Kin	**–**	**–**	19	0.20
Total	**9,269**	**100.00**	9,448	100.00

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

	As at 31 December			
	2018		2017	
	Number of net additional retail points	**Percentage of total (%)**	Number of net additional retail points	Percentage of total (%)
La Chapelle	**(9)**	**5.03**	120	22.18
Puella	**(209)**	**116.76**	26	4.81
Candie's	**(17)**	**9.50**	4	0.74
7 Modifier	**14**	**(7.82)**	106	19.59
La Babité	**(22)**	**12.29**	264	48.80
JACK WALK/Pote	**31**	**(17.32)**	(62)	(11.46)
8éM	**72**	**(40.22)**	31	5.73
MARC ECKŌ	**9**	**(5.03)**	5	0.92
UlifeStyle	**(47)**	**26.26**	(39)	(7.21)
O.T.R	**(8)**	**4.47**	44	8.13
Siastella	**10**	**(5.59)**	23	4.25
drömGalaxy	**15**	**(8.38)**	–	–
GARTINE	**1**	**(0.56)**	–	–
Mum Meet Me/Kin	**(19)**	**10.61**	19	3.52
Total	**(179)**	**100.00**	541	100.00

During the Reporting Period, the Group accelerated the optimization of sales channel and closed underperformed stores. As at 31 December 2018, net number of stores closed amounted to 179 of which the net number of stores closed under the Puella brand amounted to 209, and the brand Mum Meet Me/Kin has been disposed of.

Same Store Sales Growth

With the adjustment to the market structure, a portion of customer traffic in department stores was absorbed by the rapidly expanding shopping malls and online platforms. Accordingly, the same store sales growth of traditional apparel companies, which relied on department stores as their major sales channel, continued to be affected by such diversion of customer flow. Despite the Group has strategically reduced the proportion of revenue from department stores, sales proportion from concessionaire counters currently remained at 48.08% of the Group's total revenue. Despite of the fact that the Group has taken a series of measures on sales channel management and stores operation, the same store sales revenue in 2018 decreased by 2.30% compared to that in 2017 (2017 compared to 2016: decreased by 8.01%).

Multi-brand Strategy

For a long time, the Group has aimed to become a fashion group by operating a range of brands, and the Group owns ten brands covering a market spectrum extending from menswear and women's wear to children's wear.

In 2018, the Group's two main brands, La Chapelle and Puella, were still in a period of adjustment, with their respective sales revenues decreasing by 11.94% and 13.35% compared with the previous year. Sales revenues from La Babité and 7 Modifier slightly decreased by 1.26% and 0.68% respectively over the correspondinng period of last year. The women's wear brand, Candie's, continued to grow rapidly and achieved a year-on-year increase of 23.05% in sales revenue during the Reporting Period. The men's wear brands, including Jack walk/Pote and MARC ECKŌ, achieved a year-on-year increase of 8.18% in sales revenue during the Reporting Period. Children's wear brand, 8éM, achieved a year-on-year increase of 79.84% in sales revenue during the Reporting Period.

During the Reporting Period, in order to take its first step toward internationalization, the Group completed an indirect acquisition of 40% equity in Naf Naf SAS, a French brand, and entered into a share purchase agreement with 60% of the shareholders of Naf Naf SAS's wholly-owned holding company to acquire the remaining 60% equity For details of the acquisitions, please refer to the Company's announcements dated 11 April 2018, 15 May 2018, 31 May 2018, 1 June 2018, 15 June 2018, 29 June 2018, 26 November 2018 and 28 February 2019.

Developing a New Business Model

To further enhance its operation efficiency and reduce management costs, the Company used an all-direct model as the basis of two terminal pilot models for joint operation and franchise. It thoroughly discussed, promoted and then implemented the model for each store according to different brands' stages of development and the differences in sales network coverage. By the end of 2018, the Company had a total of 9,269 offline retail outlets, including 9,238 direct retail outlets and 31 franchising retail outlets.

In 2019, the Company will continue to explore new models that will make a positive contribution to the operating results and reduce the number of direct retail outlets.

New "LaCha Cloud" Retailing

During the Reporting Period, the Company established a dedicated team for the "LaCha Cloud" project, an online and offline full-channel close connection model developed with customer demand at its core. Using WeChat mini programs as a platform, the Company opened up the online and offline operating data and membership systems and improved members' sales conversion rate and repeat purchase ratio by focusing on customers' full-scenario social and interactive experiences while using member cloud digital analysis methods and community marketing.

In March 2019, the official La Chapelle mall was launched on the WeChat mini program platform, along with a new plan for member rights at direct stores and mini program-based malls. From April to December 2019, the Company will continue to integrate its online and offline development, refine member operations, and enhance operating results.

Portfolio Management Reform

In 2018, the Company implemented a variety of combined reform measures.

- **Flatten the sales management structure:** Reduced layers of the management and optimised the number of personnel, improved refined services and the operation and management ability of stores with an "area manager-sales manager/director-store manager" system.

- **Strengthen product differentiation and improve product-brand positioning match:** Increased the number of Stock Keeping Unit (SKU) for each brand, reduced the purchase volume for the initial order and identified best-selling products to improve the accuracy of additional ordering. Increased frequency of cooperation with designers to better grasp fashion trends and customer preferences.

- **Comprehensively streamline offline channels:** Analysed the specific problems of each store and developed commensurate adjustment plans, matched different stores with different products and strengthened store differentiation. Optimised the channel structure and continued to adjust the number and proportion of stores in department stores and shopping malls.

Information system

Information-based operation is a long-term Group strategy and provides important support for the development of apparel enterprises.

In 2018, the Group began establishing a commodity lifecycle project encompassing product lifecycle management (PLM), supply chain management (SCM) and the management of allocation/replenishment/transfer of products. Its aim was to achieve full chain informatisation and to assist in resolving core link pain points such as basic information, enterprise planning and management, and design and development, thereby increasing the accuracy ratio of product research and development, capital turnover efficiency and operation efficiency, and thus making a positive impact on operating results. As of the date of this announcement, the women's wear brand 7 Modifier has begun to operate the PLM and SCM models.

In 2018, the Group also implemented a store lifecycle system to facilitate store development, process optimisation and subsequent management. At the same time, the Group further enhanced radio frequency identification system (RFID) application coverage to improve management efficiency.

Business outlook

In 2019, the Company will follow the new trend of the development of apparel industry to accelerate the progress of transformation, adjustment, innovation and development, strive to meet the needs of target end consumers, improve its services and management, and ensure effective improvement of both operational efficiency and quality of operation.

Management Discussion and Analysis

1. Focus on the improvement of core brand competitiveness and the multi-brand differentiation development strategy. Starting from enhancing product strength, the Company will concentrate our superior resources on the competitive advantages of core brands, strengthen the organization and management of product life cycle with major category responsibility system, optimize supplier structure, further increase the proportion of tracking and quick feedback, and improve inventory turnover. For non-core brands, the Company will focus on profit improvement and reduce inefficient resource allocation on non-core brands.

2. Optimize the offline channel structure and strive to develop the domestic market in various models. In 2019, the Company will speed up the progress of channel transformation and adjustment, improve the profitability of each store and accelerate the formation of a channel structure layout with equal emphasis on direct selling channels and franchises and affiliates. On the one hand, the existing direct channels will be comprehensively sorted out, and the key areas covered by the direct channels will be determined based on factors such as brand influence, regional management ability and team management scope. Meanwhile, new stores will be under strict quality control, while loss-making and inefficient stores will be shut down. On the other hand, through affiliates and franchises in the Company's untapped county-level markets and regional and city-level markets with weak direct management capacity, the Company will strive to achieve a channel layout with affiliates and franchises accounting for over 50% within one to two years.

3. Focus on the marketing targeted at members with comprehensive online-offline integration. On the one hand, the Company will continue to expand its membership base, strengthen the analysis of member consumption behavior to enable our products and terminals with data. On the other hand, with the member cloud center organization as the core, the Company will form professional teams to promote member marketing as planned and step-by-step. An information management platform and member management system will be built through the integration of member data, so as to improve member repurchase rate and conversion rate and increase the contribution of member sales.

4. Focus on reducing costs and increasing efficiency as well as eliminating waste and unreasonable expenditures. In 2019, the Company's cost control measures focus on centralized procurement of materials and improvement of management efficiency. For this purpose, the Company will improve the level of refined management, comprehensively implement a flat organizational structure, and quickly respond to consumer and market changes through streamline and optimization of processes. For the warehouse operations, warehouse management and other processes, the Company will adopt a comprehensive outsourcing approach to improve efficiency and reduce costs with professional operation management.

5. Focus on cash flow balance and improve the structure of assets and liabilities. For the inventories, the Company will focus on meeting the needs of consumers and achieving sales in the aspects of product design, external processing, distribution of goods, and mid-season circulation, so as to effectively improve the efficiency of product turnover. In terms of capital source development, in addition to existing bank loans and project financing, the Company can effectively increase the amount of cash inflow generated from operating activities during the current period through channel structure adjustment, order mode optimization, member marketing promotion, product life cycle management and other means. The Company can effectively reduce the long-term capital occupation and increase the cash source during the current period by enhancing the revitalization of long-term stock assets. Upstream and downstream supply chain financing, issuance of medium-term notes and other financing means can be used as a useful supplement to bank loans to more fully meet the short-term liquidity needs.

6. Focus on the efficiency output of the invested projects and withdraw from inefficient projects when appropriate, so as to improve the overall investment return. For all projects that we have invested in, the Company has dedicated officers to follow up each project's progress with its business plan and budget, to take measures in time when deviated from the plan, and to endeavor to achieve project investment objectives as soon as possible through promoting operational improvement, introduction of new investors, accelerating business expansion and other means based on different stages of the investment project, so as to reduce the negative impact on the Company's statement of profit and loss and cash flow. For those projects which do not meet the Company's development strategy or are fundamentally unable to achieve the desired goals, the Company will terminate or withdraw from them as soon as possible.

Pursuant to a resolution of Board dated 28 March 2019, the Board has approved the financial budget report of the Company for the year ended 31 December 2018. Subject to the approval of the shareholders at the 2018 AGM, taking into account the overall market condition and the competitive landscape in the industry, the Company has set the following two operation targets for 2019, being targeted operating revenue of RMB8.5 billion (representing a decrease of 16.47% year-on-year, since operating revenue is expected to decline as the Company implements its affiliation and franchise business model) and targeted operating profit of RMB420 million (turning from loss to profit). The financial budget targets disclosed above are subject to uncertainties and risks in the industry, market and the operation of the Company, and are not intended, and do not purport, to be an indication of the Group's future performance or profitability, therefore investors should not rely on the above financial budget targets in deciding whether to invest in the shares of the Company.

Profiles of Directors, Supervisors and Senior Management

Mr. Xing Jiaxing (邢加興), aged 46, established the Group in March 2001. Mr. Xing has been an executive Director of the Company since 9 May 2011 and is currently chief executive officer, chairman of the Board, chairman of the strategy and development committee of the Board (the "**Strategy and Development Committee**") and a member of the nomination committee (the "**Nomination Committee**").

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

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

Mr. Yu Qiang (于強), aged 45, has been a co-president of the Company since June 2018, an executive Director since February 2018 and a member of the Strategy and Development Committee since March 2018. Mr. Yu joined the Group in 3 May 2016 and has been a chief financial officer of the Company from 3 May 2016 to 4 June 2018.

He was previously a finance director, director and vice general manager at Nantong Jiangshan Agrochemical & Chemical Co.,Ltd.* (南通江山農藥化工股份有限公司) from January 2010 to April 2016. He also previously served various roles at Sinochem International Corporation* (中化國際(控股)股份有限公司) from December 1998 to January 2010, including as manager of the accounting department, general manager of the analysis and appraisal department, general manager of the fund settlement department, assistant to the general manager of the finance headquarters, vice general manager and general manager of the finance headquarters.

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

Ms. Hu Lijie (胡利杰), aged 43, has been a co-president of the Company since August 2018, an executive Director of the company, a member of the budget committee of the Board (the "**Budget Committee**") and the Strategy and Development Committee since October 2018.

Ms. Hu served as an assistant to the general manager of Beijing Office of Delong Group (德隆集團) from July 1997 to September 1999. From September 1999 to March 2002, she served as a product manager of Wafer Systems (China) Ltd, (CISCO Gold) (威發系統中國公司(CISCO 金牌)). From March 2002 to July 2005, she served as a senior consultant and senior project manager of Beijing Pilot Marketing Management Consulting Company (北京派力營銷管理顧問公司). From August 2005 to July 2008, she served as the chief consultant of Finland Puhui Management Consulting Company (芬蘭普慧管理顧問公司). From August 2008 to July 2018, she served as a standing committee member of the management committee, an assistant to the president and general manager of the merchants center of Red Star Macalline Group Corporation Limited.

Ms. Hu graduated from Tianjin Commerce College (天津商學院) in 1995. She obtained a master degree in business administration of human resources from the Capital University of Economics and Business (首都經貿大學) in July 2006 and an EMBA degree from the China Europe International Business School (中歐國際工商學院) in July 2015. She is the author of two professional reference books, such as "Marketing and Implementation" (《營銷執行》).

Mr. Lu Weiming (陸衛明), aged 48, is a member of remuneration and appraisal committee of the Board (the "**Remuneration and Appraisal Committee**"), Budget Committee, Strategy and Development Committee and a non-executive Director, a position which he has held since 9 May 2011. Mr. Lu joined the Group in January 2008 as a non-executive director of the Company.

Mr. Lu is currently a director and deputy general manager of Boxin Fund Management Co., Ltd.* (博信股權投資基金管理股份有限公司), which is involved in private equity investment; and is an executive partner of the manager of the Company's shareholder, Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership)* (博信一期(天津)股權投資基金合夥企業(有限合夥)).

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

Mr. Luo Bin (羅斌), aged 47, has been a non-executive Director of the Company since 5 May 2015. He is currently a member of the audit committee of the Board (the "**Audit Committee**"), Budget Committee and Strategy and Development Committee.

Mr. Luo was a director (a position which he has held since April 2013) and the chief finance officer (a position which he has held since April 2009) of Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司) ("Zhejiang Longsheng"), which listed on the Shanghai Stock Exchange (stock code: 600352) and is the holding company of Senda International Capital Limited, an existing shareholder of the Company. In January 2019, Mr. Luo resigned as chief financial officer, director and professional committee of Zhejiang Longsheng.

Mr. Luo worked as a partner in Sova Capital Co., Ltd.* (上海盛萬投資顧問有限公司) from November 2004 to March 2009 and as a senior manager in the financial advisory department of Shanghai Shenyin & Wanguo Securities Co., Ltd. from August 2003 to November 2004.

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

Mr. Mao Jianong (毛嘉農), aged 56, has been a non-executive Director of the company and a member of the Nomination Committee, Remuneration and Appraisal Committee and Strategy and Development Committee since October 2018.

Mr. Mao was an executive director and deputy general manager of SinoChem International Corporation from November 2007 to December 2010, a non-executive director of Nantong Jiangshan Agrochemical and Chemicals Co., Ltd. from January 2008 to December 2009, and a non-executive director of China Hainan Natural Rubber Industry Group Co., Ltd. from October 2008 to June 2011, and an independent non-executive director of Yonghui Superstores Co., Ltd. (永輝超市股份有限公司) from August 2009 to September 2015, all of which are companies listed on the Shanghai Stock Exchange. He was also the deputy general manager of Harbin Gloria Pharmaceuticals Co., Ltd (哈爾濱譽衡藥業股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002437) from January 2015 to December 2016. Mr. Mao was an independent non-executive director of the Company from May 2011 to May 2017.

Mr. Mao obtained a bachelor degree in medicine from the Second Military Medical University in July 1984, a master's degree in management science and engineering from the Dalian University of Technology in April 2002 and an executive master of business administration degree from the China Europe International Business School in October 2011.

Dr. Chen Jieping (陳杰平), aged 65, is the chairman of the Audit Committee and Budget Committee and a member of the Remuneration and Appraisal Committee and Nomination Committee and an independent non-executive Director, a position which he has held since 29 April 2016.

Dr. Chen held positions of Assistant Professor, Associate Professor, vice head and head of the department of accountancy of the City University of Hong Kong from 1995 to 2008. He has been the Associate Dean, Director of the EMBA programme and a professor at the China Europe International Business School since 2008.

Profiles of Directors, Supervisors and Senior Management

Dr. Chen was an independent non-executive director of Industrial Securities Co., Ltd., (興業證券股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 601377) from August 2011 to August 2017. He has been an independent non-executive director of Shenzhen Worldunion Properties Consultancy Incorporated (深圳世聯行地產顧問股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 2285) since 2013; an independent non-executive director of iOne Holdings Limited (now known as "HJ Capital (International) Holdings Company Limited" (華金國際資本控股有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 0982)) since 2014; an independent non-executive director of Jinmao Hotel & Jinmao (China) Investments and Management Limited (金茂酒店及金茂(中國)酒店投資管理有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 06139) (formerly known as Jinmao Investments and Jinmao (China) Investments Holdings Limited) since 2014; and independent non-executive director of Zhuo Lang intelligent technology Limited (卓郎智能技術股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 600545) from September 2017.

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

Mr. Chan, Wing Yuen Hubert (陳永源), aged 61, has been an independent non-executive Director of the Company since 25 July 2016. He is currently the chairman of the Nomination Committee and a member of the Audit Committee and the Budget Committee and Remuneration and Appraisal Committee.

Mr. Chan currently holds directorships in several companies listed on the Hong Kong Stock Exchange. Mr. Chan has been the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司) (stock code: 0475) since November 2011, the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司) (now known as "Zhonghua Gas Holdings Limited" (中華燃氣控股有限公司)) (stock code: 8246) since August 2014 and an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) (stock code: 1980) since June 2014; an independent non-executive director of FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司) (stock code: 6088) since November 2016.

Mr. Chan, Wing Yuen Hubert held various positions with a number of companies listed on the Hong Kong Stock Exchange for over 10 years, including an executive director of China Pipe Group Limited (中國管業集團有限公司) (now known as "Softpower International Limited" (冠力國際有限公司)) (stock code: 0380) and Interchina Holdings Company Limited (國中控股有限公司) (now known as "EverChina Int'l Holdings Company Limited" (潤中國際控股有限公司)) (stock code: 0202), an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (now known as "China Smarter Energy Group Holdings Limited" (中國智慧能源集團控股有限公司)) (stock code: 1004) and a non-executive director of Guangdong Investment Limited (粵海投資有限公司) (stock code: 0270).

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

Mr. Zhang Zeping (張澤平), aged 45, has been an independent non-executive Director of the Company since 12 May 2017. He is currently the chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee. Mr. Zhang obtained a doctoral degree in International Economic Law from East China University of Political Science and Law and a post doctorate degree in law from Xiamen University. He was a visiting scholar at New York University.

Mr. Zhang worked as an English teacher at School of Fundamental Studies of Shanghai University of Engineering Science from July 1997 to September 2000. Since May 2003, he has been a lecturer, associate professor and professor at School of International Law of East China University of Political Science and Law. He has been also serving as a director and professor at centre for International Tax Law of East China University of Political Science and Law since September 2008.

Mr. Zhang was also the person-in-charge of the consular section of the Embassy of the People's Republic of China in the Republic of Macedonia from June 2006 to July 2008. He was a part-time lawyer in Shanghai Jintiancheng Law Firm from October 2008 to December 2018. He has been a part-time lawyer in Shanghai Jieming Law Firm since December 2018, and an independent non-executive director of Kunshan Xiefu New Material Co., Ltd. (昆山協孚新材料股份有限公司) since March 2015. Mr. Zhang has been the arbitrator of Shanghai International Arbitration Center since May 2016 and an independent non-executive director of Bulls Group Co., Ltd. since December 2017.

Ms. Zhang Hai yun (張海雲), aged 40, has been a Supervisor of the Company since December 2018 and a deputy general manager of shop installation engineering department of the Company since December 2017. She joined the finance department of the Company in March 2001, and subsequently had been a financial manager in 2006, deputy director of the finance department from January 2010 to October 2011 and head of finance from November 2011 to May 2018. Ms. Zhang is studying an EMBA degree at Xiamen University.

Mr. Wu Jinying (吳金應), aged 45, has been a Supervisor of the Company since 8 November 2015 and senior technical manager (software development) of the IT department of the Company. He was a system analyst in the IT department of the Company and subsequently promoted to the system R&D manager. Mr. Wu graduated from senior high school in 1995.

Ms. Liu Mei (劉梅), aged 33, has been a Supervisor of the Company since 18 December 2017 and is a director of the legal department of the Company. She joined the Company in February 2008 and held positions of officer, manager and deputy director from February 2008 to February 2018 in the legal department and has been serving as a director of the legal department since March 2018. Ms. Liu obtained her bachelor degree in law from East China University of Political Science and Law (華東政法大學) in January 2014.

Mr. Yin Xinzai (尹新仔), aged 48, has been a vice president of sales and marketing of the Company since 1 September 2013. He joined the Company in June 2013 and was designated as a general manager of sales and marketing in August 2013. Mr. Yin is responsible for the overall sales and marketing. Prior to joining the Company, Mr. Yin worked at Joeone Co., Ltd. (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd. (杭州九軒服飾有限公司) from June 2012 to May 2013. Both are the PRC fashion companies. Mr. Yin is studying an EMBA degree at Xiamen University.

Ms. Shen Jiaming (沈佳茗), aged 34, Chinese Certified Public Accountant, has been a chief financial officer of the Company on 5 June 2018. She joined the Company in July 2016 and held positions of director of accounting management department, assistant general manager of finance center and head of cash management department. Prior to joining the Company, Ms. Shen worked at Ernst & Young Hua Ming LLP (安永華明會計師事務所) and held positions of auditor, senior auditor, audit manager and senior audit manager from August 2006 to July 2016. Ms. Shen obtained her bachelor degree in management from Shanghai University of Finance and Economics (上海財經大學) in June 2006 (double major in investment economy and accounting).

Ms. Ding Lili (丁莉莉), aged 32, has been a secretary of board of directors of the Company since October 2018. She joined the Company in July 2017 and held positions of deputy director and securities affairs representative. Prior to joining the Company, Ms. Ding worked at Wolong Electric Group Co., Ltd. (臥龍電氣集團股份有限公司) and held positions of administrative officer, securities affairs assistant, securities affairs representative and head of human resource and administration from August 2009 to July 2017. Ms. Ding graduated from SouthWest JiaoTong University (西南交通大學) in July 2009, and she is studying a master's degree at Central University of Finance and Economics (中央財經大學).

COMPANY SECRETARY

Ms. Fang Xian Li (方先麗), aged 45, was a secretary of board of directors of the Company from June 2016 to 24 August 2018 and one of the Joint Company Secretaries from December 2016 to 24 August 2018. Prior to joining the Group, She had held the positions of financial officer, head of external cooperation department, assistant to general manager of the Jinqiao Project, assistant to head of the organization and personnel department, assistant to general manager cum office director and assistant to executive director of capital operation department of SAIC Motor Corporation Limited (上海汽車集團股份有限公司) from August 2003 to December 2011. She served as an executive director of Shanghai Homeland Asset Management Co., Ltd (上海嘉合明德資產管理有限公司) since August 2011. She was a deputy general manager and secretary of the board of directors of Kailong High Technology Co., Ltd (凱龍高科技股份有限公司) from January 2014 to November 2015. She has been a director of Zhengtai Engineering Machinery Co., Ltd. (鄭泰工程機械股份有限公司) since November 2015. She obtained a diploma in heating, gas supply, ventilating and air conditioning engineering from Huazhong University of Science and Technology in 1994. She obtained a master degree, a doctoral degree in economics from Fudan University in 2000 and 2003 respectively and an Executive Master of Business Administration degree from China European International Business School in 2017.

Ms. Wong Wai Ling (黃慧玲), one of the Joint Company Secretaries, remains the Company's Company Secretary upon Ms. Fang's resignation as a joint company secretary with effect from 24 August 2018. She is also a vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. She has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has approximately 14 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the section headed "Management Discussion and Analysis" on pages 14 to 29 of this report. The descriptions of the financial risk management of the Group are set out in note 12 to the consolidated financial statements. Five-year financial summary of the Group is set out on page 9 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 50 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements on pages 74 to 216 of this report.

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

In 2017, the Ministry of Finance ('**MOF**') released the revised 'Accounting Standards for Business Enterprises No.14 – Revenue' ('**New Revenue Standards**') and revised 'Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments', 'Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Instruments', 'Accounting Standards for Business Enterprises No. 37 – Disclosure of Financial Instruments' (hereinafter collectively referred to as '**New Financial Instruments Standards**'). In 2018, MOF released 'Circular on Amendments to Formats of Financial Statements of General Industry' (Caihui [2018] No. 15) (hereinafter referred to as "**New Financial Statements Form**").

To better reflect the operating result and financial position of the Group, the consolidated financial statements have been prepared in accordance with the above new standards since 1 January 2018 and certain line items have been adjusted accordingly. According to the above new standards, the Company is not required to adjust the retained earnings at the beginning of 2018 for the first adoption. Please refer to note 3(c) for the impact of the adoption of the New Revenue Standard to the retained earnings at the beginning of 2018.

The Group reported revenue of RMB8,998.7 million in 2017 under the old revenue standards. According to the New Revenue Standards, the Group's revenue in 2017 would be increased by RMB1,447.1 million to RMB10,445.8 million. The major difference between the old revenue standards and the New Revenue Standards applicable to the Group is the measurement method of revenue.

The Group pays concessionaire fees to department stores or online platform for the right to occupy and use concessionaire counters or the online platform pursuant to concessionaire agreements. A concessionaire fee with respect to a concessionaire counter or the online platform is typically calculated as a percentage of the Group's monthly sales made at the concessionaire counter or the online platform and is deducted by the department store or the online platform before it transfers the payments from sales of products to the Group. Under the old revenue standards, revenue was recognized on a net basis, that is, the concessionaire fees was recorded as a deduction to revenue ("**Net Revenue Method**"). Regarding the accounting records of trustor, the New Revenue Standards are net of revenue. The New Revenue Standards introduced more clear rules on accounting judgement over principal versus agency relationship. According to the New Revenue Standards, the Group should consider whether it owns the products and takes the inventory risk before transfer of the products to the end customers when determining the Group is acting as agent or principal. The Group controls the products before sales to the end customers. The sales staff in the concessionaire counters are the Group's employees, who take charge of products promotion and end customers services. The Group is the primary obligor in the transfer of products to consumers. The Group is responsible for storage and display of the products and bearing the products return risk. Hence, the Group bears the inventory risks before and after the transfer of products. The Group has the right to determine the selling price, even in certain promotion events organized by the department stores or online platform. The department stores or the online platform charges concessionaire fees to the Group which is calculated at certain fixed percentage of the gross sales amount. As such, management is in the opinion that the Group's customers are the end customers rather than the department stores or online platform. The Group is acting as a principal in the concessionaire arrangement. Accordingly, the Group should recognize revenue based on the gross amount of the sales transaction after adoption of the New Revenue Standards ('**Gross Revenue Method**'). The concessionaires fees are recorded as selling and distribution expenses.

The adoption of New Revenue Standards resulted in changes in accounting policies and adjustments to the revenue and selling and distribution expenses of RMB1,378,292 thousand in the consolidated financial statements in 2018. There was no impact on the net profit of the Group. As explained above, the New Revenue Standards were adopted without restating comparative information. For illustrative purpose, the Group also presented the key financial figures in 2017 under Gross Revenue Method.

For adoption of other new accounting standards as mentioned above, there were changes in the reclassifications and restatements on certain balance sheet accounts in 2018 and 2017, and no impact on the net profit of the Group.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 4(29) to the consolidated financial statements.

SHARE CAPITAL

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

FINAL DIVIDENDS

In 2019, due to the Company's business development, more funds need to be retained to support measures such as daily operations, new business model attempts, and pipeline optimization adjustments. In order to maintain the Company's sustained and stable development and better safeguard the long-term interests of all shareholders, The Board of Directors recommended no payment of cash dividends or stock dividends and no transfer from capital surplus to share capital for the year ended 31 December 2018. The accumulated profit is rolled over to the next year.

DIVIDEND POLICY

The Company adopts continuous and stable profit distribution policies, aiming to bring reasonable returns to investors while ensuring the sustainable development of the Company and establishing a continuous and stable distribution mechanism based on the profitability and actual needs arising from the future development strategy of the Company. Specific details of the dividend distribution plan are as follow:

1. Profit distribution shall not exceed the accumulated distributable profit of the Company and shall not adversely affect the subsequent continuing operation of the Company;

2. The Company may distribute profits in cash, shares and/or by a combination of cash and shares or otherwise as permitted by laws and regulations. However, where the conditions for cash dividend are satisfied, profit distribution in the form of cash dividend shall take priority;

3. Where the Company intends to implement cash dividend distribution, all the following conditions shall be satisfied:

    (1) the distributable profit (i.e. after-tax profit after making up for losses and making appropriation to the statutory reserve fund) of the Company for the year is positive;

    (2) the auditing firm issued a standard audit report with unqualified opinions on the financial report for the year.

4. When the above conditions for cash dividend distribution are satisfied, the Company will actively distribute profits in the form of cash dividends once per year in principle. The Board may also propose distributing interim cash dividends after taking into account the profitability and capital demand of the Company;

5. The Company shall maintain the continuity and stability of its profit distribution policies. The total profit to be distributed in cash shall not be less than twenty percent (20%) of the distributable profit realised in such year. The Board shall comprehensively consider factors such as the characteristics of the industry in which the Company operates, the stage of development, operation model and profitability of the Company and whether there is any arrangement for significant capital expenditure to differentiate between the following situations, and put forward differentiated policies for cash dividend distribution according to the procedures stipulated in the Articles of Associations:

    (1) cash dividend distribution should at least account for 80% of the profit distribution if the Company reaches a mature stage in its development and there is no arrangement for significant capital expenditure;

    (2) cash dividend distribution should at least account for 40% of the profit distribution if the Company reaches a mature stage in its development and there is an arrangement for significant capital expenditure;

    (3) cash dividend distribution should at least account for 20% of the profit distribution if the Company is in a stage of growth and there is an arrangement for significant capital expenditure; the stipulations in the preceding paragraph shall prevail if it is difficult to differentiate the stages of development of the Company.

If the profit of the company grows substantially and the Board is of the opinion that there is a mismatch between the share price of the Company and the scale of its share capital, a preliminary dividend distribution plan may also be proposed and implemented after satisfying the above cash dividend distribution.

6. If the Board does not put forth a cash dividend distribution plan, the reasons shall be disclosed in the annual report and independent Directors shall express independent opinions thereon;

7. If there is misappropriation of funds of the Company by a Shareholder in violation of regulations, the Company has the right to deduct that Shareholder's cash dividend during profit distribution to reimburse the misappropriated funds.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES

On 28 May 2019, the Company will hold the 2018 AGM for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2018 AGM. Relevant details of the resolutions are set out in the circular and notice of the 2018 AGM dated 11 April 2019.

In order to determine the H shareholders who are entitled to attend the 2018 AGM, the register of members of the Company for H shares will be closed from 28 April 2019 to 28 May 2019 (both days inclusive), during which period no transfer of H shares of the Company can be registered. In order to be qualified to attend and vote at the 2018 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 26 April 2019.

H Shareholders whose names appear on the register of members of the Company at the close of business on 26 April 2019 are entitled to attend and vote at the 2018 AGM. Please refer to the A Share announcement published on the Shanghai Stock Exchange for the information for A Shareholders who are entitled to attend the 2018 AGM.

FIXED ASSETS

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

BANK LOANS AND BORROWINGS

As at 31 December 2018, bank borrowings of the Group amounted to RMB2,259.9 million (31 December 2017: RMB1,006.0 million), of which long-term borrowings amounted to RMB330.9 million and long-term loans due in one year amounted to RMB17.4 million. (31 December 2017: nil) while short-term credit borrowings repayable within one year amounted RMB1,911.6 million (31 December 2017: RMB1,006.0 million).

DONATIONS

As a corporate citizen, the Company is driven by its wish to create maximum value for the community where its operation is located and participated in social welfare activities. During the year ended 31 December 2018, the Group and its staff made direct donations to a number of charity organizations.

Clothing Donation of the Group in 2018:

Recipient	Date	Volume
China Foundation for Disabled Persons	March, August 2018	500,973
Shanghai Foundation for Disabled Persons	March, September 2018	221,218
Wuxi Binhu District Hengshan Foundation	June, September, October 2018	68,287
Civil Affairs Bureau of Mengcheng County, Anhui Province	September 2018	30,916
Buluogou Primary School of Gaoshan Township, Donxiang Autonomous County, Gansu Province	September 2018	3,231
Total		**831,824**

The Group and Mr. Xing Jiaxing, the Chairman of the Board, always pay close attention to and support the career of disabled persons in China and the development of China Foundation for Disabled Persons. Since 2009, the Company has actively donated clothes to different levels of disability foundations and Red Cross Society in China. During the Reporting Period, the Group has donated a total of 831,824 clothes to disadvantaged persons.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's listed securities for the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

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

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2018 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Xing Jiaxing (邢加興)	Chairman, Executive Director and chief executive officer	Overall management of the Group, strategic planning and decision making	9 May 2011	March 2001
Mr. Yu Qiang[1] (于強)	Executive Director, and Co-president	Accounting, investment business and strategic planning	5 February 2018	May 2016
Ms. Hu Lijie[2] (胡利杰)	Executive Director and Co-president	Branding management, marketing and administration	19 October 2018	June 2018
Mr. Lu Weiming (陸衛明)	Non-executive Director	As a non-executive Director	9 May 2011	January 2008
Mr. Luo Bin (羅斌)	Non-executive Director	As a non-executive Director	5 May 2015	May 2015
Mr. Mao Jianong[3] (毛嘉農)	Non-executive Director	As a non-executive Director	19 October 2018	May 2011
Dr. Chen Jieping[4] (陳杰平)	Independent non-executive Director	As an independent Director	29 April 2016	April 2016
Mr. Chan, Wing Yuen Hurbert[5] (陳永源)	Independent non-executive Director	As an independent Director	25 July 2016	July 2016
Mr. Zhang Zeping (張澤平)	Independent non-executive Director	As an independent Director	12 May 2017	May 2017

1. The appointment of Mr. Yu Qiang as a co-president of the Company was effective on 5 June 2018.

2. The nomination of Ms. Hu Lijie as an executive Director of the third session of the Board was approved by the shareholders at the 2018 third extraordinary general meeting held on 19 October 2018. Ms. Hu Lijie was also appointed as a co-president on 28 August 2018. Ms. Hu joined as a member of Budget Committee and member of Strategy and Development Committee of the Company on 19 October 2018 upon approval by the Board.

3. The nomination of Mr. Mao Jianong as a non-executive director of the third session of the Board was approved by the shareholders at the 2018 third extraordinary general meeting held on 19 October 2018. Mr. Mao joined as a member of Budget Committee on 19 October 2018 upon approval by the Board. Mr. Mao was appointed as a member of Nomination Committee and Remuneration and Appraisal Committee and ceased to be a member of Budget Committee with effect from 30 October 2018.

4. Dr. Chen Jieping was appointed as a member of Nomination Committee with effect from 30 October 2018.

5. Mr. Chan, Wing Yuen Hubert was appointed as a member of Remuneration and Appraisal Committee with effect from 30 October 2018.

The Supervisors during the year ended 31 December 2018 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Mr. Cheng Fangping[1] (程方平)	Chairman of the Supervisory Committee and general manager of human resources	Supervision of the Board and management of the Group's human resources	16 March 2017	March 2017
Mr. Wu Jinying (吳金應)	Supervisor and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001
Ms. Liu Mei[2] (劉梅)	Supervisor and deputy director of legal department	Supervision of the Board and Senior Management	18 December 2017	February 2008
Ms. Zhang Haiyun[3] (張海雲)	Supervisor and deputy general manager of shop installation engineering department	Supervision of the Board and Senior Management	28 December 2018	March 2001

1. Mr. Cheng Fangping resigned as an employee representative supervisor and chairperson of the Supervisory Committee on 28 December 2018 in order to devote more time to his other personal commitments and seek other development opportunities.

2. Ms. Liu Mei was elected as the chairperson of the Supervisory Committee on 11 January 2019.

3. Ms. Zhang Haiyun was elected as an employee representative supervisor to fill the vacancy of Mr. Cheng Fangping on 28 December 2018.

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

CONFIRMATION OF INDEPENDENCE OF INDEPDENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

The appointments of Ms. Hu Lijie and Mr. Mao Jianong have been approved by the shareholders at the 2018 third extraordinary general meeting held on 19 October 2018. Ms. Hu and Mr. Mao have entered into a contract for a term commencing from their appointment on 19 October 2018 and ending on expiry of the third session of the Board.

For the year ended 31 December 2018, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

None of the Director or Supervisor, or any entity connected with the Directors or Supervisors, had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2018.

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

As at 31 December 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 Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Interests and short position in the shares of the Company

Name of Director	Nature of interest and capacity	Number of shares interested [2]	Approximate percentage of shareholding A shares as at 31 December 2018	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2018
Mr. Xing Jiaxing[1]	Beneficial owner	141,874,425 A Shares (L)	42.62%	25.91%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	45,204,390 A Shares (L)	13.58%	8.25%
	Beneficial owner	107,000,000 A Shares (S)	32.14%	19.54%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	27,000,000 A Shares (S)	8.11%	4.93%

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 31 December 2018. In addition, Mr. Xing Jiaxing and Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**") entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares mentioned above), which represents approximately 8.25% of the total issued share capital of the Company as at 31 December 2018.

   Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017, 7 December 2017, 19 September 2018 and 18 October 2018, respectively, pursuant to which 107,000,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 51,500,000 A Shares and 55,500,000 A Shares will be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 19.54% of the total issued capital of the Company as at 31 December 2018.

   Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018 and 18 October 2018,pursuant to which 27,000,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Such 27,000,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 4.93% of the total issued capital of the Company as at 31 December 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 31 December 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 year ended 31 December 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 31 December 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 31 December 2018	Approximate percentage of shareholding in the total issued share capital of the Companyat 31 December 2018
Shanghai Hexia[1]	Beneficial owner	45,204,390 A Shares (L)	13.58%	8.25%
	A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,874,425 A Shares (L)	42.62%	25.91%
	A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	107,000,000 A Shares (S)	32.14%	19.54%
	Beneficial owner	27,000,000 A Shares (S)	8.11%	4.93%
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	107,000,000 A Shares (L)	32.14%	19.54%
Citic Securities Co., Ltd.	Person having a security interest in shares	27,000,000 A Shares (L)	8.11%	4.93%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%
Gabriel Li[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[4]	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%

1. Shanghai Hexia was interested in 45,204,390 A Shares, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 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 107,000,000 A Shares (S) held by Mr. Xing Jiaxing as at 31 December 2018), representing approximately 25.91% and 19.54% respectively of the total issued share capital as at 31 December 2018.

   Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018 and 18 October 2018, pursuant to which 27,000,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Such 27,000,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 4.93% of the total issued capital of the Company as at 31 December 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 TTCO Trust Corporation Limited (西藏信託有限公司) 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 31 December 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

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

EMOLUMENT POLICY

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

PENSION SCHEMES

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

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2018 were RMB231,206 thousand.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2018, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases; and the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

SUSTAINABLE DEVELOPMENT

The Group is committed to promoting the sustainable development of the environment and society. We recognize the inevitable impacts on the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificate in compliance with the national and international environmental standards, safety standards and health for workers. The Group conducts performance assessment of its suppliers on environment and social responsibility regularly. Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2018" (the "**ESG Report 2018**"), which will be available on the websites of the Hong Kong Stock Exchange and the Company.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

We firmly believe that our suppliers are equally important in developing high-quality products. The Group has signed a bona-fide agreement for cooperation with every supplier at arms' length. Through open procedures for tender invitation and submission, the requirements of anti-corruption and anti-bribery are strictly followed, and various reporting channels are provided (including the mailbox and hotline made available to the public for reporting set up by the Audit Department). This agreement is an important legally binding attachment to any procurement cooperation agreement. In addition, we engaged a third-party inspection entity and adopted an "order management system" to strictly control the production process and product quality. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2018.

CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the Group terminated the following connected transactions and continuing connected transactions:

TERMINATION OF CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF PREFERRED SHARES IN BECOOL

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

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

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

As LaCha Fashion has not obtained certain government approvals, completion of the Subscription has not taken place. On 16 August 2018, LaCha Fashion entered into a termination notice with BeCool to terminate the Subscription by LaCha Fashion with immediate effect (the "**Termination Notice**"). Upon termination, neither party shall be under any obligations and liabilities towards the other parties in respect of the Share Purchase Agreement.

The Company believes that entering into the Termination Notice will not cause any material adverse impact to the Group's business and operational activities.

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

TERMINATION OF CONTINUING CONNECTED TRANSACTIONS

1. On 29 April 2016, the Company entered into a service agreement (the "**Service Agreement**") with 杭州黯涉電子商務有限公司 (Hangzhou Anshe E-Commerce Company Limited* ("**Anshe E-Commerce**") in relation to the e-commerce services to be provided by Anshe E-Commerce. On 3 August 2018, the Company entered into a termination agreement with Anshe E-Commerce to terminate the Service Agreement (the "**Service Termination Agreement**") with effect from the same date. Pursuant to the Service Termination Agreement, the Company will arrange delivery, by 31 August 2018, of all the inventory stored at the warehouse managed by Anshe E-commerce (the "**Warehouse**") as of 3 August 2018 to such location designated by the Company. The Company and Anshe E-Commerce also agreed that (i) for any unsettled contract fees payable by the Group to Anshe E-commerce under the Service Agreement incurred from 1 July 2018 to 3 August 2018, the Company will settle such amount within 10 working days upon issue of the invoice by Anshe E-commerce; and (ii) for unsettled contract fees of RMB42,197,734.80 payable by the Group to Anshe E-commerce under the Service Agreement incurred from 1 April 2018 to 30 June 2018, the Company will settle such amount within 10 working days after the delivery of all inventory stored at the Warehouse.

   The Company believes that entering into the Service Termination Agreement will not cause any material adverse impact to the Group's business and operational activities.

   Since the Company is interested in 54.05% equity interest of Anshe E-Commerce, Anshe E-Commerce is a non wholly-owned subsidiary of the Company. As Aibo Technology Company Limited, which is interested in 14.32% equity interest of Anshe E-Commerce, is owned as to 90.5% by LC Fund IV, L.P., which in turn controls Good Factor Limited, a substantial shareholder of the Company until it disposed of all its H Shares in the Company on 12 April 2017, and therefore Anshe E-Commerce was a connected subsidiary of the Company as at the respective dates of the transactions. As such, the transactions entered into between the Group and Anshe E-Commerce constituted continuing connected transactions of the Company as defined under the Listing Rules as at the respective dates of the transactions. For details of the Service Termination Agreement, please refer to the announcement of the Company dated 5 August 2018.

2. On 17 June 2016, Candie's Shanghai Fashion Co., Ltd. (上海樂歐服飾有限公司, "**CSF**") a non wholly-owned subsidiary of the Company, entered into a trademark licensing agreement (the "**Licensing Agreement**") with Anshe E-Commerce in respect of the licence of certain trademarks bearing the name of "Candie's" registered in the PRC and owned by CSF (the "**Covered Trademarks**"). On 30 November 2018, the Company entered into a termination agreement with Anshe E-Commerce to terminate the Licensing Agreement (the "**Licensing Termination Agreement**") with effect from the same date. Pursuant to the Licensing Termination Agreement, Anshe E-Commerce is entitled to a nine-month transition period (the "Transition Period"), during which it may sell inventory with the Covered Trademarks at designated e-commerce platforms in the PRC. Anshe E-Commerce agreed that it will pay to CSF the license fees under the Licensing Agreement for the Transition Period, calculated according to the agreement during the Transition Period.

The Company believes that entering into the Licensing Termination Agreement will not cause any material adverse impact to the Group's business and operational activities. For details of the Licensing Termination Agreement, please refer to the announcement of the Company dated 30 November 2018.

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

For details of the Service Agreement, the Service Termination Agreement, the Licensing Agreement and the Licensing Termination Agreement, please refer to the announcements of the Company dated 29 April 2016, 5 August 2018, 17 June 2016 and 30 November 2018, respectively.

For the year ended 31 December 2018, the Group terminated its connected transactions and continuing connect transactions (as defined under the Listing Rules). Save as disclosed above, the related party transactions as set out in note 8(4) to the consolidated financial statements do not constitute connected transactions under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2018 or as at the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 31 December 2018.

AUDIT COMMITTEE

During the year ended 31 December 2018, the Audit Committee met nine times to review the annual financial results in respect of the year ended 31 December 2017, the interim financial results in respect of the six months ended 30 June 2018 and the third quarter results in respect of the nine months ended 30 September 2018, appointment of auditors and significant issues on internal control and risk management systems, respectively. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2018.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2018 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2018, the Remuneration and Appraisal Committee met four times to review and assess the annual job performance of the Senior Management, review the policy and structure of the remuneration of Directors and Senior Management and other related matters, and make recommendations to the Board accordingly.

NOMINATION COMMITTEE

During the year ended 31 December 2018, the Nomination Committee met four times to nominate Directors and Senior Management for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (the "**PwC Zhong Tian**") was appointed as the domestic and international auditors of the Company for the year ended 31 December 2018. The resolution regarding the appointment of the auditor for the year ending 31 December 2019 will be tabled at the 2018 AGM.

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

The remuneration paid to PwC Zhong Tian in respect of the audit services rendered for the year ended 31 December 2018 was RMB4.00 million.

POST BALANCE SHEET EVENTS

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

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2018 interim report of the Company.

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

Shanghai, PRC, 28 March 2019

Report of the Supervisory Committee

In 2018, the Supervisory Committee of the Company adhered strictly to the Company Law, Articles of Association and the Rules of Procedures of the Supervisory Committee and other relevant laws and regulations and relevant requirements to conscientiously discharged all duties and responsibilities and comprehensively monitor the Company's operation in compliance with the law, financial condition, major decisions, use of raised funds, convening of general meetings and the board of directors, performance of duty of directors and senior management of the Company, so as to protect the legitimate rights of the Company and the shareholders and played a positive role in the regulated operation of the Company. The report of the Supervisory Committee for the year ended 31 December 2018 is as follows:

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

During the Reporting Period, the Company convened six meeting of the the Supervisory Committee: namely the fourth meeting of the third session of the Supervisory Board, fitth meeting of the third session of the Supervisory Board, sixth meeting of the third session of the Supervisory Board, seventh meeting of the third session of the Supervisory Board, eighth meeting of the third session of the Supervisory Board and the ninth meeting of the third session of the Supervisory Board. The convening and voting procedures of the meetings complied with the relavant provisions of the Company Law of the PRC and the Articles of Association. Special details are as follows:

(I) The fourth meeting of the third session of the Supervisory Board

On 22 March 2018, the Company convened the fourth meeting of the third session of the Supervisory Board, which considered and approved the "Report of the Supervisory Committee of the Company for 2017", the "Financial Statement of the Company for 2017", the "Audited Financial Statements and Audit Report of the Company for 2017", the "Annual Report and Summary of the Company for 2017", the "Environmental, Social and Governance Report 2017", the "Social Responsibility Report 2017", the " Internal Control Self-Evaluation Report of the Company for 2017", the "Distribution Plan of Profit of the Company for 2017", the "Resolution of the Company's Daily Related Transactions in 2017", the "Special Report on the Deposit and Actual Use of the Funds Raised by the Company in 2017", the "Financial Budget Report of the Company in 2018", the "Resolution of Recommendation of Reappointment of Accountant Firm and Resolution on Determining Audit Fees", the "Resolution of the Company's Application for Credit Lines from the Banks, the "Resolution of Providing Guarantees to Holding Subsidiaries, the "Resolution of Temporary Supplement of Liquidity with Partial Idle Raised Funds", the ""Resolution of Temporary Supplement of Liquidity with Partial Idle Raised Funds from H Shares" and the "Resolution of the Company's Provision of Loans and Related Transactions to the Participating Subsidiaries". Among which, the "Report of the Supervisory Committee of the Company for 2017" has summited to the General Meeting 2017 for consideration and approval.

(II) The fifth meeting of the third session of the Supervisory Board

On 26 April 2018, the Company convened the fifth meeting of the third session of the Supervisory Board, which considered and approved the "Resolution on the Full Text and Text of the First Quarterly Report of the Company in 2018" and the "Resolution of Increasing Investment in Non-wholly-owned Subsidiaries and Related Transactions of the Company".

(III) The sixth meeting of the third session of the Supervisory Board

On 28 August 2018, the Company convened the sixth meeting of the third Supervisory Board, which considered and approved the "Resolution on Changes in Accounting Policies of the Company", the "Company Interim Report of 2018, Summary and Interim Results Announcement", the "Interim Profit Distribution Plan of the Company for 2018" and the "Special Report on the Deposit and Actual Use of Funds Raised for the first six months of 2018".

(IV) The seventh meeting of the third session of the Supervisory Board

On 21 September 2018, the Company convened the seventh meeting of the third session of the Supervisory Board, and considered and approved the "Resolution on the Compliance with the Conditions for the Public Offering of A-Share Convertible Corporate Bonds of the Company" and the "Resolution of the Public Offering of A-Share Convertible Corporate Bonds of the Company", the "Resolution of the Proposal of the Public Offering of A-Share Convertible Corporate Bonds of the Company", the "Resolution of Report of the Previous Use of Raised Funds of the Company", the "Resolution on the Analysis Report of the Availability of the Use of Raised Funds from the Public Offering of A-share Convertible Corporate Bonds", "Resolution of the Authorization from the General Meeting to the Board of Directors and its Authorized Persons in its Sole Discretion to Handle the Matters Relating to the Public Offering of Convertible Corporate Bonds", the "Resolution on the Impact to the Major Financial Indicators of the Company from and Remedial Measures for Dilution of Current Return as result of the Public Offering of A-share Convertible Corporate Bonds", the "Resolution on the Undertakings by the Directors, Senior Management, Controlling Shareholders and Actual Owners of the Company about the Adoption of Remedial Measures for the Dilution of Current Return As a Result of the Public Offering of Convertible Corporate Bonds", the "Resolution of the Formulation the Rules for the Meeting of Bondholders from the Issuance of A-Share Convertible Corporate Bonds", the "Resolution of the Company's Shareholders' Return Plan for the Next Three Years (2018-2020)" and the "Resolution of Mr. Xing Jiaxing and Shanghai Hexia Investment Co., Ltd. may Participate in the Subscription of the Preferential Placement of the Public Offering A-share Convertible Bonds"; the above resolutions are submitted to the fourth Extraordinary General Meeting of 2018, the first A-shareholders' Class Meeting of 2018 and the second H-shareholders' Class Meeting for consideration and approval.

(V) The eighth meeting of the third session of the Supervisory Board

On 30 October 2018, the Company convened the eighth meeting of the third session of the Supervisory Board, and considered and approved the Proposal on the Full Text and the Main Body of the 2018 Third Quarter Report of the Company.

(VI) The ninth meeting of the third session of the Supervisory Board

On 4 December 2018, the Company convened the ninth meeting of the third session of the Supervisory Board, and considered and approved the "Resolution on Adjusting the Public Offering Plan of A-Share Convertible Corporate Bonds of the Company", the "Resolution on the Proposal (Revised) of the Public Offering of A-share Convertible Corporate Bonds of the Company", the "Resolution on the Analysis Report (Revised) of the Availability of the Use of Raised Funds from the Public Offering of A-share Convertible Corporate Bonds" and the "Resolution on the Announcement

(Revised)about Impact to the Major Financial Indicators of the Company from and Remedial Measures for Dilution of Current Return as result of the Public Offering of A-share Convertible Corporate Bonds".

The members of the Supervisory Board took part in the Company's major work by attending the general meetings and Board meetings and effectively supervised the meeting agendas, voting procedures and voting results, etc. and offered recommendations on operation activities, fund raising and profit distribution plans, etc. The Supervisory Board also effectively supervised the decisions made to ensure their compliance with the laws and regulations of the state, the Articles of Association and the resolutions of the shareholders' general meetings and that they are in the interests of shareholders.

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

During 2018, in accordance with the relevant laws and regulations, the members of the Supervisory Committee of the Company took part in the Company's major work by attending the Board meetings and the shareholders' general meetings and supervised meeting agendas, voting procedures, the implementation of resolutions and the performance of duties by directors and senior management of the Company, etc. The Supervisory Committee is of the view that the Company has established a sound internal control system, and the decision-making procedures are lawful and valid. The directors and senior management of the Company discharged their duties in the Company diligently and dutifully, with no acts of violation of any laws, regulations and or prejudice to the Company's interests were discovered in performing their duties.

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

The Supervisory Committee was responsible to all shareholders, supervised and reviewed the fullyear financial status and operation of the Company, performed serious supervision and examination on the Company's periodic reports and annual financial reports. The Supervisory Committee believes that the Company's has established a standardized financial management system and a sound accounting system, its financial reports for each periods objectively and truly reflected the Company's financial position and operating results. The Company's 2018 annual report was a true, lawful and integrity reflection on its profile, which was beneficial to the shareholder's correct understanding of the Company's financial position and operating results. Meanwhile, the 2018 Annual Audit Report issued by PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) is objective and fair, and the Supervisory Committee has no objection to it.

4. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE UTILIZATION OF THE RAISED PROCEEDS OF THE COMPANY

The Supervisory Board has inspected the utilization of the raised proceeds, and the Company has established the management system for the raised proceeds. The proceeds were used in a regulated manner and were invested in the projects as undertaken. No breaches in respect of the raised proceeds were found.

5. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S CONNECTED TRANSACTIONS

The Supervisory Board verified the related transactions of the company during the reporting period and considered that the Company's related transactions in 2018 are fair and equal, there is no obvious unfairness and no profits of the Company are manipulated through related transactions, and there is no harm to the interests of the Company and other shareholders, especially the interests of small and medium shareholders.

6. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON PROFIT DISTRIBUTION OF THE COMPANY IN 2018

After verification, the Supervisory Board considered that the proposal and review procedures for the Company's 2017 profit distribution plan and the 2018 interim profit distribution plan are in compliance with relevant laws, regulations and the Articles of Association of the Company.

7. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE IMPLEMENTATION OF INFORMATION INSIDER MANAGEMENT OF THE COMPANY

During the reporting period, in accordance with the relevant requirements of the Securities Law and the Administrative Measures for the Disclosure of Information of Listed Companies* (《上市公司信息披露管理辦法》), the Company implemented insider information confidentiality and insider information registration for matters such as periodic reports, effectively preventing the disclosure and utilization of inside information for trading. After verification, the Supervisory Board considered that, during the reporting period, the Company's directors, supervisors, senior management and other insider information personnel did not use any inside information or to trade any stocks of the Company through others.

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

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

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

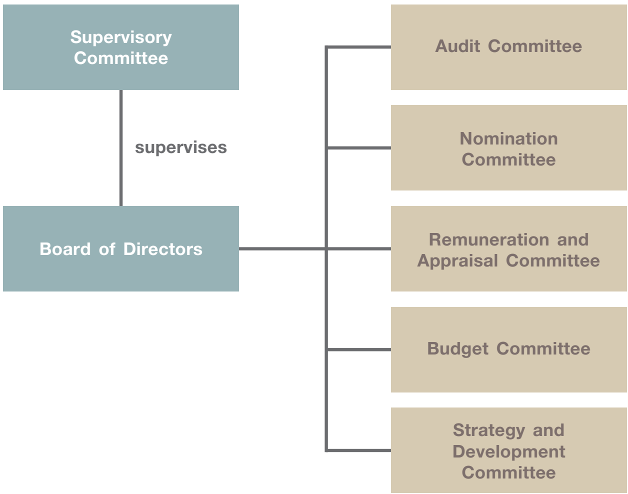
During the year ended 31 December 2018, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below, making corporate governance rules and recommendations with respect to Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Joint Company Secretaries, communication between the Company and Shareholders.

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

CORPORATE GOVERNANCE PRACTICES

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

As of 31 December 2018, the governance structure of the Company is as follow:



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

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

BOARD OF DIRECTORS

Responsibilities

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

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

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

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

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

Board Composition

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

Executive Directors

Xing Jiaxing *(Chairman and chief executive officer)*
Yu Qiang (appointed on 5 February 2018)
Hu Lijie (appointed on 19 October 2018)

Non-executive Directors

Lu Weiming
Luo Bin
Mao Jianong (appointed on 19 October 2018)

Independent Non-executive Directors

Chen Jieping
Chan, Wing Yuen Hubert
Zhang Zeping

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

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

During the year ended 31 December 2018, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

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

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

Induction and Continuous Professional Development

Directors confirmed that they have complied with Code Provision A.6.5 relating to the director training. In the year 2018, all Directors have participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to develop and refresh their knowledge and skills. All Directors have provided their training record to the Company.

Name of Directors	Corporate Governance	Rules and Regulations	Financial Management	Business Management
Mr. Xing Jiaxing	√	√	√	√
Mr. Yu Qiong (appointed on 5 February 2018)	√	√	√	√
Ms. Hu Lijie (appointed on 19 October 2018)	√	√	√	√
Mr. Lu Weiming	√	√	√	√
Mr. Luo Bin	√	√	√	√
Mr. Mao Jianong (appointed on 19 October 2018)	√	√	√	√
Dr. Chen Jieping	√	√	√	√
Mr. Chan, Wing Yuen Hubert	√	√	√	√
Mr. Zhang Zeping	√	√	√	√

Chairman and Chief Executive Officer

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

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

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Each of the Directors (except Mr. Yu Qiang, Ms. Hu Lijie and Mr. Mao Jianong) has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration, which is for a period of three years from May 2017. The appointment of Mr. Yu Qiang as an executive Director has been approved by the shareholders at the 2018 first extraordinary meeting held on 5 February 2018. Mr. Yu has entered into a service contract for a term commencing from his appointment on 5 February 2018 and ending on expiry of the third session of the Board. The appointments of Ms. Hu Lijie and Mr. Mao Jianong have been approved by the shareholders at the 2018 third extraordinary general meeting held on 19 October 2018. Ms. Hu and Mr. Mao have entered into a contract for a term commencing from their appointment on 19 October 2018 and ending on expiry of the third session of the Board.

Board Professional Committees

Audit Committee

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

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

During the year ended 31 December 2018, the Audit Committee met nine times to review the annual financial results in respect of the year ended 31 December 2017, the interim financial results in respect of the six months ended 30 June 2018 and the third quarter financial results in respect of the nine months ended 30 September 2018, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2018.

Nomination Committee

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

The Nomination Committee currently consists of one executive Director, one non-executive director and three independent non-executive Directors. The members of the Nomination Committee are currently Mr. Xing Jiaxing, Mr. Mao Jianong, Dr. Chen Jieping, Mr. Chan, Wing Yuen Hubert and Mr. Zhang Zeping. It is chaired by Mr. Chan, Wing Yuen Hubert, an independent non-executive Director. Mr. Mao Jianong joined the Board on 19 October 2018 and joined the Nomination Committee with Dr. Chen Jieping on 30 October 2018 upon the approval by Board.

Nomination Policy

The following selection process for directors and senior management sets out in the terms of reference of nomination committee of the Board:

(1) The Nomination Committee shall proactively exchange views with relevant departments of the Company, study the demand of the Company for new directors and senior management, and then prepare the written materials thereof;

(2) The Nomination Committee may conduct extensive search for candidates for directors and senior management in the Company and job market;

(3) The Nomination Committee shall collect information on the potential candidates, including the profession, education, job title, detailed working experience and all part-time jobs, and then prepare the written materials thereof;

(4) The Nomination Committee shall seek the nominee's consent to nomination, failing which such nominee shall not be named as a candidate for directors and senior management;

(5) Meetings of the Nomination Committee shall be convened, at which a review on qualifications for the potential candidates shall be carried out based on the terms of appointment for directors and senior management;

(6) The Nomination Committee shall submit to the Board of Directors its recommendations on the candidates for directors and new senior management together with relevant materials in one month to two months prior to the election of new directors and appointment of new senior management;

(7) The Nomination Committee shall implement other follow-up work in accordance with the decisions and feedback of the Board of Directors.

During the year ended 31 December 2018, the Nomination Committee met four times to nominate directors and senior management member for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

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

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

Remuneration and Appraisal Committee

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

The Remuneration and Appraisal Committee currently consists of two non-executive Directors and three independent non-executive Directors. The members of the Remuneration and Appraisal Committee are currently Mr. Lu Weiming, Dr. Chen Jieping, Mr. Zhang Zeping, Mr. Chan, Wing Yuen Hubert and Mr. Mao Jianong. It is currently chaired by Mr. Zhang Zeping, an independent non-executive Director. Mr. Chan, Wing Yuen Hubert and Mr. Mao Jianong joined the Remuneration and Appraisal Committee upon the approval of the Board on 30 October 2018.

During the year ended 31 December 2018, the Remuneration and Appraisal Committee met four times to review and assess the annual job performance of the Senior Management, review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

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

The Budget Committee currently consists of one executive Director, two non-executive Directors and two independent non-executive Directors. The members of the Budget Committee are currently Ms. Hu Lijie, Mr. Lu Weiming, Mr. Luo Bin, Dr. Chen Jieping and Mr. Chan, Wing Yuen Hubert. It is chaired by Dr. Chen Jieping, an independent non-executive Director. Ms. Hu Lijie joined the Budget Committee on 19 October 2018 upon the approval of the Board.

During the year ended 31 December 2018, the Budget Committee met three times to review and make recommendations to the Board on budgeting for the upcoming financial year.

Strategy and Development Committee

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

The Strategy and Development Committee currently consists of three executive Directors, three non-executive Directors and one independent non-executive Director. The members of the Strategy and Development Committee are currently Mr. Xing Jiaxing, Mr. Yu Qiang, Ms. Hu Lijie, Mr. Lu Weiming, Mr. Luo Bin, Mr. Mao Jianong and Mr. Zhang Zeping. It is chaired by Mr. Xing Jiaxing, an executive Director. Ms. Hu Lijie and Mr. Mao Jianong joined the Strategy and Development Committee on 19 October 2018 upon the approval of the Board. Mr. Yu Qiang joined the Strategy and Development Committee on 22 March 2018 upon approval by the Board.

During the year ended 31 December 2018, the Strategy and Development Committee met three times to review and make recommendations to the Board on the Group's latest strategy plans and development.

Corporate Governance Function

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

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

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

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

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

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

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

During the year ended 31 December 2018, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

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

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

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

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

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

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2018 are set out below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Budget Committee meeting	Strategy and Development Committee meeting	General meeting
Mr. Xing Jiaxing	13/13		4/4			3/3	6/7
Mr. Yu Qiang (appointed on 5 February 2018)	12/12					3/3	7/7
Ms. Hu Lijie (appointed on 19 October 2018)	3/3					1/1	4/4
Mr. Lu Weiming	13/13			4/4	3/3	3/3	5/7
Mr. Luo Bin	13/13	9/9			3/3	3/3	3/7
Mr. Mao Jianong (appointed on 19 October 2018)	3/3		1/1			1/1	1/4
Dr. Chen Jieping	13/13	9/9	4/4	4/4	3/3		4/7
Mr. Chan, Wing Yuen Hubert	13/13	9/9	4/4	4/4	3/3		6/7
Mr. Zhang Zeping	13/13		4/4	4/4		3/3	7/7

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

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the controlling shareholders of the Company as defined in the Listing Rules) has confirmed to the Company and declared that he/it has complied with the non-compete undertaking given by them to the Company on 10 September 2014 during the year ended 31 December 2018. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2018.

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remunerations paid to a total of 6 Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	2
RMB1,000,001 to RMB 2,000,000	3
RMB2,000,001 to RMB3,000,000	1

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and the Supervisors, and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2018.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

Continue to improve and optimize risk monitoring system

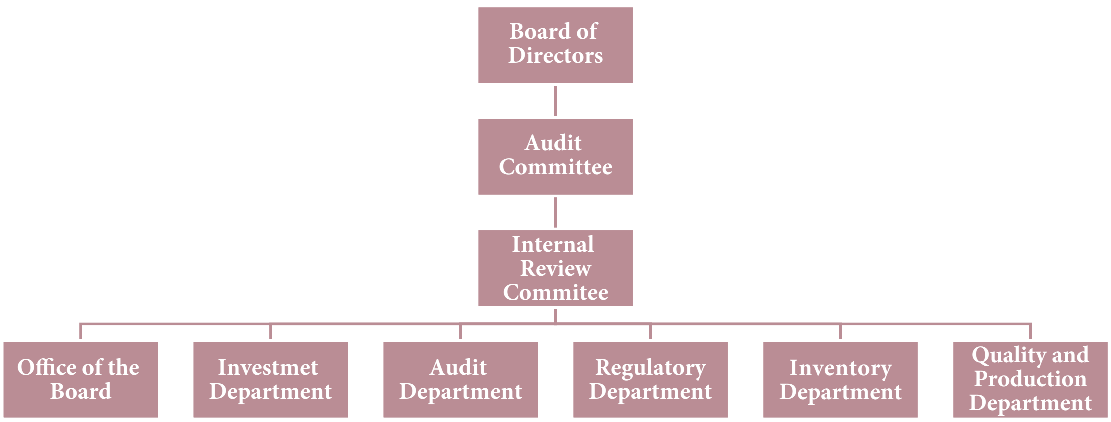
During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, Fundamental Norms on Corporate Internal Control, Application Guidance on Corporate Internal Control, Guidance on Corporate Internal Control and Assessment, Audit Guidance on Corporate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

Effectively prevent operational risks to strengthen corporate control

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

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

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



In 2018, the Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of corporate risk management and internal control systems. During the Reporting Period, the Audit Department initiated over ten ad hoc audit projects concerning regional management, logistics operations and disposal of obsolete inventories, and actively assessed the plausibility, effectiveness and completeness of various aspects of management activities and thereby formulated several rules and regulations, namely Administrative Measures on Donations, Administrative Measures on Inventory-taking in Logistics Warehouse and Administrative Measures on Disposal of Obsolete Inventories, in an effort to improve corporate internal system and avoid operational risk. The Company's Regulatory Department organized 140 anti-corruption campaigns, involving a total of 130,000 person times. Meanwhile, it opened a WeChat subscription account named La Chapelle with Integrity, which now has accumulated 35,000 followers. All the efforts above have formed a comprehensive network for anti-corruption and internal control.

For the year ended 31 December 2018, the Board had carried out annual review on the effectiveness of the Company's risk management system, procedures and internal control system, and continuously advised on various means of improvement. The review involved all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and corporate budget on accounting and financial reporting function. There was no major failure in the risk management and internal control system that could have negative impact on shareholders' interests. The Company's risk management and internal control systems were deemed effective and sufficient.

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

Strengthen insider filing to improve insider information management

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

Perfect corporate governance system to improve corporate governance

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

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

COMPANY SECRETARY

During the year ended 31 December 2018, Ms. Fang Xian Li (resigned on 24 August 2018) and Ms. Wong Wai Ling, the Joint Company Secretaries, have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Ms. Wong Wai Ling is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and Mr. Xing Jiaxing, the chairman of the Board, is her primary contact person at the Company. The biographical details of the Company Secretary is set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018 in accordance with statutory requirements and applicable accounting standards.

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

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2018. The Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 69 to 73.

AUDITORS

PwC Zhong Tian was appointed as the domestic and international auditors of the Company for the year ended 31 December 2018. The resolution regarding the appointment of the auditor for the year ending 31 December 2019 will be tabled at the 2018 AGM.

The remuneration paid to PwC Zhong Tian in respect of the audit services rendered for the year ended 31 December 2018 was RMB4.00 million.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

Address:	12F, Building 4, No, 50. Lane 2700 South Lianhua Road, Minhang District, Shanghai, China 200241
Email:	ir@lachapelle.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting or Class Meeting by Shareholders

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

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

Putting Forward Proposals at General Meetings

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

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

CONSTITUTIONAL DOCUMENTS

The Company continuously made some amendments to the existing Articles of Association during the Reporting Period. Relevant resolutions had been passed by the shareholders at the extraordinary general meeting held on 19 October 2018.

During the Reporting Period, the Company also proposed to make certain amendments to the existing Articles of Association (the "Proposed Amendments"). The Proposed Amendments are made in connection with the Company's proposed issuance of A share convertible bonds. Subsequently, the Board meeting held on 26 February 2019 considered and approved "the Resolution on the Termination of the Public Issuance of A Share Convertible Corporate Bonds", approving the termination of the Proposed Issuance of A Share Convertible Bonds and the application to CSRC to withdraw the application documents in respect of the A Share Convertible Bonds. The Proposed Amendments had been approved by the shareholders at the extraordinary general meetings to be held on 22 March 2019. The revised Articles of Association has been published on both the websites of the Hong Kong Stock Exchange and the Company.

Independent Auditor's Report

PwC ZT Shen Zi (2019) No. 10016

To the Shareholders of Shanghai La Chapelle Fashion Co., Ltd.

OPINION

What we have audited

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

- the consolidated and company balance sheets as at 31 December 2018;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company and its subsidiaries (the "Group") as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

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

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

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Determination of the NRV of finished goods inventories Refer to Note 2(28)(b)(i) "Critical accounting estimates and key assumptions – Net realizable value of inventories" and Note 4(6) "Inventories" to the consolidated financial statements. The inventories of the "Group" primarily consisted of finished goods. As at 31 December 2018, after making a provision of approximately RMB326,851 thousand, the Group held finished goods inventories of approximately RMB2,499,781 thousand. Inventories are carried at the lower of cost and NRV on each balance sheet date. Management categorises the finished goods inventories items to different seasons and different years, and determines the NRV by category. Management exercised significant judgement in determining the NRV of each category of finished goods inventories, taking into consideration of historical experience, current market condition, customer demands and fashion trends. We focused on this area due to the significance of finished goods inventories balance and complexity of the judgements involved in determining the NRV.	Our work on the valuation of finished goods inventories included: — obtained an inventory provision calculation sheet as at 31 December 2018 and compared the inventory cost, the related provision amount, and the carrying amount in the calculation sheet with those in general ledger; — recalculated the inventory provision based on the Group's inventory provision policy to test the mathematical accuracy. — tested appropriateness of finished goods categorisation on a sample basis by checking the specification and ageing information to the related purchase orders, goods receipt notes and products' tags; — challenged the reasonableness of management's methodology of determining the sufficiency of NRV provision for finished goods inventories of different categories, by performing independent research of market information and making reference to our industry knowledge; — compared, on a sample basis, the NRV of finished goods inventories for which provisions were made as of 31 December 2017 with the net value realised in the sales incurred during the year of 2018; and — compared, on a sample basis, the NRV of the finished goods inventories as of 31 December 2018, with the net value realised in the sales incurred subsequent to 31 December 2018. We found that management's judgements in determining the NRV of finished goods inventories are supportable by available evidences.

OTHER INFORMATION

Management of the Group is responsible for the other information. The other information comprises all of the information included in 2018 annual report of the Company other than the financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF MANAGEMENT AND AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA
Yang Fang
(Engagement Partner)

Shanghai, the People's Republic of China

Signing CPA
Qi Jinjia

28 March 2019

Consolidated Balance Sheet

As at 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2018 Consolidated**	31 December 2017 Consolidated (Restated)	1 January 2017 Consolidated (Restated)
ASSETS				
Current assets				
Cash at bank and on hand	4(1)	**605,293**	930,580	701,914
Financial assets held for trading	4(2)	**25,475**	—	—
Notes receivable and accounts receivable	4(3),4(18),8(5)	**1,031,810**	1,053,436	1,052,184
Advances to suppliers	4(4)	**329,458**	243,098	324,590
Other receivables	4(5),4(18),8(5)	**382,211**	325,817	278,966
Inventories	4(6),4(18)	**2,534,238**	2,344,639	1,713,576
Other current assets	4(7),4(18)	**307,534**	157,070	7,486
Total current assets		**5,216,019**	5,054,640	4,078,716
Non-current assets				
Available-for-sale financial assets	4(2),4(8)	**—**	67,544	190,649
Long-term equity investments	4(9)	**635,934**	428,465	130,381
Other equity instruments	4(8)	**28,605**	—	—
Other non-current financial assets	4(2)	**28,200**	—	—
Fixed asset	4(10)	**865,049**	455,482	230,664
Construction in progress	4(11)	**615,952**	577,675	365,331
Intangible assets	4(12)	**205,652**	202,517	218,322
Goodwill	4(13),4(18)	**108,535**	113,555	105,722
Long-term prepaid expenses	4(14)	**570,867**	711,780	776,640
Deferred tax assets	4(16)	**247,787**	246,449	192,149
Debt investments	4(17)	**6,934**	—	—
Other non-current assets	4(15)	**159,964**	13,605	15,069
Total non-current assets		**3,473,479**	2,817,072	2,224,927
TOTAL ASSETS		**8,689,498**	7,871,712	6,303,643

Consolidated Balance Sheet

As at 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2018 Consolidated**	31 December 2017 Consolidated (Restated)	1 January 2017 Consolidated (Restated)
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	4(19)	**1,911,645**	1,006,000	300,000
Notes payable and accounts payable	4(20)	**1,833,543**	1,522,588	1,034,202
Advances from customers	4(21)	**—**	363	320
Contract liabilities	4(22)	**2,399**	—	—
Employee benefits payable	4(23)	**223,362**	220,842	281,872
Taxes payable	4(24)	**166,468**	253,538	344,946
Other payables	4(25),8(5)	**558,153**	702,121	728,514
Current portion of non-current liabilities	4(26)	**24,219**	29,993	34,632
Total current liabilities		**4,719,789**	3,735,445	2,724,486
Non-current liabilities				
Long-term borrowings	4(27)	**330,911**	—	—
Deferred tax liabilities	4(16)	**28,424**	20,590	14,566
Other non-current liabilities	4(26)	**48,417**	46,449	54,373
Total non-current liabilities		**407,752**	67,039	68,939
Total liabilities		**5,127,541**	3,802,484	2,793,425
Equity				
Share capital	1,4(28)	**547,672**	547,672	492,902
Capital surplus	4(29)	**1,895,342**	1,894,097	1,537,825
Other comprehensive (losses)/income	4(30)	**(13,187)**	(723)	11,973
Surplus reserve	4(31)	**246,885**	219,154	148,768
Undistributed profits	4(32)	**770,706**	1,215,356	1,115,817
Total equity attributable to shareholders of the Company		**3,447,418**	3,875,556	3,307,285
Minority interests		**114,539**	193,672	202,933
Total equity		**3,561,957**	4,069,228	3,510,218
TOTAL LIABILITIES AND EQUITY		**8,689,498**	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**

Company Balance Sheet

As at 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2018 Company**	31 December 2017 Company (Restated)	1 January 2017 Company (Restated)
ASSETS				
Current assets				
Cash at bank and on hand		**284,879**	561,359	388,337
Notes receivable and accounts receivable	15(1)	**912,517**	1,675,090	897,791
Advances to suppliers		**86,888**	56,342	92,094
Other receivables	15(2)	**2,289,664**	1,483,463	1,576,445
Inventories	15(3)	**2,165,516**	2,037,181	413,816
Other current assets		**92,613**	115,814	6,495
Total current assets		**5,832,077**	5,929,249	3,374,978
Non-current assets				
Available-for-sale financial assets		**—**	18,200	—
Long-term equity investments	15(4)	**1,378,867**	863,083	817,650
Other non-current financial assets		**18,200**	—	—
Fixed assets		**28,313**	11,102	11,269
Construction in progress		**13,319**	5,444	5,277
Intangible assets		**11,370**	10,610	14,345
Long-term prepaid expenses		**104,210**	61,522	78,428
Deferred tax assets		**80,316**	52,177	31,846
Other non-current assets		**40,421**	—	10,000
Total non-current assets		**1,675,016**	1,022,138	968,815
TOTAL ASSETS		**7,507,093**	6,951,387	4,343,793

Company Balance Sheet

As at 31 December 2018

(All amounts in RMB'000 unless otherwise stated)

	Notes	**31 December 2018 Company**	31 December 2017 Company (Restated)	1 January 2017 Company (Restated)
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings		**1,909,789**	1,006,000	300,000
Notes payable and accounts payable		**1,958,596**	2,065,508	642,887
Employee benefits payable		**46,604**	52,920	72,486
Taxes payable		**9,877**	57,150	109,097
Other payables		**444,419**	651,003	883,269
Current portion of non-current liabilities		**268**	2,192	3,721
Total current liabilities		**4,369,553**	3,834,773	2,011,460
Non-current liabilities				
Other non-current liabilities		**140**	366	2,387
Total liabilities		**4,369,693**	3,835,139	2,013,847
Equity				
Share capital	1,4(28)	**547,672**	547,672	492,902
Capital surplus	4(29)	**1,895,342**	1,894,097	1,537,825
Surplus reserve	4(31)	**246,885**	219,154	148,768
Undistributed profits		**447,501**	455,325	150,451
Total equity		**3,137,400**	3,116,248	2,329,946
TOTAL LIABILITIES AND EQUITY		**7,507,093**	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**

Consolidated Income Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Consolidated**	Year ended 31 December 2017 Consolidated
Revenue	4(33),8(4)	**10,175,853**	8,998,709
Less: Cost of sales	4(33),4(38),8(4)	**(3,528,337)**	(3,370,905)
Taxes and surcharges	4(34)	**(78,011)**	(83,008)
Selling and distribution expenses	4(35),4(38)	**(6,032,435)**	(4,354,874)
General and administrative expenses	4(36),4(38),8(4)	**(504,177)**	(389,289)
Financial expenses	4(37),8(4)	**(52,465)**	(16,581)
Including: interest expenses		**(87,161)**	(34,430)
interest income		**8,570**	12,589
Asset impairment losses	4(39)	**(274,496)**	(235,957)
Credit impairment losses	4(40)	**(1,167)**	—
Add: Fair value change gains	4(41)	**9,475**	—
Other income	4(44)	**125,854**	129,346
Investment income	4(42)	**9,026**	60,684
Including: share of net profit of associates and a joint venture		**21,831**	18,426
Losses on disposals of assets	4(43)	**(801)**	(632)
Operating (loss)/profit		**(151,681)**	737,493
Add: Non-operating income	4(45)	**4,783**	4,009
Less: Non-operating expenses	4(46)	**(13,319)**	(11,274)
Total (loss)/profit		**(160,217)**	730,228
Less: Income tax expenses	4(47)	**(38,965)**	(192,788)
Net (loss)/profit		**(199,182)**	537,440
Classified by continuity of operations			
Net (loss)/profit from continuing operations		**(199,182)**	537,440
Classified by ownership of the equity			
Attributable to shareholders of the Company		**(159,513)**	498,527
Attributable to minority interests		**(39,669)**	38,913

Consolidated Income Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Consolidated**	Year ended 31 December 2017 Consolidated
Other comprehensive loss, net of tax	4(30)	**(12,464)**	(12,696)
Attributable to shareholders of the Company, net of tax		**(12,464)**	(12,696)
Other comprehensive loss not reclassifiable to profit or loss			
— Changes in fair value of other equity investments		**(20,327)**	(10,949)
Other comprehensive loss reclassifiable to profit or loss			
— Translation differences on translation of foreign currency financial statements		**7,863**	(1,747)
Total comprehensive (loss)/income		**(211,646)**	524,744
Attributable to shareholders of the Company		**(171,977)**	485,831
Attributable to minority interests		**(39,669)**	38,913
(Losses)/Earnings per share			
Basic (losses)/earnings per share (RMB)	4(48)	**(0.29)**	0.98
Diluted (losses)/earnings per share (RMB)		**(0.29)**	0.98

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**

Company Income Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Company**	Year ended 31 December 2017 Company
Revenue	15(5)	**5,076,450**	4,651,907
Less: Cost of sales	15(5)	**(3,179,766)**	(2,887,403)
Taxes and surcharges		**(15,242)**	(14,506)
Selling and distribution expenses		**(1,410,210)**	(1,092,265)
General and administrative expenses		**(281,726)**	(195,502)
Financial expenses-net		**(61,228)**	(22,229)
Including: interest expenses		**(82,389)**	(34,295)
interest income		**21,131**	13,287
Asset impairment losses		**(221,442)**	(287,054)
Credit impairment losses		**(3,935)**	—
Add: Other income		**43,963**	26,803
Investment income	15(6)	**340,252**	582,710
Including: share of losses of associates		**(1,216)**	(567)
Income/(loss) on disposals of assets		**38**	(69)
Operating profit		**287,154**	762,392
Add: Non-operating income		**1,247**	1,610
Less: Non-operating expenses		**(10,305)**	(8,874)
Total profit		**278,096**	755,128
Less: Income tax credits/(expenses)		**20,455**	(51,266)
Net profit		**298,551**	703,862
Classified by continuity of operations			
Net profit from continuing operations		**298,551**	703,862
Other comprehensive income, net of tax		**—**	—
Total comprehensive income		**298,551**	703,862

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**

Consolidated Cash Flow Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Consolidated**	Year ended 31 December 2017 Consolidated
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**11,290,371**	10,541,316
Cash received relating to other operating activities	4(49)	**142,641**	162,925
Sub-total of cash inflows		**11,433,012**	10,704,241
Cash paid for products and services		**(7,261,243)**	(6,152,765)
Cash paid to and on behalf of employees		**(2,388,070)**	(2,319,649)
Payments of taxes and surcharges		**(834,174)**	(986,084)
Cash paid relating to other operating activities	4(49)	**(791,905)**	(688,582)
Sub-total of cash outflows		**(11,275,392)**	(10,147,080)
Net cash flows from operating activities	4(50)	**157,620**	557,161
2. Cash flows used in investing activities			
Cash received from returns on investments	4(9)	**13,468**	—
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		**1,290**	1,142
Cash received relating to other investing activities	4(49)	**26,922**	14,221
Sub-total of cash inflows		**41,680**	15,363
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(1,000,858)**	(946,165)
Net cash paid to acquire an associate and a joint venture	4(9)	**(204,797)**	(87,400)
Cash paid relating to other investing activities	4(49)	**(145,751)**	(78,805)
Sub-total of cash outflows		**(1,351,406)**	(1,112,370)
Net cash flows used in investing activities		**(1,309,726)**	(1,097,007)

Consolidated Cash Flow Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Consolidated**	Year ended 31 December 2017 Consolidated
3. Cash flows from financing activities			
Cash received from capital contributions		**1,000**	406,404
Including: cash received from capital contributions by minority shareholders		**1,000**	1,150
Cash received from borrowings		**3,770,183**	1,256,000
Cash received relating to other financing activities	4(49)	**—**	6,495
Sub-total of cash inflows		**3,771,183**	1,668,899
Cash repayments of borrowings		**(2,517,813)**	(550,000)
Cash payments for distribution of dividends, profits or interest expenses		**(466,143)**	(342,511)
Including: dividend income paid from subsidiaries to minority shareholders		**(62,033)**	(59,745)
Cash payments relating to other financing activities	4(49)	**—**	(2,310)
Sub-total of cash outflows		**(2,983,956)**	(894,821)
Net cash flows from financing activities		**787,227**	774,078
4. Effect of foreign exchange rate changes on cash and cash equivalents		**(838)**	(41)
5. Net (decrease)/increase in cash and cash equivalents	4(50)	**(365,717)**	234,191
Add: Cash and cash equivalents at beginning of year		**815,580**	581,389
6. Cash and cash equivalents at end of year		**449,863**	815,580

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**

Company Cash Flow Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Company**	Year ended 31 December 2017 Company
1. Cash flows from/(used) operating activities			
Cash received from sales of products or rendering of services		**6,643,366**	4,755,720
Cash received relating to other operating activities		**78,486**	51,513
Sub-total of cash inflows		**6,721,852**	4,807,233
Cash paid for products and services		**(5,355,491)**	(4,691,781)
Cash paid to and on behalf of employees		**(515,659)**	(531,293)
Payments of taxes and surcharges		**(167,509)**	(227,962)
Cash paid relating to other operating activities		**(385,123)**	(200,599)
Sub-total of cash outflows		**(6,423,782)**	(5,651,635)
Net cash flows from/(used) operating activities		**298,070**	(844,402)
2. Cash flows (used)/from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**306**	388
Cash received relating to other investing activities		**361,547**	593,876
Sub-total of cash inflows		**361,853**	594,264
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(83,418)**	(68,430)
Net cash paid to acquire subsidiaries and other business units		**(533,000)**	(45,433)
Cash paid relating to other investing activities		**(857,991)**	(295,785)
Sub-total of cash outflows		**(1,474,409)**	(409,648)
Net cash flows (used in)/from investing activities		**(1,112,556)**	184,616

Company Cash Flow Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

ITEMS	Notes	**Year ended 31 December 2018 Company**	Year ended 31 December 2017 Company
3. Cash flows from financing activities			
Cash received from capital contributions		**—**	405,254
Cash received from borrowings		**2,660,398**	1,256,000
Cash received relating to other financing activities		**—**	6,495
Sub-total of cash inflows		**2,660,398**	1,667,749
Cash repayments of borrowings		**(1,756,609)**	(550,000)
Cash payments for distribution of dividends, profits or interest expenses		**(402,101)**	(282,631)
Cash payments relating to other financing activities		**—**	(2,310)
Sub-total of cash outflows		**(2,158,710)**	(834,941)
Net cash flows from financing activities		**501,688**	832,808
4. Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—
5. Net (decrease)/increase in cash and cash equivalents		**(312,798)**	173,022
Add: cash and cash equivalents at beginning of year		**561,359**	388,337
6. Cash and cash equivalents at end of year		**248,561**	561,359

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**

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Items	Notes	**Share capital**	**Capital surplus**	**Other comprehensive income/(loss)**	**Surplus reserves**	**Undistributed profits**	**Minority interests**	**Total shareholders' equity**
Balance at 31 December 2016		492,902	1,537,825	11,973	148,768	1,115,817	202,933	3,510,218
Balance at 1 January 2017		492,902	1,537,825	11,973	148,768	1,115,817	202,933	3,510,218
Movements for the year ended 31 December 2017								
Total comprehensive income								
Net profit	4(32)	—	—	—	—	498,527	38,913	537,440
Other comprehensive loss	4(30)	—	—	(12,696)	—	—	—	(12,696)
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	4(28),4(29)	54,770	350,484	—	—	—	3,460	408,714
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	5,788	—	—	—	—	5,788
Minority interests arising from business combination		—	—	—	—	—	8,111	8,111
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(31),4(32)	—	—	—	70,386	(70,386)	—	—
Profit distribution to shareholders	4(32)	—	—	—	—	(328,602)	(59,745)	(388,347)
Balance at 31 December 2017		547,672	1,894,097	(723)	219,154	1,215,356	193,672	4,069,228

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

		Attributable to shareholders of the Company						
Items	Notes	**Share capital**	**Capital surplus**	**Other comprehensive income/(loss)**	**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 of accounting policies (Note 2(29)(c))		—	—	—	(2,124)	2,124	—	—
Balance at 1 January 2018		**547,672**	**1,894,097**	**(723)**	**217,030**	**1,217,480**	**193,672**	**4,069,228**
Movements for the year ended 31 December 2018								
Total comprehensive income								
Net loss	4(32)	—	—	—	—	(159,513)	(39,669)	(199,182)
Other comprehensive loss	4(30)	—	—	(12,464)	—	—	—	(12,464)
Capital contribution and withdrawal by shareholders								
Capital contributed by minority shareholders		—	—	—	—	—	1,000	1,000
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	1,245	—	—	—	—	1,245
Minority interests arising from business combination	5(1)	—	—	—	—	—	23,071	23,071
Minority interests on disposal of subsidiaries		—	—	—	—	—	(1,502)	(1,502)
Profit distribution								
Profit distribution-appropriation to surplus reserve	4(31),4(32)	—	—	—	29,855	(29,855)	—	—
Profit distribution to shareholders	4(32)	—	—	—	—	(257,406)	(62,033)	(319,439)
Balance at 31 December 2018		**547,672**	**1,895,342**	**(13,187)**	**246,885**	**770,706**	**114,539**	**3,561,957**

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**

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

Items	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 year ended 31 December 2017						
Total comprehensive income						
Net profit		—	—	—	703,862	703,862
Capital contribution and withdrawal by shareholders						
Capital contribution by shareholders	4(28),4(29)	54,770	350,484	—	—	405,254
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	—	5,788	—	—	5,788
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(31),4(32)	—	—	70,386	(70,386)	—
Profit distribution to shareholders	4(32)	—	—	—	(328,602)	(328,602)
Balance at 31 December 2017		547,672	1,894,097	219,154	455,325	3,116,248
Balance at 31 December 2017		547,672	1,894,097	219,154	455,325	3,116,248
Changes of accounting policies (Note 2(29)(c))		—	—	(2,124)	(19,114)	(21,238)
Balance at 1 January 2018		**547,672**	**1,894,097**	**217,030**	**436,211**	**3,095,010**
Movements for the year ended 31 December 2018						
Total comprehensive income						
Net profit		**—**	**—**	**—**	**298,551**	**298,551**
Capital contribution and withdrawal by shareholders						
Amount recorded in shareholders' equity arising from share-based payment arrangements	4(29)	**—**	**1,245**	**—**	**—**	**1,245**
Profit distribution						
Profit distribution-appropriation to surplus reserve	4(31),4(32)	**—**	**—**	**29,855**	**(29,855)**	**—**
Profit distribution to shareholders	4(32)	**—**	**—**	**—**	**(257,406)**	**(257,406)**
Balance at 31 December 2018		**547,672**	**1,895,342**	**246,885**	**447,501**	**3,137,400**

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**

Notes to the Financial Statements

For the year ended 31 December 2018
(All amounts in RMB'000 unless otherwise stated)

1 GENERAL INFORMATION

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

The Company and its subsidiaries (together the "Group") are principally engaged in designing, marketing and selling apparel products in the PRC. The registered office of the Company is at Room 3300, 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 138,643,000 of overseas-listed shares ("H Shares") at par value of RMB1(including the Over-Allotment Option of 17,064,000 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 54,770,000 of RMB-denominated ordinary shares ("A Shares") at par value of RMB1. Stock code: 603157, stock name "La Chapelle".

As at 31 December 2018, the share capital of the Company was RMB547,672,000 and the total number of the Company's shares was 547,672,000 of shares, including 332,882,000 of A Shares and 214,790,000 of H Shares respectively.

See Note 6 for subsidiaries and sub-subsidiaries included in the scope of consolidation for the year ended 31 December 2018. Subsidiary and sub-subsidiaries newly included in the scope of consolidation during the current year are Shanghai Pincheng Industry Co., Ltd. ("Pincheng") (Note 5(1)), Shanghai Pinxi Science and Technology Co., Ltd, ("Pinxi"), Jingning Yige Business Consulting Co. Ltd ("Yige") and Yanen Supply Chain Management Co. Ltd ("Yanen"). Subsidiary excluded from the scope of consolidation during the current year is Shanghai Jiuwo Fashion Co., Ltd. ("Jiuwo") (Note 5(2)).

The financial statements have been approved and authorised for issue by the Company's Board of Directors on 28 March 2019.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including measurement of expected credit losses of accounts receivable (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 (Note 2(18)), valuation of income taxes(Note 2(24)), impairment of goodwill (Note 2(16)), etc.

Significant judgements to determine the critical accounting policies are disclosed in Note 2(28).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new Hong Kong Companies Ordinance.

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

The financial statements of the Company for the year ended 31 December 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 31 December 2018 and their financial performance, cash flows and other information for the year ended 31 December 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 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), United States Dollar (USD), respectively. The consolidated financial statements of the Group are represented in RMB.

(5) Business combinations

Business combinations involving enterprises not under common control.

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Preparation of consolidated financial statements

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

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

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 year, 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 ("OCI"). The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(9) Financial instruments

A financial 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

The financial assets of the Group are classified on initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: 1) financial assets at amortised cost; 2) financial assets at fair value through OCI; and 3) financial assets at fair value through profit or loss.

Financial assets are measured at fair value on initial recognition. In the case of financial assets at fair value through profit or loss, the relevant transaction costs are directly charged to profit or loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognised. 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 is entitled to collect.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and measurement (continued)

Debt instruments

Debt instruments held by the Group are instruments that meet the definition of financial liabilities from the issuers' perspective of the issuers, and are measured by the following three ways.

Amortised cost

The objective of the Group's business model for managing the financial assets is to collect contractual cash flow. 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 investments and long-term receivables. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current; debt investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

Fair value through OCI

The objective of the Group's business model for managing the financial assets are both collecting contractual cash flows and selling financial asset. 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. Interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement. Other fair value changes are recognised in OCI. 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; 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

Except for the financial assets at amortised cost and financial assets at fair value through OCI, the Group has classified the remaining financial assets as financial assets at fair value through profit or loss. They are presented in financial assets held for trading. In order to eliminate or significantly reduce accounting mismatch on initial recognition, the Group designates part of financial assets as 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

Investments in equity instruments over which the Group exerts no control, joint control or significant influence, are presented as financial assets held for trading and measured at fair value through profit or loss. The assets 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 OCI, presented in other equity instrument investment. The dividend income is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment

On the basis of expected credit losses, the Group recognises impairment of financial assets at amortised cost, debt instrument investments at fair value through OCI and other financial assets.

The measurement of expected credit loss reflect the proability-weighted amount of the present value of the difference between contractual cash flows receivable and expected cash flows. Also, the Group consider reasonable and supportable information about past events, current situation and forecasts of future economic conditions as well as take default risk as the weight when measuring expected credit loss.

The Group assesses the expected credit losses at different stages respectively at each balance sheet date. At stage 1: in the case that the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance of the financial instrument at an amount equal to 12-month expected credit losses; At stage 2: in the case that 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; At stage 3: in the case that 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 low credit risk as at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for the financial instrument at an amount equal to 12-month expected credit losses.

For the financial instruments at stage 1 and stage 2, and those with low credit risk, interest income is calculated based on gross carrying amount without deduction of impairment provision and the effective interest rate. For the financial instruments at stage 3, interest income is calculated based on amortised cost (gross carrying amounts less the impairment provision) and the effective interest rate.

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

When the expected credit loss information could not be assessed at reasonable cost. The Group classifies receivables into multiple groups of receivables. The criteria of classification of groups are based on the credit risk characteristics, as follows:

Group of receivables		Amounts due from non-subsidiaries
Group of receivables		Amounts due from subsidiaries
Group of other receivables	—	Deposits
Group of other receivables	—	Staff advances and others
Group of other receivables	—	Amounts due from subsidiaries
Group of other receivables	—	Dividends receivable
Group of other receivables	—	Interests receivable from fixed deposits

For groups of accounts receivable groups, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions, and formulating a table of concordance between overdue days and lifetime expected credit loss ratio.

For groups of other receivables groups, the Group calculates the expected credit loss by referring to historical credit loss experience, current situation and forecasts of economic conditions, and based on the exposure at default and lifetime expected credit loss ratio.

The Group recognizes provision for losses or reversal of losses in profit or loss for the current period. For debt instruments at fair value through OCI, the Group recognizes impairment losses or gains into profit or loss for the current period and adjusts OCI in the meanwhile.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(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, shall be transferred to 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 OCI, shall be 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 mainly promise 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 are 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 derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value of financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments (continued)

(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.

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, OCI, 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments (continued)

(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)).

(12) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise properties and plants, 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.

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Fixed assets (continued)

(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
Properties and plants	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)).

(d) Disposal of fixed assets

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 year. Capitalisation of borrowing costs is suspended during years in which the acquisition or construction of an asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(f) Periodical review of useful life and amortisation method

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

(g) Impairment of intangible assets

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(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 year 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 year or the cost of relevant assets.

(20) Dividends distribution

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

(21) Provisions

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Provisions (continued)

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

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

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

(22) Revenue recognition

Revenue is recognized by the Group at the amount of consideration that is expected to be entitled when customers obtain the control of related goods and services.

(a) Sale of goods – distribution

The Group sells products to distributors in different areas. The Group delivers products to the delivery locations agreed in contracts. Sales are recognised at the point when distributors accepts the products and both parties sign on delivery sheets. The credit term granted to distributor are normally 90 days, which is consistent with industry practice and with no significant financing components.

The products are often sold with sales discounts based on aggregate sales over a period of time. The Group estimates discount amount using expected value method based on historical experience. Revenue is recognised based on the contract price, net of the estimated sales discounts.

(b) Sale of goods – retail

The Group directly sells products to customers in retail, and recognises revenue when the products have been sold to customers. Customers are granted the right to return the products within 7 days after the purchase. The Group estimates amount of returns using expected value method based on historical data and experience. Revenue is recognised net of returns. A return liability included in other current liabilities recognised for the products expected to be returned. Simultaneously, costs 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 net of 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 total cost budget and cost incurred. At the balance sheet date, the Group reassessed the percentage of completion of service, in order to reflect change of performance of contracts.

When the Group recognises revenue based on the progress of service performed, the Group recognises accounts receivable at the amount that the Group has an unconditional right to consideration. The remaining consideration is recognised as a contract asset. The Group recognises impairment provision of accounts receivable and contract assets based on expected credit losses (Note 2(9)). The Group recognises a contract liability if the customer's payment of consideration precedes the Group's performance. Contract assets and liabilities are recorded net in the balance sheet. As at 31 December 2018, the Group had no contract asset.

Contract costs comprise costs to obtain a contract and costs to fulfil a contract. Costs incurred to provide online platform operation service are recognised as fulfillment costs and transferred to cost of sales based on the progress of service performed. Incremental costs of obtaining online platform operation service contract are recognised as costs to obtain contracts. For contracts with amortisatoin period less than 1 year, the costs to obtain the contracts are expensed as incurred; for contracts with amortization period over 1 year, the costs to obtain the contracts are amortised on a systematic basis consistent with revenue recognition generated from online platform operating services under the contracts. The Group recognises impairment loss to the extent that the carrying amount of the assets exceeds the remaining amount of consideration expected to receive, less the costs that relate directly to providing the services. As at balance sheet date, according to whether a contract's amortization period is over 1 year or not at initial recognition, the Group recorded contract fulfillment costs, net of impairment provision in inventories and other non-current assets respectively. For a contract with amortisation period over 1 year, the Group recognises costs of obtain the contract, net of impairment provision in other non-current assets.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Government grants

Government grants refer to the monetary assets obtained by the Group from the government, including funds for enterprises development, 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, 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, expenses or losses directly in the current year. 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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 and 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(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 controlled by Xing Jiaxing. It adopted a series of share-based compensation plans in exchange for employee services to the Group.

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

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

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

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

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

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) 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 reasonable expectations of future events.

(a) Critical judgements in applying accounting policies

(i) Revenue recognition on gross basis

According to the revised 'Accounting Standards for Business Enterprises No. 14—Revenue' ("the New Revenue Standards"), the Group should consider whether it owns the products and takes the inventory risk before transfer of the products to the end customers when determining the Group is acting as agent or principal. The Group controls the products before sales to the end customers. The sales staff in the concessionaire counters are the Group's employees, who take charge of products promotion and end customers services. The Group is the primary obligor in the concessionaire arrangement. The Group is responsible for display of the products and bearing the products return risk. The Group has the right to determine the selling price and put the price on products' tags. The department stores or the online platform charges concessionaire fees to the Group which is calculated at certain fixed percentage of the gross sales amount. Even in certain promotion events organized by the department stores or online platforms, the Group has the right to determine whether to attend the promotion events. If the Group decides to attend promotion events where the Group offers a certain discount of price agreed upon, the Group still has the right to determine what products to be on sale and the original price of the products. Therefore, the Group has the right to determine the selling price.

Thus, the Group's customers are ultimate consumers rather than department stores or online platforms. The Group is acting as a principal, and accordingly revenue is recognised on a gross basis. The concessionaire fee paid or payable to the department stores/online platforms is recorded in selling and distribution expenses.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Critical accounting estimates and judgements (continued)

(a) Critical judgements in applying accounting policies (continued)

(ii) Classification of financial assets

The Group's determination of classification of financial assets involve critical judgement including analysis of business model and contractual cash flow characteristics.

The Group determines the business model of managing financial assets on the basis 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 made the following main judgements when evaluating whether the contractual cash flow of the financial assets are solely payments of principals and interests based on outstanding principal: a) whether the time intervals or the amount of principal may vary due to early repayments; b) whether interest compensates solely for the time value of money, credit risk, and other basic credit risk and compensation of cost and profits. For instance, whether the early payment amount compensates solely outstanding principal and basic interest on outstanding principal and the reasonable compensation of the early termination of the contracts.

(iii) The judgement of whether the credit risk has increased significantly

The criterial used to determine whether credit risk has been significantly increased is whether a contractual payment is more than 30 days past due, or whether 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 has decreased significantly.

The criterial used to determine whether a credit impairment has incurred is whether 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 process of debt restructure, or is likely to go bankrupt.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Critical accounting estimates and judgements (continued)

(b) Critical accounting estimates and key assumptions

(i) Net realizable value of inventories

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Critical accounting estimates and judgements (continued)

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

(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.

(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 Group uses exposure of default risk and expected credit loss rates to calculate expected credit losses, and determines expected credit loss rate based on risk of default and loss rate of 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 year ended 31 December 2018.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(28) Critical accounting estimates and judgements (continued)

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

(vi) Accounting estimates on impairment of goodwill

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

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

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

If the actual margin rate or pre-tax discount rate is higher or lower than the management's estimation, the Group is not allowed to reverse impairment loss of goodwill previously reserved.

(29) Significant changes in accounting policies

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

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(a) Amendment of formats of financial statements

(i) The impacts on the consolidated financial statements are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected	
		31 December 2017	1 January 2017
The Group combined and recorded accounts receivable, notes receivable in the line item '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 combined and recorded interests receivable and dividends receivable and other receivables in the line item 'Other receivables'.	Interests receivable	(2,281)	(2,695)
	Other receivables	2,281	2,695
The Group combined and recorded notes payable and accounts payable in the line item '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 combined and recorded interests payable, dividends payable and other payables in the line item '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)

(29) Significant changes in accounting policies (continued)

(a) Amendment of formats of financial statements (continued)

(ii) The impacts on the Company's financial statements are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected	
		31 December 2017	1 January 2017
The Company combined and recorded accounts receivable, notes receivable in the line item 'Notes receivable and accounts receivable'.	Accounts receivable	(1,675,090)	(897,791)
	Notes receivable and accounts receivable	1,675,090	897,791
The Company combined and recorded interests receivable and dividends receivable and other receivables in the line item 'Other receivables'.	Interests receivable	(79)	(1,245)
	Other receivables	79	1,245
The Company combined and recorded notes payable and accounts payable in the line item 'Notes payable and accounts payable'.	Accounts payable	(1,721,782)	(492,631)
	Notes payable	(343,726)	(150,256)
	Notes payable and accounts payable	2,065,508	642,887
The Company combined and recorded interests payable, dividends payable and other payables in the line item '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)

(29) Significant changes in accounting policies (continued)

(b) Revenue

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

The nature and the reasons of the change in accounting policies	**The line items affected**	**The amounts affected 1January 2018**	
		Consolidated	**Company**
The Group reclassed Advances from customers to Contract liabilities	Contract liabilities	**363**	—
	Advances from customers	**(363)**	—

Compared to the original revenue standards, the New Revenue Standards give clear rules on accounting judgement over principal versus agent. An entity should consider whether it owns the products and takes the inventory risk before transfer of the products to the end customers when determining the entity is acting as agent or principal. An entity is acting as a principal in the concessionaire arrangement if the entity controls the products before sales to the end customers. Accordingly, the Group should recognise revenue based on the gross amount of the sales transaction after adoption of the New Revenue Standards. The Group communicated with tax authority regarding the adoption of the New Revenue Standards. Detail line items affected in gross basis of 2018 are listed as below:

	The amounts affected 2018	
	Consolidated	Company
Revenue	**1,378,292**	**389,847**
Selling and distribution expenses	**(1,378,292)**	**(389,847)**

In addition, the Group and the Company reclassified advances from customers to contract liabilities. Detail line items affected are listed as below:

	The amounts affected 31 December 2018	
	Consolidated	Company
Contract liabilities	**2,399**	—
Advances from customers	**(2,399)**	—

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument

According to the relevant provisions of the New Financial Instruments Standards, the Group's and the Company's cumulative impact on the first adoption of the standards adjusted the retained revenue and other related items in the financial statements at the beginning of 2018. The 2017 comparative financial statements were not restated.

(i) As at 1 January 2018, the Group's financial assets classified and measured under the original financial instruments standards and the New Financial Instruments Standards 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 OCI	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
Available-for-sale financial assets	Fair value through OCI (equity instrument)	67,544	Other non-current financial assets	Fair value through profit or loss	28,200
			Other equity instrument investments	Fair value through OCI	39,344

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(i) As at 1 January 2018, the Group's financial assets classified and measured under the original financial instruments standards and the New Financial Instruments Standards are compared as below: (continued)

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	561,359	Cash at bank and on hand	Amortised cost	561,359
Notes receivable and accounts receivable	Amortised cost	1,675,090	Notes receivable and accounts receivable	Amortised cost	1,661,092
Other receivables	Amortised cost	1,483,463	Other receivables	Amortised cost	1,469,144
Available-for-sale financial assets	Fair value through OCI (equity instrument)	18,200	Other non-current financial assets	Fair value through profit or loss	18,200

(ii) As at 1 January 2018, according to the measurement categories under the New Financial Instruments Standards, the carrying amount of financial instruments under the original financial instruments standards are reconciled to the carrying amounts under the New Financial Instruments Standards as follows:

The measurement categories under the New Financial Instruments Standards	Notes
Financial assets at fair value through profit or loss	Table 1
Financial assets at fair value through OCI	Table 2
Financial assets at amortised cost	Table 3

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) (continued)

Table 1: Financial assets at fair value through profit or loss under the New Financial Instruments Standards

	Notes	Carrying amounts Consolidated	Company
Financial assets held for trading (including other non-current financial assets)			
31 December 2017		—	—
Add: Transfer from other current assets — available-for-sale financial assets (under the original financial instruments standards)	i),ii)	45,200	18,200
1 January 2018		45,200	18,200
Total financial assets at fair value through profit or loss (under the New Financial Instruments Standards)		45,200	18,200

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) (continued)

Table 2: Financial assets at fair value through other comprehensive income under the New Financial Instruments Standards

	Notes	Carrying amounts Consolidated	Company
Other equity instruments investments			
31 December 2017		—	—
Add: Transfer from other current assets			
— available-for-sale financial assets (under the original financial instruments standards)	iii)	39,344	—
1 January 2018		39,344	—
Available-for-sale financial assets and other current assets			
31 December 2017		84,544	18,200
Minus: Transfer to financial assets at fair value through profit or loss (under the New Financial Instruments Standards)	i),ii)	(45,200)	(18,200)
Minus: Transfer to financial assets at fair value through other comprehensive income (under New Financial Instruments Standards)	iii)	(39,344)	—
1 January 2018		—	—
Total financial assets at fair value through other comprehensive income (under the New Financial Instruments Standards)		39,344	—

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) (continued)

Table 3: Financial assets at amortized cost under the New Financial Instruments Standard

	Notes	**Carrying amounts** **Consolidated**	**Company**
Accounts receivable (Note 1)			
31 December 2017		1,379,253	3,158,553
Re-measurement: total expected credit loss	iv)	—	(28,317)
1 January 2018		1,379,253	3,130,236
Total financial assets measured at amortized cost(under the New Financial Instrument Standards)		1,379,253	3,130,236

Note 1: As at 31 December 2017 and 31 December 2018, accounts receivables comprise notes receivables and accounts receivables and other receivables, etc.

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

As at 31 December 2017, the Group held the wealth management products with principal guaranteed, floating interest rate, and the term is 365 days with fair value of RMB17,000,000. After the Group adopted the New Financial Instruments Standards, the contractual terms of cash flows of such equity instrument do not represent solely payments of principal and interest on the principal amount. Therefore, as at 1 January 2018, the assets was reclassified out of other current assets financial assets available for sale to financial assets at fair value through profit or loss, presented in financial assets held for trading.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(ii) (continued)

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. After the Group adopted the New Financial Instruments Standards, considering the Group held this financial assets for the purpose of selling it in the near, which belongs to trading nature, since 1 January 2018, the Group reclassified the equity investments out of available-for-sale financial assets to financial assets at fair value through profit or loss. Since the Group has intention to hold this financial assets for more than 1 year, it is presented in other non-current financial asset.

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. After the Group adopted the New Financial Instrument Standards, considering the Group held this financial assets for the purpose of selling it in the near, which belongs to trading nature, since 1 January 2018, the Group reclassified the equity investments out of available-for-sale financial assets to financial assets at fair value through profit or loss. Since the Group has intention to hold this financial assets for more than 1 year, it is presented in other non-current financial asset.

iii) *Equity instruments designated as financial assets at fair value through OCI*

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. The Group regard the purpose of holding the financial assets is not for short-term trading. In such situation, the Group has the option to designate non-trading equity instrument investment in financial assets at fair value through OCI. As at 1 January 2018, the Group decided to designate the assets in financial assets at fair value through OCI, presented in other equity investment.

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. The Group regard the objective of holding the financial assets is not for trading in short-term. 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 decided to designate the assets in financial assets at fair value through other comprehensive income, presented in other equity investment.

(All amounts in RMB'000 unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(29) Significant changes in accounting policies (continued)

(c) Financial Instrument (continued)

(iv) On 1 January 2018, the Group adjusted the original financial asset impairment provision to the loss provision under requirements of the New Financial Instrument Standards. The Group's financial assets measured at amortized cost, including bills receivable and impairment provision of accounts receivable and the impairment provision of other accounts receivable did not have significant change as comparing to 31 December 2017; the financial assets of the Company measured at amortized cost, including notes receivable and accounts receivable impairment provision and impairment provision of other accounts receivable, which the amounts thereof increased by RMB 28,317,000 as compared to that of 31 December 2017.

Due to the implementation of the above revised standards, the amount of surplus reserve in the consolidated financial statements of the Group was decreased by RMB2,124,000, and the undistributed profit was increased by RMB2,124,000. The Company relatively adjusted the deferred income tax assets of RMB7,079,000 as of 1 January 2018; the impact amount of the relevant adjustments on the shareholders' equity of the Company was RMB21,238,000, among which the surplus reserve was RMB2,124,000 and the undistributed profit was RMB19,114,000.

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 maintenance and construction tax	The payment amount of VAT and business tax	7%, 5% and 1%
Educational surcharge	The payment amount of VAT and business tax	3%
Local educational surcharges	The payment amount of VAT and business tax	2%
River maintenance fee	The payment amount of VAT and business tax	1%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash on hand	**24,642**	11,438
Cash at bank	**425,221**	804,142
Other cash balances	**155,430**	115,000
	605,293	930,580
Including: cash at bank and on hand overseas	**60**	579

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

(2) Financial assets held for trading

	31 December 2018	31 December 2017
Debt instrument investments held for trading (a),(b)	**28,200**	—
Equity instrument investments held for trading (c)	**25,475**	—
	53,675	—
Less: equity instrument investment listed in other non-current financial assets	**(28,200)**	—
	25,475	—

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(2) Financial assets held for trading (continued)

(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. After the Group adopted the New Financial Instruments Standards, considering the Group held this financial assets for the purpose of selling it in the near, which belongs to trading nature, since 1 January 2018, the Group reclassified the equity investments out of available-for-sale financial assets to financial assets at fair value through profit or loss. Since the Group has intention to hold this financial assets for more than 1 year, it is presented in other non-current financial asset. As at 31 December 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. After the Group adopted the New Financial Instrument Standards, considering the Group held this financial assets for the purpose of selling it in the near, which belongs to trading nature, since 1 January 2018, the Group reclassified the equity investments out of available-for-sale financial assets to financial assets at fair value through profit or loss. Since the Group has intention to hold this financial assets for more than 1 year, it is presented in other non-current financial asset. As at 31 December 2018, the fair value of such equity instrument is RMB18,200,000.

(c) In July 2018, the Group entered into an equity transfer agreement with the original shareholders of Yami Network Science and Technology (Shanghai) Co., Ltd. ("Yami"), Li Yuehong and Huang Jianghua, whereby the Group acquired 2.43% interests with consideration of RMB 6,969,000. Meanwhile the Group purchased capital newly increased by Yami, which represents 2.26% interests at cost of RMB9,031,000. In November 2018, the transaction was completed. Considering the purpose of holding the assets is for short-term investment, which belongs to trading nature, the assets are classified in financial assets at fair value through profit or loss and are presented in financial assets held for trading. As at 31 December 2018, the fair value of the equity instruments is RMB25,475,000.

(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 Instruments Standards:

Available-for-sale financial assets

Presented in financial assets held for trading in the current year.

	1 January 2018	31 December 2017
Measured at fair value		
— Available-for-sale equity instruments(a), (b)	**—**	28,200
— Wealth management products(i)	**—**	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 instrument investments in the current year		
Measured at fair value		
— Available-for-sale equity instruments (Note 8(a), (b))	**—**	39,344
Less: provision for impairment	**—**	—
	—	39,344
	—	67,544

i) 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 adopted the New Financial Instruments Standards, the contractual terms of cash flows of such wealth management products do not represent solely payments of principal and interest on the principal amount. Therefore, as at 1 January 2018, the assets were reclassified out of other current assets-available-for-sale financial assets to financial assets at fair value through profit or loss, presented in financial assets held for trading. As at 31 December 2018, the financial assets were fully redeemed.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable and accounts receivable

	31 December 2018	31 December 2017
Accounts receivable	**1,083,470**	1,110,215
Less: provision for bad debts	**(51,660)**	(56,779)
	1,031,810	1,053,436

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. As at 31 December 2018, there is no notes receivable (31 December 2017: nil).

(a) Accounts receivable with aging since invoice date are analysed as follows:

	31 December 2018	31 December 2017
Current (90 days)	**976,255**	975,248
Overdue(over 90 days) to one year	**72,327**	92,217
One year to two years	**13,293**	10,649
Two years to three years	**5,155**	13,576
Above three years	**16,440**	18,525
	1,083,470	1,110,215

(b) As at 31 December 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	142,001	(3,694)	13%

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable and accounts receivable (continued)

(c) As at 31 December 2018, there are no accounts receivable derecognised due to the transfer of financial assets.

(d) As at 31 December 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	24,635	100%	(24,635)	i)

i) As at 31 December 2018, amounts due from department stores are RMB24,635,000. 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.

(e) As at 31 December 2018, the Group reserves provision of bad debts based on lifetime expected credit losses. The amount is RMB27,025,000.

	31 December 2018		
	Carrying amount	Provision of bad debts	
	Amount	Lifetime expected credit loss rates	Amount
Within credit period (90 days)	**976,255**	**2%**	**(19,527)**
Overdue (90 days) to one year	**72,327**	**5%**	**(3,616)**
One year to two years	**5,984**	**20%**	**(1,197)**
Two years to three years	**3,169**	**50%**	**(1,585)**
Above three years	**1,100**	**100%**	**(1,100)**
	1,058,835		**(27,025)**

(f) The provision of bad debt in the current year is RMB1,349,000. The reversal of previously reserved provision of bad debt in the current year is RMB 6,468,000. There is no significant receipt or reversal, or write-off in the current year.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Advances to suppliers

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

(b) As at 31 December 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	119,336	36%

(5) Other receivables

	31 December 2018	31 December 2017 (Restated)
Deposits	**369,299**	338,239
Paid on behalf of related parties (Note 8(5)(d))	**23,376**	—
Staff advances	**11,413**	9,081
Interests due from related parties (Note 8(5)(e))	**1,788**	—
Interests receivable of fixed deposits	**772**	2,281
Others	**3,022**	2,389
	409,670	351,990
Less: provision for bad debts	**(27,459)**	(26,173)
	382,211	325,817

(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 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	347,418	(23,882)	—	—	(23,882)	2,291	(2,291)	(26,173)
Changes of accounting policies (Note 2(29)(c))	—	—	—	—	—	—	—	—
1 January 2018	347,418	(23,882)	—	—	(23,882)	2,291	(2,291)	(26,173)
Additions	386,662	(2,564)	—	—	(2,564)	—	—	(2,564)
Reversals	(328,261)	278	—	—	278	(1,000)	1,000	1,278
Transferred to stage 3	—	—	—	—	—	—	—	—
31 December 2018	**405,819**	**(26,168)**	**—**	**—**	**(26,168)**	**1,291**	**(1,291)**	**(27,459)**

(i) As at 31 December 2018, bad debt accounts receivable in stage 1 are analysed as follows:

	Amount	12-month expected credit losses	Provision for bad debts	Reason
Allowance of group:				
Deposits	**368,008**	**7%**	**(24,277)**	**According to 12-month expected credit losses**
Staff advance and others	**37,811**	**5%**	**(1,891)**	
	405,819		**(26,168)**	

(ii) As at 31 December 2018, the Group has no accounts receivable in stage 2.

(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 and carrying amount (continued)

(iii) As at 31 December 2018, accounts receivable in stage 3 are analysed as follows:

	Amount	Lifetime expected credit losses	Provision for bad debts	Reason
Subject to separate assessment for provision:				
Deposits	**1,291**	**100%**	**(1,291)**	**i)**

i) As at 31 December 2018, amounts due from department stores are RMB1,291,000. 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 year is RMB2,564,000. The reversal of previously reserved provision of bad debt in the current year is RMB1,278,000. There is no significant receipt or reversal, or write-off in the current year.

(c) As at 31 December 2018, the top five other receivables are analysed as follows:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Xuhui District People's Court(i)	Deposits	8,100	Within 1 year	2%	(567)
Anhui DongLong Down Share Limited Company	Deposits	5,613	Within 1 year	1%	(393)
Shanghai Zizhu Science Park Wu Jing Development Office	Deposits	3,437	2 to 3 years	1%	(241)
Heng YaLi Down Products Co. Ltd	Deposits	2,548	Within 1 year	1%	(178)
Shanghai MetroCity Commerce Management Co., Ltd.	Deposits	2,397	Within 1 year	1%	(168)
		22,095		6%	(1,547)

(i) The Group had disputes with a purchase vendor on the products quality. The lawsuit is in the progress. As required by Xuhui District People's Court, the Group paid deposit of RMB8,100,000. The management estimated no additional provision should be accrued for the lawsuit.

(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:

	31 December 2018			31 December 2017		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**12,155**	**—**	**12,155**	9,399	(588)	8,811
Finished goods	**2,826,632**	**(326,851)**	**2,499,781**	2,555,226	(235,503)	2,319,723
Low value consumables	**22,302**	**—**	**22,302**	16,105	—	16,105
	2,861,089	**(326,851)**	**2,534,238**	2,580,730	(236,091)	2,344,639

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

	31 December 2017	Increase in the current year	Decrease in the current year	**31 December 2018**
		Accrual	Resold	
Raw materials	(588)	—	588	**—**
Finished goods	(235,503)	(269,317)	177,969	**(326,851)**
	(236,091)	(269,317)	178,557	**(326,851)**

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

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

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Other current assets

	31 December 2018	31 December 2017
Input VAT to be certified	**185,036**	29,323
Borrowings to related parties (Note 8 (4)(b)(c))	**72,007**	—
Prepaid income tax	**50,491**	—
Entrusted loan	**5,000**	5,000
Available-for-sale financial assets (Note 4(2))	**—**	17,000
Dividends and related deposits for the third quarter of 2017 (b)	**—**	105,747
	312,534	157,070
Less: provision for bad debts (Note 4(18))	**(5,000)**	—
	307,534	157,070

(a) In 2018, the Group provided loan amounted to RMB39,507,000 to 100% owned subsidiary of its associate, Naf Naf SAS with interest rate of 6% and maturity date of 20 August 2019.

In 2018, the Group provided loan amounted to RMB32,500,000 to its associate, Hongche Industry (Shanghai) Co., Ltd. (泓澈實業(上海)有限公司)("Hongche") with interest rate of 6% and maturity date of 27 December 2019.

(b) 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 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 investments

	31 December 2018	31 December 2017
Equity instrument investments		
Stocks of non-listed companies (Note 2(9)(a))		
— TNPI(a)	**—**	—
— Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司) (b)	**15,000**	—
— O2bra Co., Ltd. (c)	**13,605**	—
	28,605	—

	31 December 2018	31 December 2017
(a) TNPI		
— Cost	**24,344**	—
— Accumulative changes through other comprehensive losses	**(24,344)**	—
	—	—

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, the Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 31 December 2018, the fair value of the equity instrument is RMB0 (31 December 2017: RMB24,344,000 and was included in available-for-sale financial assets (Note 4(2)(d)) with impact of RMB20,327,000 recorded in OCI (Note 4(30)).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Other equity instrument investments (continued)

	31 December 2018	31 December 2017
(b) Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司)		
— Cost	**15,000**	—
— Accumulative changes in fair value	**—**	—
	15,000	—

In 2017, the Group acquired 1,075,000 shares, or 3.75% equity interests in Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司) through National Equities Exchange and Quotations with a consideration of RMB15,000,000. As at 1 January 2018, the Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 31 December 2018, the fair value of the equity instrument is RMB15,000,000 (31 December 2017: RMB15,000,000 and was included in available-for-sale financial assets (Note 4(2)(d)).

	31 December 2018	31 December 2017
(c) 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 OCI, which are presented in other equity instrument investments. As at 31 December 2018, the fair value of the equity instrument is RMB13,605,000 (31 December 2017: none).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investments

	31 December 2018	31 December 2017
Joint venture (a)	**161,343**	—
Associates (b)	**474,591**	428,465
Less: provision for impairment of long-term equity investments	**—**	—
	635,934	428,465

(a) Joint venture

	31 December 2017	Movement in the current year: Additions	Transfers to subsidiaries	Share of net profit or loss using the equity method (Note 4(42))	Share of OCI	Changes in other equity	Exchange differences	Cash dividends declared	Provision for impairment	Disposals of joint ventures	**31 December 2018**	Balance of provision for impairment at the end of year
Lacha Apparel II S.a r.l.	–	156,497	–	(7,029)	–	–	11,875	–	–	–	**161,343**	–

In April 2018, the Group established Lacha Apparel II S.a r.l.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) at a shareholding percentage of 40%, 30% and 30%, respectively, to require 100% equity interest in Naf Naf SAS. The transaction was completed on 29 June 2018. After the acquisition, the Group holds 40% interests of Naf Naf SAS through Lacha Apparel II S.a.r.l. Since the Group and the other two shareholders do not have control power of Lacha Apparel II S.a.r.l by its own, the investment is recognised as a long-term equity investment of joint venture.

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)

(9) Long-term equity investments (continued)

(b) Associates

		Movement in the current year										
	31 December 2017	Additions	Transfers to subsidiaries	Share of net profit or loss using the equity method (Note 4(42))	Share of OCI	Changes in other equity	Exchange differences	Cash dividends declared	Provision for impairment	Disposals of associates	**31 December 2018**	Balance of provision for impairment at the end of year
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership)	215,523	–	–	34,342	–	–	–	(13,468)	–	–	**236,397**	–
Tibet Baoxin Equity Investment Partnership Enterprise	107,712	45,000	–	4,881	–	–	–	–	–	–	**157,593**	–
Hong Che Industrial (Shanghai) Co., Ltd.	56,241	–	–	(11,114)	–	–	–	–	–	–	**45,127**	–
Beijing Ao Ni Trading Co., Ltd.	20,000	–	–	820	–	–	–	–	–	–	**20,820**	–
Fuzhou Badi Fashion Co., Ltd.	8,658	–	–	(977)	–	–	–	–	–	–	**7,681**	–
Hangzhou KaiHui E-Commerce Co., Ltd.	2,582	–	–	1,184	–	–	–	–	–	–	**3,766**	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	–	3,000	–	(93)	–	–	–	–	–	–	**2,907**	–
Shanghai Youshi Household Science and Technology Co., Ltd.	–	300	–	–	–	–	–	–	–	–	**300**	–
Hangzhou Mixin E-commerce Co., Ltd.	1,235	–	–	–	–	–	–	–	–	(1,235)	**–**	–
Hangzhou Jianing E-Commerce Co., Ltd.	739	–	–	(37)	–	–	–	–	–	(702)	**–**	–
Pincheng	15,775	–	(15,629)	(146)	–	–	–	–	–	–	**–**	–
	428,465	48,300	(15,629)	28,860	–	–	–	(13,468)	–	(1,937)	**474,591**	–

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

	Properties and plants	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 year					
Purchase	—	15,967	567	34,117	50,651
Transferred from construction in progress (Note 4(11))	417,905	611	—	—	418,516
Acquired from business combination (Note 5(1))	—	—	—	585	585
Decrease in the current year					
Disposal and retirement	—	—	(1,230)	(8,413)	(9,643)
Disposal of subsidiaries	—	—	(71)	(896)	(967)
31 December 2018	808,867	57,928	8,386	161,473	1,036,654
Accumulated depreciation					
31 December 2017	(29,962)	(10,297)	(2,944)	(78,827)	(122,030)
Increases in the current year					
Accrual	(22,494)	(6,802)	(2,357)	(25,824)	(57,477)
Decrease in the current year					
Disposal and retirement	—	—	1,144	6,408	7,552
Disposal of subsidiaries	—	—	14	336	350
31 December 2018	(52,456)	(17,099)	(4,143)	(97,907)	(171,605)
Provision for impairment					
31 December 2017	—	—	—	—	—
Increases in the current year					
Accrual	—	—	—	—	—
Decrease in the current year					
Disposal	—	—	—	—	—
31 December 2018	—	—	—	—	—
Carrying amount					
31 December 2018	756,411	40,829	4,243	63,566	865,049
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 year ended 31 December 2018, accrued depreciation are RMB57,477,000 (2017: RMB34,649,000), of which RMB40,703,000 and RMB16,774,000 (2017: RMB23,011,000 and RMB11,638,000) have been charged to selling and distribution expenses, general and administrative expenses respectively.

As at 31 December 2018, properties and plants with carrying amount of RMB206,567,000 (original cost: RMB208,150,000) are pledged as collateral for a long-term borrowing of RMB330,911,000 (Note 4(27)) and a long-term loan due within one year of RMB17,416 thousand (Note 4(26)) (31 December 2017: nil).

As at 31 December 2018, properties and plants with carrying amount of RMB345,009,000 (original cost: RMB394,938,000) are pledged as collateral for bank's credit facilities (31 December 2017: nil).

Fixed assets without property certificate:

	Carrying amount	**Reasons for not completing the property certificate**
Properties and plants	502,115	The facilities have not yet been completed.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(11) Construction in progress

	31 December 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	**525,861**	**—**	**525,861**	380,343	—	380,343
Taicang logistics center project phase II and III	**40,827**	**—**	**40,827**	—	—	—
Tianjin logistics center project	**37,942**	**—**	**37,942**	114,263	—	114,263
Product lifecycle management project	**9,465**	**—**	**9,465**	—	—	—
ERP system upgrade	**872**	**—**	**872**	4,867	—	4,867
Chengdu logistics center project	**—**	**—**	**—**	77,625	—	77,625
Others	**985**	**—**	**985**	577	—	577
	615,952	**—**	**615,952**	577,675	—	577,675

As at 31 December 2018, Wu Jing headquarter project with carrying amount of RMB525,861,000 are pledged as collateral for a long-term borrowing of RMB330,911,000 (Note 4(27)) and current portion of long-term borrowings of RMB17,416,000(Note 4(26)) (31 December 2017: nil).

As at 31 December 2018, Taicang logistics center project phase II and III with carrying amount of RMB40,827,000 are pledged as collateral for bank's credit facilities (31 December 2017: nil).

(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 year	Transferred to intangible assets (Note 4(12))	Transferred to fixed assets (Note 4(10))	Transferred to Long-term prepaid expenses (Note 4(14))	31 December 2018	Investment percentage of budget	Completion percentage	Accumulative capitalization of borrowing costs	Capitalization of borrowing costs in this year	Interest rate of capitalized borrowing costs	Sources of funds
Wu Jing headquarter project	1,099,961	380,343	355,058	–	(209,540)	–	525,861	61%	61%	38,002	29,033	4.84%	borrowing and working capital
Taicang logistics center project phase II and III	273,922	–	41,370	(543)	–	–	40,827	90%	90%	15,061	3,441	4.72%	borrowing and working capital
Tianjin logistics center project	296,286	114,263	39,684	–	(116,005)	–	37,942	48%	48%	12,655	7,017	4.72%	borrowing and working capital
Product lifecycle management project	49,000	–	9,465	–	–	–	9,465	19%	19%	–	–	–	working capital
ERP system upgrade	5,898	4,867	–	(3,995)	–	–	872	83%	83%	–	–	–	working capital
Chengdu logistics center project	113,310	77,625	15,346	–	(92,971)	–	–	100%	100%	5,569	2,508	4.72%	borrowing and working capital
Others		577	1,986	(1,478)	–	(100)	985	0%	0%	–	–	–	working capital
		577,675	462,909	(6,016)	(418,516)	(100)	615,952			71,287	41,999		

As at 31 December 2018 and 31 December 2017, the Group did not provide for provision 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 year						
Purchase	—	2,219	—	—	—	2,219
Transferred from construction in progress (Note 4(11))	—	6,016	—	—	—	6,016
Acquired from business combination (Note 5(1))	—	—	—	12,685	—	12,685
Decrease in current year						
Disposal and retirement	—	—	—	—	—	—
Disposal of subsidiaries	—	(60)	—	—	—	(60)
31 December 2018	4,086	77,599	162,818	60,815	1,550	306,868
Accumulated amortisation						
31 December 2017	(1,485)	(56,313)	(10,086)	(15,114)	(493)	(83,491)
Increase in current year						
Accrual	(432)	(7,104)	(3,275)	(6,723)	(204)	(17,738)
Decrease in current year						
Disposal	—	13	—	—	—	13
31 December 2018	(1,917)	(63,404)	(13,361)	(21,837)	(697)	(101,216)
Provision for impairment loss						
31 December 2017	—	—	—	—	—	—
Increase in current year						
Accrual	—	—	—	—	—	—
Decrease in current year						
Disposal	—	—	—	—	—	—
31 December 2018	—	—	—	—	—	—
Carrying amount						
31 December 2018	2,169	14,195	149,457	38,978	853	205,652
31 December 2017	2,601	13,111	152,732	33,016	1,057	202,517

For the year ended 31 December 2018, amortisation amount of the Group is RMB17,738,000 (2017: RMB24,075,000), of which RMB10,867,000 and RMB6,871,000 (2017: RMB14,633,000 and RMB9,442,000) are charged to selling and distribution expenses and general and administrative expenses respectively.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Intangible assets (continued)

As at 31 December 2018, land use rights with carrying amount of RMB54,297,000 (original cost: RMB59,018,000) are pledged as collateral for a long-term borrowing of RMB330,911,000 (Note 4(27)) and current portion of a long-term borrowing of RMB17,416,000 (Note 4(26)) (31 December 2017: nil).

As at 31 December 2018, land use rights with carrying amount of RMB33,994,000 (original cost: RMB37,627,000) are pledged as collateral for bank's credit facilities (31 December 2017: nil).

(13) Goodwill

	31 December 2017	Increase in the current year	Decrease in the current year	**31 December 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	—	7,992	—	**7,992**
	113,555	7,992	(7,833)	**113,714**
Less: provision for impairment				
Hangzhou Anshe	—	(5,179)	—	**(5,179)**
Jack Walk	—	—	—	**—**
Jiuwo	—	—	—	**—**
Pincheng	—	—	—	**—**
	—	(5,179)	—	**(5,179)**
	113,555	2,813	(7,833)	**108,535**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Goodwill (continued)

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)).

The carrying value of goodwill is allocated to the related asset groups or groups of asset groups when they are required. The summary of goodwill allocated to each group or group of asset groups is as follows:

	31 December 2018	31 December 2017
Group under original La Chapelle Brand (solely including 100% owned subsidiaries)	**91,614**	91,614
Group under Qigege Brand (Hangzhou Anshe and its subsidiaries)	**14,108**	14,108
Pincheng	**7,992**	—
Jiuwo	**—**	7,833
	113,714	113,555

(a) Impairment

The recoverable amount of an asset group or group of asset groups is calculated based on 5-year forecast approved by the Group discounted at a fixed growth rate (see the table below).

	Group under original La Chapelle Brand	**Hangzhou Anshe**	**Pincheng**
Expected growth rate	7%	5%	40%
Growth rate in stable period	3%	3%	3%
Gross margin	64%	46%	56%
Discount rate	18%	19%	18%

The Group estimates growth rate and gross margin. The discount rate used is pre-tax interest rate which reflects the specific risk of related asset groups and groups of asset group. The growth rate in stable period is the weighted average growth rate of 3-year forecast cash flows estimated by the Group, which is consistent with the general industry development trend and no more than the average long-term growth rate of each product.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(14) Long-term prepaid expenses

	31 December 2017	Increase in the current year			Decrease in the current year		**31 December 2018**
		Business combination	Additions	Transferred from construction in progress (Note 4(11))	Amortisation	Disposal of subsidiaries	
Leasehold improvement	711,780	389	377,606	100	(516,188)	(2,820)	**570,867**

For the year ended 31 December 2018, amortisation amount was RMB516,188,000 (2017: RMB419,680,000), of which RMB509,543,000 and RMB6,645,000 (2017: RMB413,506,000 and RMB6,174,000) were charged to selling and distribution expenses and general and administrative expenses respectively.

(15) Other non-current assets

	31 December 2018	31 December 2017
Prepaid decoration expenses of department stores	**144,962**	—
Prepayments for long-term equity investment (a)	**15,002**	13,605
	159,964	13,605

(a) As at 31 December 2018, the balance was the prepayments for long-term equity investment in Beijing Mingtongsiji Technology Co., Ltd. (北京明通四季科技股份有限公司). The transaction was still in the progress as at the balance sheet date, so the balance was recorded in other non-current assets.

As at 31 December 2017, the balance was the prepayments for long-term equity investment in O2bra Co. Ltd. The transaction was completed in March 2018, and the investment was recorded in other equity instrument investments (Note 4(8)(c)).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities

(a) Deferred tax assets before offsetting:

	31 December 2018		31 December 2017	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Tax losses carried forward	**440,323**	**110,081**	453,691	113,420
Provision for inventories impairments	**326,851**	**81,713**	236,091	59,023
Elimination of intra-group unrealised profit	**112,311**	**28,078**	114,763	28,691
Rental incentives recognised on a straight-line basis	**102,054**	**25,514**	136,513	34,128
Provision for bad debts	**84,119**	**20,921**	82,952	20,738
Fair value changes of other equity instrument investments	**24,344**	**4,017**	—	—
Differences in amortisation of long-term prepaid expense between tax and accounting	**10,982**	**2,746**	11,188	2,797
Employee benefits payable	**8,714**	**2,178**	7,338	1,834
	1,109,698	**275,248**	1,042,536	260,631
Including:				
Expected to be reversed within 1 year (inclusive)	**136,819**		114,735	
Expected to be reversed after 1 year	**138,429**		145,896	
	275,248		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:

	31 December 2018		31 December 2017	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Capitalized borrowing costs	**80,243**	**20,061**	36,778	9,194
Business combination involving enterprises not under common control	**39,831**	**9,958**	34,073	8,519
Other fair value changes	**103,465**	**25,866**	68,235	17,059
	223,539	**55,885**	139,086	34,772
Including:				
Expected to be reversed within one year (inclusive)	**2,381**		817	
Expected to be reversed after one year	**53,504**		33,955	
	55,885		34,772	

(c) Tax losses carried forward not recognised as deferred tax assets are as follows:

	31 December 2018	31 December 2017
Tax losses	**300,665**	—

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Deferred tax assets and liabilities (continued)

(d) Tax losses carried forward not recognised as deferred tax assets will expire in the following year

	31 December 2018	31 December 2017
2020	**8,134**	—
2021	**72,882**	—
2022	**81,484**	—
2023	**138,165**	—
	300,665	—

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

	31 December 2018		31 December 2017	
	Offsetting amount	**Net amount**	Offsetting amount	Net amount
Deferred tax assets	**(27,461)**	**247,787**	(14,182)	246,449
Deferred tax liabilities	**27,461**	**28,424**	14,182	20,590

(17) Debt investments

	31 December 2018	31 December 2017
Jiuwo debt investments	**6,934**	

In 2017, the Group provided Jiuwo with a borrowing amounted to RMB6,500,000, with interest rate of 5.22%. The borrowing was extended for 2 years when it was due on 30 November 2018, with interest rate 5.77% and with maturity date of 30 November 2020. As at 31 December 2018, the Group is in the opinion that the credit loss has not significantly increased since initial recognition, and regards it as financial instruments with low risk. The expected loss rate is zero based on the 12-month expected credit loss.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(18) Provision for asset impairment

	31 December 2017	Increase in the current year	Decrease in the current year		**31 December 2018**
		Accrual	Reversal	Resold	
Provision for bad debts of accounts receivable	(56,779)	(1,349)	6,468	—	**(51,660)**
Provision for bad debts of other receivables	(26,173)	(2,564)	1,278	—	**(27,459)**
Other current assets	—	(5,000)	—	—	**(5,000)**
Subtotal	(82,952)	(8,913)	7,746	—	**(84,119)**
Decline in the value of inventories	(236,091)	(269,317)	—	178,557	**(326,851)**
Goodwill impairment provision	—	(5,179)	—	—	**(5,179)**
Subtotal	(236,091)	(274,496)	—	178,557	**(332,030)**
	(319,043)	(283,409)	7,746	178,557	**(416,149)**

(19) Short-term borrowings

	Currency	**31 December 2018**	31 December 2017
Secured borrowing(a)	RMB	**1,856**	—
Unsecured loan	RMB	**1,909,789**	1,006,000
		1,911,645	1,006,000

(a) As at 31 December 2018, a secured borrowing amounted to RMB1,856,000 is guaranteed by Tian Wei, a minority shareholder of a subsidiary (31 December 2017: nil).

As at 31 December 2018, the interest rate of short-term borrowings ranges from 4.35% to 5.66% (31 December 2017: 4.13% to 4.57%).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Notes payable and Accounts payable

	31 December 2018	31 December 2017 (Restated)
Notes payable(a)	**712,556**	534,504
Accounts payable(b)	**1,120,987**	988,084
	1,833,543	1,522,588

(a) Notes payable

	31 December 2018	31 December 2017
Trade acceptance notes	**634,723**	398,728
Bank acceptance notes	**77,833**	135,776
	712,556	534,504

(b) Accounts payable

	31 December 2018	31 December 2017
Payable for purchase	**1,120,987**	988,084

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(20) Notes payable and Accounts payable (continued)

(b) Accounts payable (continued)

(i) The aging of accounts payable based on invoice date are analysed below:

	31 December 2018	31 December 2017
Within 30 days	**137,272**	139,759
30 days to 60 days	**278,554**	310,679
60 days to 90 days	**289,829**	393,666
90 days to 180 days	**334,379**	128,297
180 days to 365 days	**65,397**	2,821
Above 365 days	**15,556**	12,862
	1,120,987	988,084

As at 31 December 2018, Accounts payable over 1 year are RMB15,556,000 (31 December 2017: RMB12,862,000), mainly payables for the final payment which has not yet been settled due to delay in issuance of the invoice by the suppliers.

(21) Advances from customers

As at 1 January 2018, the Group reclassified advances from customers to contract liabilities due to adoption of the New Revenue Standards (Note 4(22)).

As at 31 December 2017, the aging of all advances from customers are within 1 year.

(22) Contract liabilities

	31 December 2018	31 December 2017
Advances from customers	**2,399**	—

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Employee benefits payable

	31 December 2018	31 December 2017
Short-term employee benefits(a)	**199,754**	197,566
Defined contribution plans(b)	**23,608**	23,276
	223,362	220,842

(a) Short-term employee benefits

	31 December 2017	Increase in the current year	Decrease in the current year	**31 December 2018**
Wages and salaries, bonus, allowances and subsidies	178,534	1,931,887	(1,929,974)	**180,447**
Staff welfare	2,202	21,855	(21,828)	**2,229**
Social security contributions	10,173	110,738	(110,596)	**10,315**
Including: medical insurance	6,421	69,813	(69,727)	**6,507**
others	3,752	40,925	(40,869)	**3,808**
Housing funds	6,657	72,685	(72,579)	**6,763**
Labour union funds and employee education funds	—	478	(478)	**—**
	197,566	2,137,643	(2,135,455)	**199,754**

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Employee benefits payable (continued)

(b) Defined contribution plans

	31 December 2017	Increase in the current year	Decrease in the current year	**31 December 2018**
Basic pension	21,263	231,206	(230,897)	**21,572**
Unemployment insurance	2,013	21,741	(21,718)	**2,036**
	23,276	252,947	(252,615)	**23,608**

(24) Taxes payable

	31 December 2018	31 December 2017
Corporate income tax payable	**69,058**	166,471
Unpaid VAT	**77,865**	53,745
City maintenance and construction tax payable	**7,122**	9,892
Educational surcharge payable	**5,204**	7,963
Withholding income tax	**3,060**	15,096
Others	**4,159**	371
	166,468	253,538

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Other payables

	31 December 2018	31 December 2017 (Restated)
Payables for construction and decoration of department stores	**264,911**	203,128
Payables for rental fees	**102,248**	137,275
Suppliers' deposits	**86,326**	78,533
Vendors' deposits	**37,880**	40,927
Payables for logistic expense	**19,786**	24,327
Payable for posts props and store promotion	**13,904**	16,032
Common stock dividends payable	**8,616**	168,729
Interests payable	**7,680**	3,036
Payable for consideration of Pincheng	**4,000**	—
Payables for software purchase	**710**	691
Others	**12,092**	29,443
	558,153	702,121

As at 31 December 2018, other payables over 1 year with carrying amount of RMB67,669,000 (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.

(26) Other non-current liabilities (including current portion of non-current liabilities)

(a) Other non-current liabilities

	31 December 2018	31 December 2017
Other non-current liabilities-Incentive to compensate the costs for leasehold improvements(i)	**48,637**	69,822
Other non-current liabilities – Government grants(ii)	**6,583**	6,620
	55,220	76,442
Less: due within one year		
Incentive to compensate the costs for leasehold improvements due within one year(i)	**(6,803)**	(29,993)
	48,417	46,449

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other non-current liabilities (including current portion of non-current liabilities)

(a) Other non-current liabilities (continued)

(i) Incentive to compensate the costs for leasehold improvements

	31 December 2018	31 December 2017
Incentive to compensate the costs for leasehold improvements	**48,637**	69,822
Less: due within one year	**(6,803)**	(29,993)
	41,834	39,829

	31 December 2018	31 December 2017
Beginning balance	**69,822**	82,348
Increase in the current year	**14,927**	35,091
Decrease in the current year	**(36,112)**	(47,617)
Ending balance	**48,637**	69,822

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 liabilities, and the remaining balance are recorded as non-current liabilities.

(ii) Government grants

	31 December 2018	31 December 2017
Government grants	**6,583**	6,620
Less: due within one year	**—**	—
	6,583	6,620

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other non-current liabilities (including current portion of non-current liabilities) (continued)

(a) Other non-current liabilities (continued)

(ii) Government grants (continued)

	For the year ended 31 December 2018	For the year ended 31 December 2017
Beginning balance	**6,620**	6,657
Decrease in the current year	**(37)**	(37)
Ending balance	**6,583**	6,620

	31 December 2017	**1 January 2018**	Increase in the current year	Decrease in the current year: Deduction in the costs of fixed assets	Recorded as other income	Recorded as selling expenses	Recorded as financial expenses	Recorded as non-operating income	Recorded as non-operating expenses	**31 December 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**	–	–	(37)	–	–	–	–	**583**	Related to assets
	6,620	**6,620**	–	–	(37)	–	–	–	–	**6,583**	

The government grants mainly includes: the special funds granted by the Jiangsu Yixing District Administration Office of Wall Material Innovation and Energy Saving in Properties and plants 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 in other income based on the completion percentage of the insepction, the remaining amount is included in the deferred income.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Other non-current liabilities (including current portion of non-current liabilities) (continued)

(b) Current portion of other non-current liabilities

	31 December 2018	31 December 2017
Current portion of other non-current liabilities (a)	**6,803**	29,993
Current portion of long-term borrowings (Note 4(27))	**17,416**	—
	24,219	29,993

(27) Long-term borrowing

	31 December 2018	31 December 2017
Secured borrowing(a)	**348,327**	—
Less: current portion of long-term borrowing	**(17,416)**	—
	330,911	—

(a) As at 31 December 2018, the secured bank borrowing amounted to RMB 348,327,000 (31 December 2017: nil) is secured by properties and plants with carrying amount of RMB 206,567,000 (original cost: RMB 208,150,000) (Note 4(10)), Wu Jing headquarter project with carrying amount of RMB 525,861,000 (Note 4(11)) and land use right with carrying amount of RMB 54,297,000 (original cost: RMB59,018,000)(Note 4(12)) as collaterals. Interests are paid once a quarter (31 December 2017: nil).

The amounts of principal are due in the following years:

	31 December 2018	31 December 2017
Within 1 year	**17,416**	—
1 to 2 years	**34,833**	—
2 to 3 years	**69,665**	—
Over 3 years	**226,413**	—
	348,327	—

(b) As of 31 December 2018, the interest rate of the long-term borrowings is 5.46% (31 December 2017: nil).

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Share capital

	31 December 2017	**Movement in the current year**	**31 December 2018**
RMB-denominated ordinary shares/A Shares	**332,882**	**—**	**332,882**
H Shares	**214,790**	**—**	**214,790**
Total share capital	**547,672**	**—**	**547,672**

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

(29) Capital surplus

	31 December 2017	**Increase in the current year**	**Decrease in the current year**	**31 December 2018**
Share premium	**1,850,708**	**—**	**—**	**1,850,708**
Other capital surplus(a)	**43,389**	**1,245**	**—**	**44,634**
	1,894,097	**1,245**	**—**	**1,895,342**

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

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus

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

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

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

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

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

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

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus (continued)

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

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.

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	**6.21%**	6.21%

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

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

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Capital surplus (continued)

(a) Other capital surplus (continued)

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

The employee may choose the method of settlement, either cash-settled or equity-settled, depending on the length of his/her service year. Accordingly, the share-based compensation plans were accounted for as compound financial instruments (Note 2(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 year ended 31 December 2018 and 2017, expenses arising from the share-based compensation plans were charged in the consolidated income statements as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
General and administrative expenses	**847**	4,793
Selling and distribution expenses	**398**	995
	1,245	5,788

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Other comprehensive income

	OCI in the consolidated balance sheet				OCI in the consolidated income statements of 2018					
	31 December 2017	Changes of accounting policies (Note 2(29)(c))	1 January 2018	Attributable to shareholders of the Company, net of tax	31 December 2018	The pre-tax amount in the current year	Less: transferred out from which was recognised in OCI in the previous year	Less: Income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
OCI that may not be reclassified to profit or loss										
Fair value change gains of other equity instrument investments	–	–	–	(20,327)	(20,327)	(24,344)	–	4,017	(20,327)	–
OCI to be reclassified to profit or loss										
Currency translation differences	(723)	–	(723)	7,863	7,140	7,863	–	–	7,863	–
	(723)	–	(723)	(12,464)	(13,187)	(16,481)	–	4,017	(12,464)	–

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(31) Surplus reserve

	31 December 2017	Changes of accounting policies (a)	1 January 2018	Increase in the current year	Decrease in the current year	31 December 2018
Statutory surplus reserve	**219,154**	**(2,124)**	**217,030**	**29,855**	**—**	**246,885**

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

(a) In 2018, the Group adjusted surplus reserve by RMB2,214,000 as of January 1 2018 due to the first adoption of the New Financial Instruments Standards (Note 2(29)(iv)).

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 year ended 31 December 2018, the Company appropriated 10% of net profit for the year to the statutory surplus reserve of RMB29,855,000 (2017: appropriated RMB70,386,000, to 10% of net profit).

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 year ended 31 December 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)

(32) Undistributed profits

	For the year ended 31 December 2018 Amount	For the year ended 31 December 2017 Amount
Undistributed profits at the beginning of year (before adjustments)	**1,215,356**	1,115,817
Changes of accounting policies (a)	**2,124**	—
Undistributed profits at the beginning of year (after adjustments)	**1,217,480**	1,115,817
Add: net (loss)/profit attributable to shareholders of the Company	**(159,513)**	498,527
Less: appropriation to statutory surplus reserve (Note 4 (31))	**(29,855)**	(70,386)
dividend declared(b)	**(257,406)**	(328,602)
Undistributed profits at the end of year	**770,706**	1,215,356

(a) In 2018, the Group adjusted the accumulated retained earnings as of 1 January 2018 of RMB2,124,000 (Note 2(29)(iv)) for the first-adoption of the New Financial Instruments Standards.

(b) Pursuant to the resolution of Shareholders' General Meeting on 19 October 2018, the Company approved a cash dividend of RMB0.25 per share related to the first half year of 2017 to the shareholders of the Company, representing a total amount of RMB136,918,000 based on a total number of 547,672,000 of shares, where the amount of dividend is RMB83,220,000 for A Share and RMB53,698,000 for H Share.

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 547,672,000 of shares.

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

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

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Revenue and cost of sales

Revenue and cost of main operation

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail (i)	**10,153,673**	**(3,522,729)**	8,982,987	(3,367,171)
Rendering services (Note 8(4)(d))	**14,382**	**(2,655)**	12,225	(2,451)
Wholesale	**7,798**	**(2,953)**	3,497	(1,283)
	10,175,853	**(3,528,337)**	8,998,709	(3,370,905)

(i) Revenue is generated from sales of retail points and online 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 online platforms, 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 online platforms. Revenue in 2017 was net of concessionaire fees amounted to RMB1,447,119,000 charged by the department stores and certain online platforms (Note 2(29)(b)).

(34) Taxes and surcharges

	For the year ended 31 December 2018	For the year ended 31 December 2017	Payment Standard
City maintenance and construction tax	**36,961**	41,451	Note 3
Educational surcharge	**24,558**	31,929	Note 3
Others	**16,492**	9,628	
	78,011	83,008	

(All amounts in RMB’000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Selling and distribution expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Employee benefits expenses	**2,071,109**	2,017,984
Concessionaire fees (Note2(29)(b))	**1,378,292**	—
Rental fees	**1,054,915**	1,063,061
Amortization of long-term prepaid expenses	**509,543**	413,506
Department store expenses	**261,583**	186,046
Online platform expenses	**180,998**	155,399
Utilities and electricity fees	**177,090**	166,064
Logistic expenses	**153,700**	126,304
Costs of low value consumables	**70,099**	76,447
Marketing expense	**46,168**	36,697
Depreciation of fixed assets	**40,703**	23,011
Travelling and communication expenses	**29,363**	26,138
Quality inspection fee	**12,755**	14,364
Office supplies	**12,733**	11,336
Repair and maintenance expenses	**11,340**	13,050
Consulting expenses	**11,177**	10,834
Amortization of intangible assets	**10,867**	14,633
	6,032,435	4,354,874

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(36) General and administrative expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Employee benefits expenses	**316,826**	243,743
Consulting expenses	**54,386**	29,783
Office supplies	**19,505**	9,569
Sample expenses	**18,918**	21,802
Travelling and communication expenses	**17,807**	14,262
Rental fees	**17,527**	23,149
Depreciation of fixed assets	**16,774**	11,638
Costs of low value consumables	**8,424**	4,129
Amortization of intangible assets	**6,871**	9,442
Amortization of long-term prepaid expenses	**6,645**	6,174
Utilities and electricity fees	**6,040**	7,684
Logistic expenses	**5,402**	2,543
Statutory audit fee		
— audit fee	**4,347**	2,150
Repair and maintenance expenses	**3,102**	375
Others	**1,603**	2,846
	504,177	389,289

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Financial expenses-net

	For the year ended 31 December 2018	For the year ended 31 December 2017
Interest expenses	**87,161**	34,430
Less: capitalised interests (Note 4(11)(a))	**(41,999)**	(21,749)
Less: interest income	**(8,570)**	(12,589)
Exchange gains-net	**(2,151)**	(280)
Bank charges	**18,024**	16,769
	52,465	16,581

(38) Expenses by nature

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Costs of inventories	**3,525,682**	3,370,905
— original value	**3,636,691**	3,535,400
— provisions for decline in the value of inventories in prior years-resold	**(111,009)**	(164,495)
Employee benefits expenses	**2,390,590**	2,261,727
Concessionaire fees	**1,378,292**	—
Rental fees	**1,072,442**	1,086,210
Amortization of long-term prepaid expenses	**516,188**	419,680
Utilities, electricity and department store expenses	**261,583**	186,046
Online platform expenses	**180,998**	155,399
Utilities and electricity fees	**183,130**	173,748
Logistic expenses	**159,102**	128,847
Costs of low value consumables	**78,523**	80,576
Consulting expenses	**65,563**	40,617
Depreciation of fixed assets	**57,477**	34,649
Travelling and communication expenses	**47,170**	40,400
Marketing and promotion expenses	**46,168**	36,697
Office supplies	**32,238**	20,905
Sample expenses	**18,918**	21,802
Amortization of intangible assets	**17,738**	24,075
Repair and maintenance expenses	**14,442**	13,425
Quality inspection fee	**12,755**	14,364
Statutory audit fee		
— audit fee	**4,347**	2,150
Others	**1,603**	2,846
	10,064,949	8,115,068

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(39) Asset impairment losses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Decline in the values of inventories	**269,317**	189,614
Goodwill impairment loss	**5,179**	—
Bad debt provision	**—**	46,343
	274,496	235,957

(40) Credit impairment losses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Impairment provision of other current assets	**5,000**	—
Bad debt loss of other reveiables	**1,286**	—
Bad debt loss of notes receivables and accounts receivables	**(5,119)**	—
	1,167	—

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

In 2018, profit or loss due to change of fair value is due to the fair value change of Yami (Note 4(2)(c).

(42) Investment income

	For the year ended 31 December 2018	For the year ended 31 December 2017
Share of net profit of associates and a joint venture accounted for using the equity method	**21,831**	18,426
Investment income of available-for-sale financial assets	**—**	42,258
Losses of remeasurement of equity of Pincheng (Note 5(1))	**(2,716)**	—
Investment loss of disposal of long-term equity investment (Note 5(2))	**(10,089)**	—
	9,026	60,684

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(43) Losses on disposals of assets

	For the year ended 31 December 2018	For the year ended 31 December 2017	The amount regarded as non-recurring profit or loss for the year ended 31 December 2018
Losses on disposal of fixed assets	**(801)**	(632)	(801)

(44) Other income

	For the year ended 31 December 2018	For the year ended 31 December 2017	Related to assets or income
Funds for enterprises development	**125,657**	129,144	Related to income
Others	**197**	202	Related to income
	125,854	129,346	

(45) Non-operating income

	For the year ended 31December 2018	For the year ended 31December 2017	The amount included in non-recurring profit or loss for 2018
Quality compensation income	**4,661**	3,842	4,661
Others	**122**	167	122
	4,783	4,009	4,783

(46) Non-operating expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Donations	**8,863**	8,836
Others	**4,456**	2,438
	13,319	11,274

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(47) Income tax expenses

	For the year ended 31 December 2018	For the year ended 31 December 2017
Current income tax calculated according to the tax law	**41,744**	235,840
Deferred income tax	**(2,779)**	(43,052)
	38,965	192,788

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Total (loss)/profit	**(160,217)**	730,228
Income tax expenses calculated at applicable tax rates	**(39,408)**	182,557
Expenses not deductible for tax purposes (i)	**3,207**	10,231
Tax losses carried forward not recognised as deferred tax assets	**75,166**	—
Income tax expenses	**38,965**	192,788

(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.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(48) (Losses)/earnings per share

(a) Basic (losses)/earnings per share

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
(Loss)/profit attributable to shareholders of the Company	**(159,513)**	498,527
Weighted average number of ordinary shares outstanding (thousands of shares)	**547,672**	507,457
Basic (losses)/earnings per share (RMB per share)	**(0.29)**	0.98

(b) Diluted (losses)/earnings per share

Diluted (losses)/earnings per share is calculated by dividing net (loss)/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 year ended 31 December 2018 (2017: nil), diluted earnings per share equals to basic earnings per share.

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(49) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the year ended 31 December 2018	For the year ended 31 December 2017
Government grants	**125,817**	129,346
Customer' deposits and suppliers' deposits	**7,793**	20,240
Interest income	**4,248**	9,330
Others	**4,783**	4,009
	142,641	162,925

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2018	For the year ended 31 December 2017
Utilities, electricity and department store expenses	**444,713**	383,721
Online platform expenses	**180,998**	155,399
Consulting expenses	**65,563**	39,950
Marketing and promotion expenses	**46,168**	27,279
Increase in deposits	**31,060**	60,902
Bank charges	**18,024**	16,769
Net increase in staff advances	**2,332**	2,124
Repayment of customers' deposits	**3,047**	—
Miscellaneous	**—**	2,438
	791,905	688,582

(c) Cash received relating to other investing activities

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash inflow on disposal of financial assets held for trading	**17,714**	—
Receipt of payments paid on behalf of related parties	**4,067**	—
Interest income generated from other cash balances	**2,895**	3,673
Cash inflow on disposal of associates (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
	26,922	14,221

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(d) Cash paid relating to other investing activities

	For the year ended 31 December 2018	For the year ended 31 December 2017
Net increase in entrusted loan	**72,007**	5,000
Net increase in other cash balances	**40,430**	—
Cash paid to purchase financial assets held for trading	**16,000**	13,605
Prepayments for other equity instrument investments	**15,002**	—
Cash paid on behalf of related parties	**2,099**	—
Cash paid for disposal of subsidiaries	**213**	—
Purchase of available-for-sale financial assets	**—**	60,200
	145,751	78,805

(e) Cash received relating to other financial assets

	For the year ended 31 December 2018	For the year ended 31 December 2017
Prepayment for A Shares listing expenses	**—**	6,495

(f) Cash paid relating to other financing activities

	For the year ended 31 December 2018	For the year ended 31 December 2017
Prepayment of dividend deposits and transaction fees	**—**	2,310

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) Supplementary information of cash flow statement

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

	For the year ended 31 December 2018	For the year ended 31 December 2017
Net (loss)/profit	**(199,182)**	537,440
Add: amortisation of long-term prepaid expenses	**516,188**	419,680
asset impairment losses	**274,496**	235,957
Credit impairment loss	**1,167**	—
depreciation of fixed assets	**57,477**	34,649
financial expenses	**39,502**	9,105
amortisation of intangible assets	**17,738**	24,075
amortization of share-based payment	**1,245**	5,788
losses on disposal of fixed assets	**801**	632
Less: increase in inventories	**(446,671)**	(817,073)
investment income	**(9,026)**	(60,684)
fair value change gain	**(9,475)**	—
increase in deferred tax assets	**(7,442)**	(52,726)
increase in deferred tax liabilities	**4,663**	9,674
decrease in deferred income	**(21,222)**	(12,563)
increase in operating receivables	**(303,156)**	(33,709)
increase in operating payables	**240,517**	256,916
Net cash flows from operating activities	**157,620**	557,161

(b) Net change in cash and cash equivalents

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash and cash equivalents at end of year	**449,863**	815,580
Less: cash and cash equivalents at beginning of year	**(815,580)**	(581,389)
Net (decrease)/increase in cash and cash equivalents	**(365,717)**	234,191

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Acquisition or disposal of subsidiaries

(i) Acquisition of subsidiaries

	For the year ended 31 December 2018
Cash paid to third party for acquisition in the current year	
Including: Pincheng	**—**
Less: cash held on acquisition date	
Including: Pincheng	**309**
Net cash inflow on acquisition	**309**

(ii) Disposal of subsidiaries

	For the year ended 31 December 2018
Consideration received from disposal of subsidiaries	
Including: Jiuwo	**—**
Less: cash held by subsidiaries on disposal date	
Including: Jiuwo	**(213)**
Cash paid on disposal of subsidiaries	**(213)**
Proceeds on disposal of subsidiaries in 2018	**—**
Jiuwo	**(213)**

(d) Cash and cash equivalents

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash and cash equivalents	**449,863**	815,580
Including: Cash on hand	**24,642**	11,438
Cash at bank that can be readily drawn on demand	**425,221**	804,142
Cash and cash equivalents at end of year	**449,863**	815,580

(All amounts in RMB'000 unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(51) Foreign currency items

	31 December 2018		
	Foreign currency balance	**Exchange rate**	**RMB balance**
Cash at bank and on hand —			
EUR	**5,265**	**7.8473**	**41,315**
HKD	**27**	**0.8762**	**24**
USD	**7**	**6.8632**	**48**
	5,299		**41,387**

	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 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 year	Net loss of the acquiree from the date of acquisition to the end of the year	Cash flows used in operating activities of the acquiree from the date of acquisition to the end of the year	Net cash out flow of the acquiree from the date of acquisition to the end of the year
Pincheng (i)	30 April 2018	50,000	63.38%	Capital increment	30 April 2018	Contract terms	24,311	(7,771)	(9,247)	6,585

(i) As at 31 December 2017, the investment of Pincheng was RMB15,000,000, representing 30% interest of Pincheng, where the Company had significant influence of Pincheng. In 2018, the Company increased the capital of Pincheng by RMB31,000,000, and meanwhile the Company purchased 6.25% interest of Pincheng from its original shareholder, Donghesheng Enterprise Management Consulting LLP. As a result, the Company holds 63.38% equity interests of Pincheng. As at 31 December 2018, the Company contributed RMB35,000,000 to Pincheng, the remaining consideration of increasing capital of RMB 11,000,000 and payable of consideration due to Donghesheng Enterprise Management Consulting LLP are still in progress of payment.

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

	Pincheng
Combination cost	
Fair value before combination	15,629
Loss of remeasurement of equity of Pincheng (Note 4(42))	(2,716)
Outstanding consideration payable	4,000
Total cost of combination	16,913
Less: the fair value of the identifiable net assets acquired	(8,921)
Goodwill	7,992

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 values 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	2,271	2,271
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	(69)	(69)
Deferred tax liabilities	(3,171)	—
Net assets	31,992	22,478
Less: minority interests (*)	(23,071)	(19,587)
Net assets acquired	8,921	2,891

* Minority interest includes outstanding consideration of increasing capital of RMB31,000,000.

5 CHANGE OF SCOPE OF CONSOLIDATION (CONTINUED)

(2) Disposal of Subsidiaries

(a) The relevant information for the disposal of subsidiaries for the year ended 31 December 2018 is analysed as follows:

Subsidiary	Consideration received	% of equity interests disposed	Method of disposal	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 OCI 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 loss is calculated as below:

	Amount
Consideration received form disposal	6,500
Less: the share of Jiuwo's net assets at the consolidated financial statements level	(16,589)
OCI which is accounted into the current profits and losses	—
Investment loss 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	Kind of legal entity	Place of operation	Place of incorporate	Principal activities	Issued share and share capital	Share proportion		Acquisition method
						Direct	Indirect	
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 subsidiarie
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei')	Limited liability company	Chongqing	Chongqing	Design and sales of apparel products	500	100%	—	Wholly owned subsidiary
Beijing La Chapelle Lewei Fashion Co.,Ltd. ("Beijing LaCha")	Limited liability company	Beijing	Beijing	Design and sales of apparel products	500	100%	—	Wholly owned subsidiary
Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	500	100%	—	Wholly owned subsidiary
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	50,000	100%	—	Wholly owned subsidiary
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	—	Wholly owned subsidiary
Shanghai Xiawei Fashion Co., Ltd ("Shanghai Xiawei")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	5,000	100%	—	Wholly owned subsidiary
La Chapelle Fashion (Taicang) Co., Ltd ("Taicang LaCha")	Limited liability company	Taicang	Taicang	Sales of apparel products	100,000	95%	5%	Wholly owned subsidiary
La Chapelle (Tianjin) Co., Ltd. ("Tianjin LaCha")	Limited liability company	Tianjin	Tianjin	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei")	Limited liability company	Chengdu	Chengdu	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Hangzhou Anshe	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	59,465	54%	—	Holding subsidiaries
Zhejiang Qigege Fashion Co., Ltd. ("Qigege")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	10,000	—	54%	Holding sub-subsidiaries
Hangzhou Fushe Fashion Co., Ltd. ("Hangzhou Fushe")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	1,000	—	54%	Holding sub-subsidiaries
Xinyugexia E-Commerce Co., Ltd. ("Xinyugexia")	Limited liability company	Hangzhou	Xinyu	Sales of apparel products	2,000	—	54%	Holding sub-subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) The structure of the Group (continued)

Name	Kind of legal entity	Place of operation	Place of incorporate	Principal activities	Issued share and share capital	Share proportion		Acquisition method
						Direct	Indirect	
Hangzhou Chenge Technology Co., Ltd. ("Hangzhou Chenge")	Limited liability company	Hangzhou	Hangzhou	Sales of apparel products	2,000	—	54%	Holding sub-subsidiaries
Jack Walk	Limited liability company	Shanghai	Shanghai	Sales of apparel products	16,194	69%	—	Holding subsidiaries
Shanghai Chongan Fashion Co., Ltd. ("Shanghai Chongan")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	15,000	85%	—	Holding subsidiaries
Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	20,000	100%	—	Wholly owned subsidiary
Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei")	Limited liability company	Pucheng	Pucheng	Sales of apparel products	10,000	100%	—	Wholly owned subsidiary
Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management")	Limited liability company	Shanghai	Shanghai	Investment	800,000	100%	—	Wholly owned subsidiary
LaCha Fashion	Not applicable	Hong Kong	Hong Kong	Investment	25,685	100%	—	Wholly owned sub-subsidiary
Shanghai Nuoxing Fashion Co., Ltd. ("Shanghai Nuoxing")	Limited liability company	Shanghai	Shanghai	Sales of apparel products	10,000	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
Yige	Limited liability company	Hangzhou	Hangzhou	IT technology, consulting	—	—	54%	Holding sub-subsidiaries

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(a) The structure of the Group (continued)

Name	Kind of legal entity	Place of operation	Place of incorporate	Principal activities	Issued share and share capital	Share proportion Direct	Share proportion Indirect	Acquisition method
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	20,000	—	80%	Holding sub-subsidiaries
Apparel	Not applicable	BVI	BVI	Investment	—	100%	—	Wholly owned sub-subsidiary
Pincheng	Limited liability company	Shanghai	Shanghai	Design and sales of apparel products	25,656	63%	—	Holding subsidiaries
Yanen	Limited liability company	Hangzhou	Hangzhou	Supply chain Management, Storage and logistics	500	—	54%	Holding sub-subsidiaries
Pinxi	Limited liability company	Shanghai	Shanghai	Sales of apparel products, IT technology	—	—	100%	Holding sub-subsidiaries

(b) Subsidiaries with significant minority interests

Name of subsidiaries	Shareholding proportion of minority interests	Net profit attributable to minority interests for the year ended 31 December 2018	Dividends distributed to minority interests for the year ended 31 December 2018	Minority interests on 31 December 2018
Hangzhou Anshe Group	45.95%	31,736	(62,033)	150,648

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

(All amounts in RMB'000 unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (CONTINUED)

(1) Equity in subsidiaries (continued)

(b) Subsidiaries with significant minority interests (continued)

	31 December 2018					
	Current assets	**Non-current assets**	**Total assets**	**Current liabilities**	**Non-current liabilities**	**Total liabilities**
Hangzhou Anshe Group	**367,135**	**34,057**	**401,192**	**71,447**	**1,894**	**73,341**

	For the year ended 31 December 2018			
	Revenue	**Net profit**	**Total comprehensive income**	**Net cash flows from operating activities**
Hangzhou Anshe Group	**515,172**	**69,066**	**69,066**	**48,118**

	31 December 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Anshe Group	436,831	45,319	482,150	84,530	3,835	88,365

	For the year ended 31 December 2017			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Anshe Group	523,429	149,203	149,203	182,355

(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 year ended 31 December 2018
Carrying amount	**161,343**
The following items are calculated based on the share percentage in the joint venture	
Net profit (i)(Note 4(9)(a))	**(7,029)**
Total comprehensive income	**(7,029)**

Associates:	For the year ended 31 December 2018
Carrying amount	**479,591**
The following items are calculated based on the share percentage in the associates	
Net profit (i)(Note 4(9)(b))	**33,860**
Total comprehensive income	**33,860**

(i) The net profit and OCI 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 year ended 31 December 2018 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

	31 December 2018		31 December 2017	
	Share holding (%)	**Voting rights (%)**	Share holding (%)	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 shareholding 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
Naf Naf SAS	100% owned subsidiary of associate of the Group
Hangzhou Jianing E-Commerce Co., Ltd.	Associate of the Group
Pincheng	Associate of the Group from June 2017 to April 2018
Hongche	Associate of the Group
Cao Qing	The minority shareholder holding more than 10% equity interests of the significant subsidiary

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions

(a) Remuneration of key management

	For the year ended 31 December 2018	For the year ended 31 December 2017
Remuneration of key management	**13,487**	21,644

Key management are also the Group's employees. The remuneration of key management for the year ended 31 December 2018 disclosed also include the employment salaries paid before or after the appointment as key management.

(b) Provision of funds to

	For the year ended 31 December 2018	For the year ended 31 December 2017
Naf Naf SAS	**39,507**	—
Hongche Industry (Shanghai) Co., Ltd.	**32,500**	—
Cao Qing	**—**	28,000
	72,007	28,000

In 2018, the Group provided loan amounted to RMB39,507,000 to 100% owned subsidiary of its associate, Naf Naf SAS with interest rate of 6% and maturity date of 20 August 2019.

In 2018, the Group provided loan amounted to RMB32,500,000 to its associate, Hongche Industry (Shanghai) Co., Ltd. ("Hongche") with interest rate of 6% and maturity date of 27 December 2019.

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions (continued)

(c) Repayment of funds from

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cao Qing	**—**	28,000

(d) Rendering of services

	For the year ended 31 December 2018	For the year ended 31 December 2017
Hangzhou Kaihui E-Commerce Co., Ltd.	**13,430**	10,685
Naf Naf SAS	**651**	—
Hangzhou Mixin E-Commerce Co., Ltd.	**301**	1,104
Hangzhou Jianing E-Commerce Co., Ltd.	**—**	436
	14,382	12,225

(e) Interest income

	For the year ended 31 December 2018	For the year ended 31 December 2017
Hongche Industry (Shanghai) Co., Ltd.	**1,086**	—
Naf Naf SAS	**702**	—
Cao Qing	**—**	440
	1,788	440

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Related party transactions (continued)

(f) Purchase of goods

	For the year ended 31 December 2018	For the year ended 31 December 2017
Pincheng	**—**	3,249

(g) Acceptance of service

	For the year ended 31 December 2018	For the year ended 31 December 2017
Naf Naf SAS	**3,797**	—
Pincheng	**—**	2,483
Hongche Industry (Shanghai) Co., Ltd.	**—**	1,527
	3,797	4,010

(h) Issuance of letters of credit

As at 31 December 2018, the Group issued letters of credit amounted to RMB8,564,000 to guarantee Naf Naf's purchase of inventories in China. Since the inventory is not received, the letters of credit have not turned out to be notes.

(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

	31 December 2018		31 December 2017	
	Ending balance	**Provision**	Ending balance	Provision
Hangzhou Kaihui E-Commerce Co., Ltd.	**3,498**	**—**	1,707	—
Naf Naf SAS	**552**	**—**	—	—
Hangzhou Mixin E-Commerce Co., Ltd.	**—**	**—**	88	—
	4,050	**—**	1,795	—

(b) Notes payable and accounts payable

	31 December 2018	31 December 2017
Hongche Industry (Shanghai) Co., Ltd.	**—**	104

(c) Other payables

	31 December 2018	31 December 2017
Hangzhou Kaihui E-Commerce Co., Ltd	**2,844**	2,134
Pincheng	**—**	527
	2,844	2,661

(d) Other receivables — paid on behalf of related parties

	31 December 2018	31 December 2017
Naf Naf SAS	**22,084**	—
Hangzhou Kaihui E-Commerce Co., Ltd.	**1,292**	—
	23,376	—

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Receivables from and payables to related parties (continued)

(e) Other receivables — interest receivables

	31 December 2018	31 December 2017
Hongche Industry (Shanghai) Co., Ltd.	**1,086**	—
Naf Naf SAS	**702**	—
	1,788	—

(f) Other current assets — due from related parties

	31 December 2018	31 December 2017
Naf Naf SAS	**39,507**	—
Hongche Industry (Shanghai) Co., Ltd.	**32,500**	—
	72,007	—

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors

(a) Directors and chief executive's emoluments

	Fees	Salaries and benefits	Employer's contribution to retirement plan	Discretionary bonuses	Allowance and other benefits	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Share-based compensation	Total
Year ended 31 December 2018								
Executive Directors								
Xing Jiaxing (邢加興)	–	1,365	50	110	–	–	87	1,612
Yu Qiang (于強)(i)	–	1,845	50	268	–	–	–	2,163
Hu Lijie (胡利杰)(ii)	–	1,373	26	–	–	–	–	1,399
Non-executive Director								
Lu Weiming (陸衛明)	–	–	–	–	–	–	–	–
Luo Bin (羅斌)	–	–	–	–	–	–	–	–
Mao Jianong (毛嘉農)(iii)	–	–	–	–	–	–	–	–
Independent Directors								
Chen Jieping (陳傑平)	–	200	–	–	–	–	–	200
Chen Yongyuan (陳永源)	–	200	–	–	–	–	–	200
Zhang Zeping (張澤平)	–	200	–	–	–	–	–	200
	–	5,183	126	378	–	–	87	5,774

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors (continued)

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

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

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors (continued)

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

(i) Mr. Yu Qiang (于强) was appointed as an executive director since February 2018.

(ii) Ms. H u Lijie (胡利杰) was appointed as an executive director since October 2018

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

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

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

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

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

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

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

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

(b) Directors' retirement benefits

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

(All amounts in RMB'000 unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Benefits and interests of directors (continued)

(c) Directors' termination benefits

There are no directors' termination benefits for the directors.

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

During the year ended 31 December 2018, no consideration was paid to third parties for making available services of directors of the Company (2017:nil).

(e) For the year ended 31 December 2018, there are no loans and quasi-loans in favour of directors, controlled body corporate of directors and connected entities of directors, and no guarantee or security provided to directors, controlled body corporate of directors and connected entities of directors (2017: nil).

(7) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include 3 directors (2017: nil), whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to these 2 individuals (2017: 5 individuals) for the year are as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Salary, bonus and allowance	**2,642**	6,356
Social pension	**59**	229
Housing funds, medical insurance and other social insurance	**85**	211
Share-based payment	**—**	3,425
	2,786	10,221

Emoluments bands:

	2018	2017
HK$1,000,000 to HK$1,500,000 (equivalent to approximately RMB858,000 to RMB1,287,000)	**1**	—
HK$1,500,000 to HK$2,000,000 (equivalent to approximately RMB1,287,000 to RMB1,716,000)	**1**	—
HK$2,000,000 to HK$2,500,000 (equivalent to approximately RMB1,716,000 to RMB2,144,000)	**—**	3
HK$2,500,000 to HK$3,000,000 (equivalent to approximately RMB2,144,000 to RMB2,573,000)	**—**	2
	2	5

(All amounts in RMB'000 unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

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

	31 December 2018	31 December 2017
Fixed assets	**411,613**	285,607
Other non-current financial assets	**100,000**	—
Long-term equity investments	**—**	4,781
Long-term prepaid expenses	**3,436**	16,620
	515,049	307,008

(2) Operating lease commitments

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

	31 December 2018	31 December 2017
Within 1 year	**575,823**	921,027
1 to 2 years	**493,499**	782,471
2 to 3 years	**287,986**	655,294
3 to 4 years	**225,594**	492,321
4 to 5 years	**162,851**	381,691
Over 5 years	**89,644**	461,444
	1,835,397	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

'Accounting Standards for Business Enterprises No.21 – Leasing' (the 'New Leasing Standards') was issued in December 2018. Since the classification between operating lease and financial lease was deleted in the New Leasing Standards, the adoption of the New Leasing Standards will result in that almost all leases will be recogised in balance sheets. The Group is evaluating the impact on the Group due to the adoption of the standards

Pursuant to a resolution of the Board of Directors on 15 January 2019, In order to broaden the financing channels, meet the Company's business needs and foster sound development of the Company, the Company proposed to register with National Association of Financial Market Institutional Investors and issue medium-term notes or ultra short-term debentures in an amount of no more than RMB400 million

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.

12 FINANCIAL RISK (CONTINUED)

(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 year ended 31 December 2018 and 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 31 December 2018 and 2017 as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
HKD		
Financial assets denominated in foreign currency –		
Cash at bank and on hand	**4**	4
USD		
Financial assets denominated in foreign currency –		
Cash at bank and on hand	**36**	—
Total	**40**	4

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

As at 31 December 2018, there is no financial assets dominated 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 31 December 2018 and 2017 as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
EUR		
Financial assets denominated in foreign currency –		
Cash at bank and on hand	**41,315**	—
USD		
Financial assets denominated in foreign currency –		
Cash at bank and on hand	**13**	—
Total	**41,328**	—

As at 31 December 2018, if HKD had strengthened or weakened by 10% against EUR with all other variables held constant, the Group's net profit would have been approximately RMB3,099,000 (31 December 2017: nil) lower or higher respectively, for financial assets denominated in EUR.

As at 31 December 2018, if HKD had strengthened or weakened by 10% against USD with all other variables held constant, the Group's net profit would have been approximately RMB1,000 (31 December 2017: nil) lower or higher respectively, for financial assets denominated in EUR.

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(1) Market risk (continued)

(b) Interest rate risk

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

The Group's interest-bearing debt mainly contains bank borrowing (Note 4(19)) with a fixed and a floating interest rate which is denominated in Renminbi. The specific amounts are as below:

	31 December 2018	31 December 2017
Bank borrowing		
– Fixed rate	**1,922,499**	1,006,000
– Floating rate	**337,473**	—
	2,259,972	1,006,000

The Group's finance department at its head office continuously monitors the interest rate position of the Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2018 and 2017, the Group did not enter into any interest rate swap agreements.

As at 31 December 2018, if HKD interest rate calculated based on floating interest had increased or decreased by 50 basis points with all other variables held constant, the Group's net profit would have been approximately RMB97,000(31 December 2017: nil) lower or higher respectively.

(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 31 December 2018, if the expected price of the Group's various equity instrument investment increase or decrease by 10% with other factors unchanged, the Group's net profit for the year would have been increased or decreased by approximately RMB4,026,000 (as at 31 December 2017: approximately RMB2,115,000), and the other compressive income would have been increased or decreased by approximately RMB2,146,000 (as at 31 December 2017: approximately RMB2,951,000).

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(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.

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

	31 December 2018				
	Within 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities –					
Short-term borrowings	**1,958,994**	—	—	—	**1,958,994**
Notes payable and Accounts payable	**1,833,543**	—	—	—	**1,833,543**
Other payables	**558,153**	—	—	—	**558,153**
Long-term borrowings	**36,170**	**52,133**	**322,545**	—	**410,848**
	4,386,860	**52,133**	**322,545**	—	**4,761,538**

(All amounts in RMB'000 unless otherwise stated)

12 FINANCIAL RISK (CONTINUED)

(3) Liquidity risk (continued)

	31 December 2017				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities –					
Short-term borrowings	1,029,659	—	—	—	1,029,659
Notes payable and Accounts payable	1,522,588	—	—	—	1,522,588
Other payables	702,121	—	—	—	702,121
	3,254,368	—	—	—	3,254,368

Bank borrowings are analysed by the contractual maturity date as follows:

	31 December 2018 Bank borrowing	31 December 2017 Bank borrowing
Within 1 year	**1,929,061**	1,006,000
1 to 2 years	**34,833**	—
2 to 5 years	**296,078**	—
	2,259,972	1,006,000

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 31 December 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	—	—	53,675	53,675
Wealth management products	—	—	—	—
Other equity instruments investment – (Note4(8))				
Other equity instruments	—	—	28,605	28,605
Total financial assets	—	—	82,280	82,280
Total assets	—	—	82,280	82,280

As at 31 December 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	—	—	67,544	67,544
Other current assets –				
Wealth management products	—	—	17,000	17,000
Total financial assets	—	—	84,544	84,544
Total assets	—	—	84,544	84,544

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)

							Total gain or loss in the current period				
	31 December 2017	Changes of accounting policies	1 January 2018	Acquisitions	Disposals	Transfers to Level 3	Transfers out of Level 3	Recorded in profit or loss	Recorded in OCI	31 December 2018	Changes or unrealised gains recorded in gain or loss in the current period – fair value change gains
Financial assets											
Financial assets held for trading – Financial assets at fair value through profit or loss (Note 4(2))	–	45,200	45,200	16,000	(17,714)	–	–	10,189	–	53,675	9,475
Available-for-sale financial assets – Available-for-sale equity instruments	67,544	(67,544)	–	–	–	–	–	–	–	–	–
Other non-current financial assets – Wealth management products	17,000	(17,000)	–	–	–	–	–	–	–	–	–
Other equity instrument investments— Other equity instruments (Note 4(8))	–	39,344	39,344	13,605	–	–	–	–	(24,344)	28,605	–
Total financial assets	84,544	–	84,544	29,605	(17,714)	–	–	10,189	(24,344)	82,280	9,475
Total assets	84,544	–	84,544	29,605	(17,714)	–	–	10,189	(24,344)	82,280	9,475

The changes in Level 3 financial assets are analysed below (continued):

1 January 2017	190,649
Investment	60,200
Differences of foreign currency conversion	(1,706)
Gains that are included in other comprehensive income (Note 4(30))	27,659
Transferred to long-term equity investment	(192,258)
31 December 2017	84,544

(a) Gain or loss in the current period is recognised in fair value change gains in income statements.

(All amounts in RMB'000 unless otherwise stated)

13 FAIR VALUE ESTIMATES (CONTINUED)

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

Financial assets and liabilities at amortised cost mainly comprise notes receivable and accounts receivable, other receivable, borrowings from related parties and entrusted loans in other current assets, short-term borrowings and notes payables and accounts payables, other payables and long-term borrowings (including the current portion of long-term borrowings). 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 31 December 2018 and 2017, the Group's asset-liability ratio is as follows:

	31 December 2018	31 December 2017
Total liabilities	**2,259,972**	1,006,000
Total equity	**3,561,957**	4,069,228
Asset-liability ratio	**63%**	25%

(All amounts in RMB'000 unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Notes receivable and accounts receivable

	31 December 2018	31 December 2017 (Restated)
Receivables due from subsidiaries	**671,261**	1,399,750
Receivables due from 3rd parties	**263,019**	292,623
Less: provision for bad debts	**(21,763)**	(17,283)
	912,517	1,675,090

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) Accounts receivable with aging since invoice date are analysed as follows:

	31 December 2018	31 December 2017
Current (90 days)	**912,697**	1,192,989
Overdue(over 90 days) to one year	**10,703**	486,543
One year to two years	**3,863**	2,647
Two years to three years	**2,587**	3,474
Above three years	**4,430**	6,720
	934,280	1,692,373

(ii) As at 31 December 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	**605,883**	**(6,059)**	**65%**

(iii) As at 31 December 2018, there are no accounts receivable derecognised due to transfer of financial assets.

(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 31 December 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 31 December 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.

(v) As at 31 December 2018, the Group reserves provision of bad debts based on lifetime credit losses. The amount is RMB12,549,000.

Group of receivables due from third parties

	31 December 2018		
	Carrying amount	Provision of bad debts	
	Amount	Lifetime expected credit loss rating	Amount
Within credit period (90 days)	**241,436**	**2%**	**(4,538)**
Overdue (over 90 days) to one year	**10,703**	**5%**	**(535)**
One year to two years	**231**	**20%**	**(46)**
Two years to three years	**1,435**	**50%**	**(717)**
	253,805		**(5,836)**

Group of receivables due from subsidiaries

	31 December 2018		
	Carrying amount	Provision of bad debts	
	Amount	Lifetime expected credit loss rating	Amount
Within credit period (90 days)	**671,261**	**1%**	**(6,713)**

(vi) The reversal of previously reserved allowance of bad debts is RMB9,518,000. There is no significant receipt or reversal, or write-off in the current year.

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables

	31 December 2018	31 December 2017 (Restated)
Other receivables from subsidiaries	**2,254,847**	1,431,903
Deposits	**60,407**	53,392
Staff advances	**524**	2,641
Interests receivable of bank deposits	**—**	79
Others	**1,396**	186
	2,317,174	1,488,201
Less: provision for bad debts	**(27,510)**	(4,738)
	2,289,664	1,483,463

(a) Movement of loss allowance and carrying value

	Stage 1					Stage 3		
	12-month expected credit losses (in group)		12-months 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(29)(c))	1,431,903	(14,319)	—	—	(14,319)	—	—	(14,319)
1 January 2018	**1,487,606**	**(18,541)**	**—**	**—**	**(18,541)**	**516**	**(516)**	**(19,057)**
Additions	**2,312,035**	**(8,453)**	**—**	**—**	**(8,453)**	**—**	**—**	**(8,453)**
Reversals	**(1,482,983)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfers to stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
As at 31 December 2018	**2,316,658**	**(26,994)**	**—**	**—**	**(26,994)**	**516**	**(516)**	**(27,510)**

(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 value (continued)

(i) As at 31 December 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 on the basis of group:				
Amounts due from subsidiaries	2,254,847	1%	(22,548)	Based on 12-month expected credit risk
Deposits	59,891	7%	(4,350)	
Staff advances and others	1,920	5%	(96)	
	2,316,658		(26,994)	

(ii) As at 31 December 2018, the Group has no other receivables in stage 2

(iii) As at 31 December 2018, provision of bad debts of accounts receivable in stage 3 are analysed as follows:

	Amount	Lifetime expected credit losses	Provision for bad debts	Reason
Provision on the bases of individual assets				
Deposits	**516**	**100%**	**(516)**	**(i)**

i) As at 31 December 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 year is RMB8,453,000. There is no significant receipt or reversal, or write-off of other receivables.

(All amounts in RMB'000 unless otherwise stated)

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

(2) Other receivables (continued)

(c) As at 31 December 2018, the top five balances of other receivables are summarized as below:

	Nature	Amount	Aging	% of total other receivables balance	Provision for bad debts
Taicang LaCha	Receivable from subsidiaries	697,592	within 1 year	30%	(6,976)
Shanghai Weile	Receivable from subsidiaries	620,447	within 1 year	27%	(6,204)
Jack Walk	Receivable from subsidiaries	278,496	within 1 year	12%	(2,785)
Shanghai Youshi	Receivable from subsidiaries	163,545	within 1 year	7%	(1,635)
Nuoxin	Receivable from subsidiaries	128,792	within 1 year	6%	(1,288)
		1,888,872		82%	(18,888)

(3) Inventories

(a) Classification of inventories is as follows:

	31 December 2018			31 December 2017		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**433**	**—**	**433**	424	—	424
Finished goods	**2,408,905**	**(259,219)**	**2,149,686**	2,202,579	(178,841)	2,023,738
Low value consumables	**15,397**	**—**	**15,397**	13,019	—	13,019
	2,424,735	**(259,219)**	**2,165,516**	2,216,022	(178,841)	2,037,181

(All amounts in RMB'000 unless otherwise stated)

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

(3) Inventories (continued)

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

	31 December 2017	Increase in the current year	Decrease in the current year		31 December 2018
		Accrual	Reversed	Resold	
Finished goods	(178,841)	(221,443)	—	141,065	**(259,219)**

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

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

	Basis for NRV	**Reason for resold**
Raw materials	Market price	Not applicable
Finished goods	Market price	Sold/Donated
Low value consumables	Market price	Sold/Donated

(4) Long-term equity investments

	31 December 2018	31 December 2017
Subsidiary (a)	**1,368,279**	838,650
Associates (b)	**10,588**	24,433
	1,378,867	863,083
Less: provision for impairment of long-term equity investments	**—**	—
	1,378,867	863,083

(All amounts in RMB'000 unless otherwise stated)

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

(4) Long-term equity investments (continued)

(a) Subsidiaries

	31 December 2017	Movement in the current year: Additional investment	Movement in the current year: Transferred from associates	Disinvestment	**31 December 2018**	本年宣告分派的現金股利
Enterprise Management	300,000	500,000	—	—	**800,000**	—
Hangzhou Anshe	208,000	—	—	—	**208,000**	72,968
Taicang LaCha	95,000	—	—	—	**95,000**	28,500
Jack Walk	75,000	—	—	—	**75,000**	—
Shanghai Weile	50,000	—	—	—	**50,000**	—
Pincheng	—	24,000	15,629	—	**39,629**	—
Shanghai Youshi	20,000	—	—	—	**20,000**	—
Shanghai Chongan	12,750	—	—	—	**12,750**	—
Shanghai Le'ou	10,400	—	—	—	**10,400**	—
Nuoxin	—	10,000	—	—	**10,000**	150,000
Tianjin LaCha	10,000	—	—	—	**10,000**	72,000
Chengdu Lewei	10,000	—	—	—	**10,000**	—
Fujian Lewei	10,000	—	—	—	**10,000**	32,000
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**	4,000
Beijing Lacha	500	—	—	—	**500**	2,000
Jiuwo (Note 5(2))	20,000	—	—	(20,000)	**—**	—
	838,650	534,000	15,629	(20,000)	**1,368,279**	361,468

(b) Associates

	31 December 2017	Movement in the current year: Additions	Transferred to subsidiaries	Share of net profit or loss using the equity method	Share of OCI	Changes in other equity	Cash dividends declared	Provision for impairment	Others	31 December 2018	Balance of provision for impairment at the end of year
Pincheng	15,775	—	(15,629)	(146)	—	—	—	—	—	—	—
Fuzhou Badi Fashion Co., Ltd.	8,658	—	—	(977)	—	—	—	—	—	7,681	—
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	—	3,000	—	(93)	—	—	—	—	—	2,907	—
	24,433	3,000	(15,629)	(1,216)	—	—	—	—	—	10,588	—

(All amounts in RMB'000 unless otherwise stated)

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

(5) Revenue and cost of sales

Revenue and cost of main operation

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Retail	**5,076,450**	**(3,179,766)**	4,651,907	(2,887,403)

Revenue is generated from sales of retail points and online 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 online platforms, 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 online platforms. Revenue in 2017 was net of concessionaire fees amounted to RMB422,423,000 charged by the department stores and certain online platforms.

(6) Investment income

	For the year ended 31 December 2018	For the year ended 31 December 2017
Investment income from long-term equity investments using cost method	**361,468**	583,277
Investment loss on disposal of subsidiaries	**(20,000)**	—
Investment loss in associates	**(1,216)**	(567)
	340,252	582,710

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 year ended 31 December 2018	For the year ended 31 December 2017
Government grants recognised in profits	**125,854**	129,346
Fair value change gains	**9,475**	—
Occupancy expenses to non-financial entities recognised in the current profit and loss	**2,222**	—
Reversal of bad debt provision for accounts receivable which provision is provided on the individual basis	**1,000**	5,063
Interest income of wealth management products	**714**	—
Investment income from available-for-sale financial assets transferred to long-term equity investments under equity method	**—**	42,258
Losses from disposal of non-current assets	**(801)**	(632)
Loss of remeasurement of equity of Pincheng	**(2,716)**	—
Investment loss of disposal of long-term equity investment	**(10,089)**	—
Other non-operating income and expenses other than aforesaid items	**(8,536)**	(7,265)
Subtotal of non-recurring profit before tax	**117,123**	168,770
Less: Impact of income tax expense	**(29,281)**	(42,313)
Less: Impact on the minority interests, net of tax	**(2,639)**	(7,753)
Subtotal of non-recurring profit attributable to shareholders of the Company, net of tax	**85,203**	118,704

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 (LOSSES)/EARNINGS PER SHARE

	Weighted average return on net assets (%)	
	For the year ended 31 December 2018	For the year ended 31 December 2017
Net (loss)/profit attributable to ordinary shareholders of the Company	**(4.31)**	13.59
Net (loss)/profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**(6.62)**	10.35

	Basic (losses)/earnings per share (RMB Yuan)	
	For the year ended 31 December 2018	For the year ended 31 December 2017
Net (loss)/profit attributable to ordinary shareholders of the Company	**(0.29)**	0.98
Net (loss)/profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**(0.45)**	0.75

	Diluted (losses)/earnings per share (RMB Yuan)	
	For the year ended 31 December 2018	For the year ended 31 December 2017
Net (loss)/profit attributable to ordinary shareholders of the Company	**(0.29)**	0.98
Net (loss)/profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**(0.45)**	0.75