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

Annual Report 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Cheng Zuming *(redesignated from executive Director on 1 February 2019)*
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Hu Shengli *(appointed on 25 May 2018)*

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Loo Hong Shing Vincent *FCCA, AHKSA*

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Risk Management Committee

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS

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

AUTHORIZED REPRESENTATIVES

Mr. Zheng Yaonan
Mr. Loo Hong Shing Vincent

REGISTERED OFFICE

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

HEAD OFFICE

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

PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRAR IN HONG KONG

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

LEGAL ADVISORS

People's Republic of China
Jingtian Gongcheng

Hong Kong
ReedSmith Richards Butler
Cleary Gottlieb Steen & Hamilton

Financial Highlights

		Year ended 31 December		
		2018	2017	Change
Revenue	*RMB'000*	**5,096,453**	4,542,483	12.2%
Operating profit	*RMB'000*	**483,978**	419,565	15.4%
Profit attributable to owners of the Company	*RMB'000*	**378,229**	317,002	19.3%
Gross profit margin	*%*	**41.7%**	43.2%	
Operating profit margin	*%*	**9.5%**	9.2%	
Margin of profit attributable to owners of the Company	*%*	**7.4%**	7.0%	
Earnings per share				
– Basic	*RMB cents*	**17.15**	15.45	
– Diluted	*RMB cents*	**17.10**	15.45	
Final dividend per share	*HK cents*	**3.75**	3.34	
	(RMB cents)	**(3.20)**	(2.70)	
Special final dividend per share	*HK cents*	**6.20**	–	
	(RMB cents)	**(5.30)**	–	

Statement from Chairman and Chief Executive Officer

Mr. Zheng Yaonan
Chairman and CEO

During the year under review, the global economy continued to strengthen in the first half of 2018. However, in the second half of 2018, the global economic growth has slowed down. The escalation of trade tensions between the US and China appeared to have hurt global business confidence. International trade and manufacturing activities have softened, and some large emerging markets have experienced substantial financial pressures.

In mainland China, domestic engines that used to drive economic expansion showed signs of weakening momentum. The growth in social consumption, the fixed-asset investment and the property market remained slow paced in the second half of 2018 with the annual GDP increasing by about 6.6%, the lowest pace in 28 years. The Central Government has rolled out many measures to stimulate the economy, which was still facing downward pressure, leading to a more cautious consumption sentiment.

Coupled with the highly fragmented market structure and the continuous structural adjustments in respect of sales channel diversification, product quality and mix of products, the intimate wear industry of China continues to face formidable internal and external challenges.

To address the above challenges and seize opportunities, the Group has formulated various transformation and reform measures during the year to keep predominance of the Group in the intimate wear mass market, and on the other hand, strive to upgrade the brand image, and target at mid-end and mid-to-high-end market for improving the Group's business performance. The major measures included, but not limited to, the following:

1. Optimization of brand image and distribution management
   (a) Working with first-class interior design companies, reputable international advertising companies and smart retail store technology companies to set up new stores in mid-end shopping malls, using "Cosmo Lady" brand, based on the guidance of Ms. Sharen Turney, our chief strategic officer ("shopping mall version 2.0 development plan");

   (b) Entering into mid-to-high-end shopping malls by using the young O+ brand derived from the original Ordifen brand;

   (c) Renovation of stores on streets by using the 6th generation image;

   (d) Cooperation with Tencent on smart retail store arrangement. For details, please refer to the announcement dated 17 August 2018; and

   (e) Continued to invest resources in the e-commerce channel.

2. Improving design and quality of products and reforming supply chain management
   (a) Appointment of Mr. Yuasa Masaru as chief technology officer of the Group to enhance our existing technology and improve the functionality and quality of products;

   (b) Engagement of French designers for improving product design;

   (c) Cooperation with US trend forecasting expert Mr. Vincent Daudin for improving product development;

   (d) Engagement of Rowland Berger Strategy Consultants (Shanghai) Limited ("Rowland Berger"), a global leading consultant firm, to give professional recommendations on management, systems and procedures of supply chain management; and

   (e) Entering into strategic investment agreements with eleven intimate wear product and material suppliers in order to integrate the capabilities of suppliers on the development of new products and materials, which can shorten their development and manufacturing cycle and improve the Group's quick response capability. For details, please refer to the announcement dated 17 August 2018.

3. Tightening expenses control and cutting costs.

Mr. Zheng Yaonan
Chairman and Chief Executive Officer
Hong Kong, 27 March 2019

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

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

The increase in the revenue of the Group for the year under review by approximately 12.2% was mainly due to the satisfactory performance of the sales to franchisees and e-commerce channel sales.

Revenue by sales channel

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

	Year ended 31 December			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Sales to franchisees	**2,800,790**	**55.0**	2,433,468	53.6
Retail sales	**1,494,518**	**29.3**	1,566,039	34.5
E-commerce	**712,450**	**14.0**	542,976	11.9
Trading of raw materials	**88,695**	**1.7**	–	–
Total revenue	**5,096,453**	**100.0**	4,542,483	100.0

The increase in sales to franchisees by approximately 15.1% was mainly attributable to the renovation of retail stores with upgraded image by franchisees as urged by the Group and the improvement in quality of products.

The retail sales declined by around 4.6% mainly because the Group adjusted sales and distribution channels proactively in 2017 by closing loss-making retail stores and hence the average number of self-managed stores in 2018 was lower than that of 2017.

E-commerce sales increased by about 31.2% mainly because the Group continued to invest resources in the development of e-commerce channels.

The Group held equity interests in some raw materials suppliers and understood the cost structure of this industry. From the second half of 2018 onwards, the Group enjoyed economies of scale by making bulk purchases of raw materials, and then sold partly to third parties.

Revenue by type of product

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

	Year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Bras	**2,504,239**	**49.1**	2,285,950	50.3
Underpants	**819,577**	**16.1**	818,429	18.0
Sleepwear and loungewear	**651,553**	**12.8**	532,756	11.7
Thermal clothes	**529,315**	**10.4**	457,639	10.1
Trading of raw materials	**88,695**	**1.7**	–	–
Others(Note)	**503,074**	**9.9**	447,709	9.9
Total revenue	**5,096,453**	**100.0**	4,542,483	100.0

Note: Includes leggings and tights, vests, hosiery and accessories.

During the year under review, the revenue for all types of product has increased. The growth in revenue for sleepwear and loungewear products by approximately 22.3% was mainly due to the step up of promotion activities and improvement of product design and variety.

Gross profit margin

During the year under review, the gross profit margin of the Group dropped to around 41.7% (2017: 43.2%). This was mainly due to the keen competition in the e-commerce channel and the Group's step up of promotion efforts to sell aged inventories.

Selling and marketing expenses

Selling and marketing expenses primarily consist of employee benefit expenses, operating expenses in respect of stores under cooperative arrangements, marketing and promotion expenses, e-commerce platforms commission expenses, depreciation and amortization and others.

The rise of selling and marketing expenses by about 10.0% for the year ended 31 December 2018 to approximately RMB1,471,006,000 (2017: RMB1,337,868,000) was mainly due to the larger input in this area as a result of the gradual recovery of the Group's business in 2018.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, consulting service expenses, travelling expenses, depreciation and amortization and others. The general and administrative expenses remained fairly stable during the year.

Other income

Other income consists of government grants, dividend income from financial assets at fair value through other comprehensive income, logistic warehousing and delivery income, software usage fee income, franchise fee income and others. During the year, other income increased by approximately 64.3% to approximately RMB90,937,000 (2017: RMB55,354,000), mainly due to the dividend income received from financial assets and the commencement of logistic warehousing and delivery business in the second half of 2017.

Management Discussion and Analysis

Finance income – net

Net finance income represents interest income on short-term bank deposits less financial expenses on bank borrowings.

The finance income of approximately RMB19,977,000 (2017: RMB18,763,000) increased mainly as a result of the increase in short-term bank deposits during the year.

The finance expense of approximately RMB10,056,000 (2017: RMB11,564,000) decreased in line with the decline in bank borrowings.

Income tax expense

Income tax expense primarily represents income tax payable by the Group under relevant income tax rules and regulations of the People's Republic of China (the "PRC"). The effective tax rate of the Group for the year ended 31 December 2018 was approximately 24.4% (2017: 25.5%) which remained fairly stable. As at 31 December 2018, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Year ended 31 December	
	2018	2017
Average inventory turnover days	**139.8 days**	160.2 days
Average trade receivables turnover days	**49.4 days**	40.4 days
Average trade payables turnover days	**79.5 days**	80.5 days

The inventory balance of approximately RMB1,164,933,000 (2017: RMB1,111,959,000) remained fairly stable as more new products designed by new designers were purchased before 2018 year end, which offset the efforts of clearing aged inventories during the year. The drop in the average inventory turnover days to 139.8 days (2017: 160.2 days) was due to the continual improvement in stock management by the Group.

The average trade receivables turnover days increased to about 49.4 days (2017: 40.4 days) as a result of granting one-off longer credit periods to selected larger franchisees for encouraging them to open larger size stores and shopping mall stores. Up to mid-March 2019, over 70% of the accounts receivable balance has been received.

ESTABLISHMENT OF FUND

During the year under review, a wholly-owned subsidiary of the Company, a wholly-owned subsidiary of JD.com, Inc., Beijing Jingdong Century Trading Co., Ltd. and Mr. Li Guocheng (as representative of the fund management team) entered into cooperation agreement main terms to establish a cooperation fund for investing in companies involved in the intimate wear, its upstream and downstream businesses and relevant industries. The Group has invested RMB135,000,000 in 2018, and will invest RMB100,000,000 in 2019 and RMB7,000,000 thereafter.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 31 December 2018, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB1,506,018,000 (2017: RMB1,515,140,000) and bank borrowings amounted to approximately RMB183,960,000 (2017: RMB223,080,000). As at 31 December 2018, the current ratio was about 3.2 times (2017: 3.9 times), which remained at a healthy level.

Management Discussion and Analysis

As at 31 December 2018, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total equity, was approximately 4.5% (2017: 6.6%). The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less term deposits, restricted bank deposits and cash and cash equivalents as a percentage of the total equity, was approximately negative 32.5% (2017: negative 38.5%) as the Group was at a net cash level.

FOREIGN CURRENCY RISK

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

APPOINTMENT OF PROFESSIONAL CONSULTANT

Further to the 5-year development plan exercise, management has again engaged Rowland Berger to assist the Group to undergo reforms on our supply chain departments and product merchandising.

Rowland Berger has issued a report making recommendations on the management, systems and procedures of our supply chains department and product merchandising, which will be implemented gradually by the Group to improve efficiency in these areas.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 31 December 2018, utilized approximately RMB624,473,000 (equivalent to approximately HK$729,477,000) to expand and maintain its retail network of self-managed stores, approximately RMB192,047,000 (equivalent to approximately HK$224,339,000) and approximately RMB120,308,000 (equivalent to approximately HK$140,538,000) to construct and operate the logistics centers in Tianjin and Dongguan respectively and approximately RMB32,774,000 (equivalent to approximately HK$38,285,000) to upgrade information technology infrastructure. As at 31 December 2018, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong and the PRC.

RAISING OF FUNDS AND USE OF PROCEEDS

Fosun Subscription

Reference is made to the announcement by the Company dated 5 May 2017 and 17 May 2017 regarding the issuance of new shares under general mandate (the "Fosun Subscription"). On 17 May 2017, the Company issued 240,000,000 shares at a price of HK$2.50 per share to a wholly-owned subsidiary of Fosun International Limited, raising gross proceeds of HK$600,000,000 and net proceeds of approximately HK$599,000,000.

It was set out at the time that the net proceeds from the Fosun Subscription were intended to be used by the Company for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capital.

As at 31 December 2018, as no suitable opportunities have been identified, the Company has utilised part of the net proceeds in the following manner: (a) as to approximately RMB54,171,000 and RMB61,554,000 (equivalent to approximately HK$61,763,000 and HK$75,564,000) for the payment of the 2018 interim dividend and 2017 final dividend respectively; (b) as to approximately RMB29,080,000 (equivalent to approximately HK$34,027,000) for financing on-market share repurchases by the Company; (c) as to approximately RMB13,518,000 (equivalent to approximately HK$15,971,000) for business development in Hong Kong and overseas business; and (d) as to approximately RMB12,288,000 (equivalent to approximately HK$14,517,000) for administrative costs incurred in Hong Kong. The Company considers that the intended and actual uses of proceeds from the Fosun Subscription are in line with each other, given that the actual uses of proceeds are all in the nature of working capital expenditure.

The net proceeds not yet utilized from the Fosun Subscription has been deposited with certain licensed banks in Hong Kong. The Company will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

Management Discussion and Analysis

Windcreek Subscription

Reference is made to the announcement by the Company dated 26 April 2018 and 25 May 2018 regarding the issuance of new shares under general mandate (the "Windcreek Subscription"). On 25 May 2018, the Company issued an aggregate of 121,443,213 shares at a price of HK$4.20 per share to Windcreek Limited (an indirect wholly-owned subsidiary of JD.com, Inc.), Image Frame Investment (HK) Limited (a wholly-owned subsidiary of Tencent Holdings Limited), Vipshop International Holdings Limited (a wholly-owned subsidiary of Vipshop Holdings Limited) and Quick Returns Global Limited, raising gross proceeds of approximately HK$510,061,495 and net proceeds of approximately HK$509,000,000.

It was set out at the time that the net proceeds from the Windcreek Subscription were intended to be used by the Company for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capital.

As at 31 December 2018, as no suitable opportunities have been identified, the net proceeds from the Windcreek Subscription of approximately HK$509,000,000 have been deposited with certain licensed banks in Hong Kong. The Company will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

Save as disclosed herein, the Company did not have any other fund raising activity during the year ended 31 December 2018.

CAPITAL EXPENDITURE

During the year, capital expenditure amounted to approximately RMB258,644,000 (2017: RMB128,420,000). The increase was mainly due to the investment made in joint ventures.

PLEDGE OF ASSETS

As at 31 December 2018, no property, plant and equipment, and land use rights were pledged as security for banking facilities available to the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

DISTRIBUTION NETWORK ACROSS CHINA

As the leader of the China's intimate wear industry, the Group has an extensive distribution network across China. During the year under review, the total number of stores of the Group has achieved a net increase as a result of the gradual recovery of the Group's business. As at 31 December 2018, the Group's distribution network comprised 7,305 stores (2017: 7,181), out of which 1,406 (2017: 1,290) were self-managed stores and 5,899 (2017: 5,891) were franchised stores. In addition, the Group has renovated 267 self-managed stores and 954 franchised stores during the year.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 4,540 full-time employees as at 31 December 2018 (2017: 7,252). The number of full-time employees has declined in light of the new cooperative arrangements as mentioned in Note 9 to the consolidated financial statements. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's operating result as well as individual performance.

ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieving environmental sustainability through its daily operations and is in compliance with regulations including the "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001 Environment Management Systems. The Environmental, Social and Governance Report of the Group has been included in the 2018 annual report.

Management Discussion and Analysis

AWARD AND RECOGNITION

The Group was the only enterprise in the intimate wear industry on the 2018 "China's Top 500 Brand Value" list assessed by Brand Observer Institute. This is a recognition of the Group's outstanding market position.

OUTLOOK AND STRATEGY

Looking ahead to 2019, in the face of the complicated and ever-changing business environment, the Group will continue to implement the plans mentioned above, including but not limited to, the following:

1. Optimization of brand image and distribution management
   (a) Executing the shopping mall version 2.0 development plan by entering into mid-end shopping malls, and launching the "fashionable stores" for entering into mid-to-low-end shopping malls;

   (b) Promoting the young O+ brand derived from the original Ordifen brand in mid-to-high-end shopping malls;

   (c) Renovation of stores on streets by using 7th generation image;

   (d) Transforming more stores to smart retail stores with the use of intelligence guide to improve efficiency, and refining membership management, placing advertisements and developing products precisely based on big data and portraits of members;

   (e) Using the Tencent mini App to link offline traffic in stores and online traffic on the Wechat membership platform, breaking down the boundaries between online and offline marketing, and realizing an omni-channel marketing. Our sales ladies can interact with members through online digital tools even the latter are not in stores, thereby bringing us secondary sales; and

   (f) Investing in e-commerce channel continuously.

2. Improving design and quality and reforming supply chain management
   (a) Improving the functionality, quality and design of products, and increasing input on research and development;

   (b) Implementation of various reforms recommended by Rowland Berger (e.g. less SKU but more different sizes); and

   (c) Rolling out 4F style products ("Flirt", "Free", "Function", and "Fun") in order to enhance product competitiveness and speed up product iteration.

3. Improving internal corporate structure to enhance management efficiency and increasing input on digitalized information system.

   The plans mentioned above prepare the Group for better future development. Although the Group will increase input on product designing, research and development, brand building, digitalized information system, supply chain reforming, human resources construction etc., management will maintain a proper balance between increase in expenditure and development of new plans so that operating expenses as a percentage of sales will not change significantly.

   The Group is still in the process of undergoing reforms. The plan mentioned above takes time to achieve good results. The board of the Directors of the Company will strive to enhance the sustainability of the Group and bring fruitful returns to shareholders in the future under the challenging environment.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zheng Yaonan, aged 43, is the chairman of the Board, an executive Director, the chief executive officer and the chairman of the nomination committee of the Company. He also holds positions as the executive directors and concurrently as the general manager of a number of the Company's subsidiaries. He is also one of the founders of the Group. With approximately 19 years of experience in the intimate wear manufacturing and sales industry, Mr. Zheng has been the key driver of the business strategies and achievements to date of the Group. He is primarily responsible for the strategic planning, business development, corporate management and overall performance of the Group. Mr. Zheng has been serving the Group since September 2009.

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

Mr. Zheng completed the China CEO Program and obtained an executive education program certificate from Cheung Kong Graduate School of Business, Beijing in 2013, and completed an EMBA course at the School of Management of Xiamen University, Xiamen, Fujian Province in 2017. In addition, he is also studying an EMBA course in Shanghai Advanced Institute of Finance ("SAIF") of Shanghai Jiao Tong University and a DBA course at Tsinghua University.

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

Mr. Zhang Shengfeng, aged 50, is a deputy chairman of the Board, an executive Director, a vice president and a member of the remuneration committee of the Company. He also holds positions as the executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Zhang is also one of the founders of the Group, and he is primarily responsible for the design, research and development and procurement of the Group. Mr. Zhang has been serving the Group since September 2009.

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

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

Mr. Lin Zonghong, aged 50, is a deputy chairman of the Board, an executive Director and a vice president of the Company. He also holds positions as the executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Lin is also one of the founders of the Group and he is primarily responsible for the production and logistics of the Group. Mr. Lin has been serving the Group since September 2009.

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

Biographies of Directors and Senior Management

Ms. Wu Xiaoli, aged 45, is an executive Director and a vice president of the Company. Ms. Wu is primarily responsible for the human resources and administration management of the Group. Ms. Wu has been serving the Group since September 2009.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Cheng Zuming, aged 42, is an executive Director and a vice president of the Company from 30 January 2014 to 31 January 2019. From 1 February 2019, he has been redesignated as a non-executive Director of the Company. He also holds positions as the executive director and concurrently as the general manager in a number of the Company's subsidiaries. Mr. Cheng is also one of the founders of the Group. He is primarily responsible for assisting the chief executive officer in the strategic planning and monitoring overall performance of the Group. Mr. Cheng has been serving the Group since September 2009.

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

Mr. Wen Baoma, aged 57, is the non-executive Director of the Company. Mr. Wen is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Wen has been serving the Group since October 2010. Mr. Wen has been a partner of Capital Today China Growth (HK) Limited since 2005. Mr. Wen had held a number of senior positions in various investment companies and an investment bank:

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

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

Mr. Yang Weiqiang, aged 51, is the non-executive Director of the Company since August 2017.

Mr. Yang has more than 19 years of practice experience in manufacturing industry. He is currently the chairman and president of Shenzhen Qianhai Fosun Ruizhe Asset Management, a non-executive director of Koradior Holdings Limited and a director of Grandland Decoration Group and Shenzhen Jinjia Group Co., Ltd.. Mr. Yang served as a senior vice president and an executive director of TCL Corporation. Mr. Yang moved to the investment industry and served as an executive president and a managing director of HEAVEN-SENT Capital Management Group Co., Ltd. from 2008 to 2013. Mr. Yang participated in the preparation of "Q & A of mergers and acquisition of listed companies" issued by the Shenzhen Stock Exchange and served as a core lecturer for mergers and acquisitions field as invited by the Shenzhen Stock Exchange.

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

Biographies of Directors and Senior Management

Mr. Hu Shengli, aged 46, is the non-executive Director of the Company since May 2018.

Mr. Hu is currently the Group's senior group vice president of JD.com, Inc. ("JD.com") and the president of the fashionable household platform business division of JD.com retail group. He is responsible for the fashionable businesses unit, household, luxury, cosmetic businesses, etc. of JD.com. Mr. Hu joined JD.com in January 2014, and became the president of 3C and Entertainment Business Unit in January 2016. Mr. Hu was awarded the "JD Special CEO Award" in 2017 for his outstanding performance. Mr. Hu has been a director of Beijing Ling Long Technology Company Limited since February 2016 and a director of AiHuiShou International Company Limited since June 2017.

Mr. Hu has over 13 years' experience in the communication industry. Prior to joining JD.com, he worked as vice president in Funtalk China Holdings Limited, a mobile communication terminal products and sales service provider from November 2011 to January 2014. From August 2000 to March 2011, Mr. Hu worked in several branches and affiliates of China United Network Communications Corporation Limited.

The Company was informed by Mr. Hu that in 2006, Mr. Hu was a legal representative and person-in-charge of a sub-branch office of the Changsha city-level branch of China United Network Communications Corporation Limited named Yuhuating Business Centre, which was subsequently dissolved after Mr. Hu left his employment. Since May 2017, Mr. Hu has been serving as director of Tuniu Corporation.

Mr. Hu completed a postgraduate programme in Business Administration in March 2008 at Hunan University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yau Chi Ming, aged 51, is an independent non-executive Director, the chairman of the audit committee and a member of the nomination committee and risk management committee of the Company. Mr. Yau is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

Mr. Yau has over 20 years of experience in finance and accounting. He has been the joint company secretary of Consun Pharmaceutical Group Limited since March 2013, an independent non-executive director of Common Splendor International Health Industry Group Limited from February 2013 to June 2017; served as an independent non-executive director of CircuTech International Holdings Limited from April 2015 to June 2016 and served as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Chinese Energy Holdings Limited from August 2016 to January 2018; served as an independent non-executive director, the chairman of the audit committee, member of nomination committee and remuneration committee of Hosa International Limited from 30 April 2018 to 31 July 2018. Prior to that, Mr. Yau worked at KPMG from August 1992 to November 1994 and from May 1995 to October 2012, and was promoted to a partner in July 2007.

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

Dr. Dai Yiyi, aged 51, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee and risk management committee of the Company. Dr. Dai is mainly responsible for supervising the activities and decisions of the remuneration committee, and giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Company	Duration of Tenure	Stock Exchange
China SCE Property Holdings Limited	from February 2010 to present	Stock Exchange
Fujian Septwolves Industry Co., Ltd.	from July 2016 to present	Shenzhen Stock Exchange
Xiamen C&D Inc.	from July 2016 to Present	Shanghai Stock Exchange

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

Company	Duration of Tenure	Stock Exchange
GuangDong Shirongzhaoye Co., Ltd.	from December 2008 to January 2013	Shenzhen Stock Exchange
Mingfa Group (International) Company Limited	from October 2009 to September 2018	Stock Exchange
New Hua Du Supercenter Co. Ltd.	from May 2013 to May 2017	Shenzhen Stock Exchange
Xiamen ITG Group Co., Ltd.	from April 2009 to May 2014	Shanghai Stock Exchange
Xiamen Dazhou Xingye Resources Holdings Limited	from March 2010 to October 2016	Shanghai Stock Exchange

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

Mr. Chen Zhigang, aged 46, is an independent non-executive Director, the chairman of the risk management committee of the company and a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Chen is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

Mr. Chen served as an independent non-executive director of SZ Reach Tech Co., Ltd. from November 2011 to June 2018, and served as an independent non-executive director of Guangdong Chaohua Technology Co., Ltd. from September 2010 to October 2011.

Dr. Lu Hong Te, aged 58, is an independent non-executive Director, a member of the audit committee, the remuneration committee, the nomination committee and the risk management committee of the Company.

Dr. Lu is an independent non-executive director of Capxon International Electronic Company Limited, China Lilang Limited and China SCE Property Holdings Limited and an independent director of Uni-President Enterprises Corp.. Dr. Lu is also an independent director of Firich Enterprises Co., Ltd and Lanner Electronics Inc., the shares of which are traded in Taipei Exchange. Dr. Lu is currently a professor at the department of business administration of Chung Yuan Christian University in Taiwan and serves as a visiting professor at institutions including SGP International Management Academy, Nanyang Technological University’s EMBA Center and Xiamen University’s EMBA Center. Dr. Lu was appointed as an independent non-executive director of ANTA Sports Products Limited from 26 February 2007 to 1 March 2019.

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

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Sha Shuang, aged 46, joined the Group in April 2012. He is a senior vice president, He is also the chief executive officer for e-commerce business and Ordifen brand business of the Group. He is mainly responsible for the development of the e-commerce business and Ordifen brand business of the Group.

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

Mr. Loo Hong Shing Vincent, aged 52, has been appointed as a vice president, the chief financial officer, company secretary and authorized representative of the Company since December 2016. Before joining the Group, Mr. Loo was an executive director, the chief financial officer, company secretary and authorized representative of Hengan International Group Company Limited, a company listed on the Stock Exchange. Mr. Loo has been appointed as an independent non-executive director of Huabang Financial Holdings Limited, a company listed on the Stock Exchange, since 26 June 2012.

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

Mr. Li Guocheng, aged 45, joined the Group in August 2017. He is a vice president, and the chief human resources officer of the Group. He is also the chief executive officer of Jinghedu (Dongguan) Equity Investment Management Company Limited and Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership), the joint ventures of the Group engaged in asset management and equity investment respectively.

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

Mr. Mao Yu-in, aged 54, joined the Group in July 2017. He is a vice president of the Group. He is mainly responsible for product merchandising, large enterprises' project management and structure building of the Group, formulation of terminal retail and operation standards, as well as coordinating and planning of the big data of the Group's commodities.

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

Mr. Yang Zhi, aged 41, joined the Group in June 2010. He is a vice president of the Group. He is mainly responsible for financial management of the Group.

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

Biographies of Directors and Senior Management

Ms. Sharen Jester Turney, aged 62, joined the Group in July 2018. She is the part-time chief strategic officer of the Group. She is mainly responsible for providing advice on strategic planning and implementation, enhancement of brand image, product design and recruitment of designers, overseas mergers and acquisitions and retail operations of the Group.

Ms. Turney held the position of president and chief executive officer of Victoria's Secret Direct in 2000 and was the president and chief executive officer of Victoria's Secret, the largest global intimate apparel retailer from 2006 to 2016. Before joining Victoria's Secret, she was the president, chief executive officer and executive vice president of Neiman Marcus Direct.

A graduate of The University of Oklahoma, Ms. Turney earned a Bachelor of Arts degree in Business Education with a minor in Public Relations. She was inducted into the state of Oklahoma Hall of Fame, the highest honor bestowed upon an Oklahoman, and an inductee into the Hall of Fame Business of Education at The University of Oklahoma.

Mr. Yuasa Masaru, aged 60, joined the Group in August 2018. He is the chief technology officer of the Group. He is mainly responsible for research, development and innovation of technology for developing new products and new raw materials.

Mr. Yuasa worked in Wacoal Holdings Corp., the largest intimate apparel retailer in Japan for over about 42 years, and was previously the head of its research and development department. He graduated from Japan Kyoto Municipal Fushimi Technical High School in 1976.

Ms. Liu Shili, aged 36, joined the Group in August 2018. She is a vice president of the Group. She is mainly responsible for the multi-brand strategic planning, expansion and system maintenance of the Group, and the operation and management of O+ brand.

Ms. Liu was an investment general manager of Wanda Commercial Management Group Co., Ltd.. She was a general manager of the Xinglong Family Business Group. Ms. Liu obtained a bachelor's degree from Bohai University in 2007.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has applied the practices set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and complied with the code provisions contained therein during the year 2018 and up to the date of this report, with the exception of Code Provision A.2.1.

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

THE BOARD

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

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

Executive Directors

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

Non-executive Directors

Mr. Cheng Zuming (redesignated from executive Director on 1 February 2019)
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Hu Shengli (appointed on 25 May 2018)

Independent Non-executive Directors

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

All Directors have signed service contracts or letters of appointment with the Company which set out the key terms and conditions of their appointments. Biographical details of the Directors and relevant relationships among them, together with their respective roles in the Board and its committees, are set out under the section headed "Biographies of the Directors and Senior Management" on pages 11 to 16.

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

The nomination committee of the Company (the "Nomination Committee") has been delegated the authority to review and assess the diversity of the Board, with the objective of maintaining a balance of skills, knowledge, experience and diversity of perspectives on the Board which are appropriate to the requirements of the Company's business. When identifying and selecting suitably qualified candidates for recommendation to the Board, the Nomination Committee will give consideration to the Board Diversity Policy whereby selection of candidates will be based on merit against objective criteria and with due regard to the benefits of diversity on the Board. The Nomination Committee reviews and monitors the implementation of the Board Diversity Policy as appropriate.

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed four independent non-executive Directors which represent at least one-third of the Board, and complied with the requirement that at least one of them has appropriate professional qualifications of accounting or related financial management expertise. The Company has received written confirmation for the year 2018 from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

The Directors have disclosed to the Company the offices held in other public companies or organizations and the time involved and the Company had received confirmations from each Director that he/she has devoted sufficient time to perform his/her responsibilities as a Director and has given sufficient attention to the affairs of the Company.

The Board meetings are held regularly and are also held on an ad hoc basis as required by business needs. All Directors are consulted as to whether to include any matters in the agenda. Notice of at least 14 days are given to all Directors before the date of regular Board meeting. Agenda and accompanying board papers are given to all Directors in a timely manner before the date of each regular Board meeting. During the year 2018, four regular meetings were held by the Board. Besides, the chairman of the Board had an annual meeting in 2018 with all non-executive Directors (including independent non-executive Directors) without the presence of other executive Directors.

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

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

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

Audit Committee

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

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

During the year ended 31 December 2018, the Audit Committee held three meetings. The Audit Committee reviewed the accounting policies and practices adopted by the Group and discussed on auditing and financial reporting matters, evaluated the overall effectiveness of the internal control system of the Group and the significant risks faced by the Group. It also reviewed the Company's financial statements, annual and interim reports, the management letter from the auditor of the Company, the continuing connected transactions entered into by the Group, terms of reference for the Audit Committee, the effectiveness and resource adequacy of internal audit function of the Company, corporate governance practices and the audit scope and fees for the year ended 31 December 2018.

The Audit Committee held a meeting in March 2019 to review the consolidated financial statements of the Group for 2018 and consider the re-appointment of the auditor. The Audit Committee recommended the Board to approve the Group's consolidated financial statements for 2018 and propose the re-appointment of the auditor at annual general meeting of the Company for 2019.

Nomination Committee

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

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

During the year ended 31 December 2018, the Nomination Committee held two meetings. The Nomination Committee reviewed the Board structure, size and composition, the Board diversity and terms of reference for the Nomination Committee, and recommended a nomination policy and the appointment of Mr. Hu Shengli as a non-executive Director to the Board for approval.

Remuneration Committee

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

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

Two Remuneration Committee meetings were held during 2018 for reviewing the terms of reference of Remuneration Committee, the remuneration policy and packages for all the Directors and senior management of the Company. Details of emoluments paid to the Directors and senior management of the Company for the year ended 31 December 2018 are set out in Note 11 to the consolidated financial statements.

Risk Management Committee

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

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

During the year ended 31 December 2018, the Risk Management Committee held two meetings. It reviewed the risk management framework, the significant risks faced by the Group and terms of reference for the Risk Management Committee.

Attendance Records at Meetings

The attendance of individual Directors at general meeting, regular meetings of the Board and meetings of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee held during the year ended 31 December 2018 is set out below:

Name of Directors	Number of meetings attended/held Annual General Meeting	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Executive Directors						
Mr. Zheng Yaonan	1/1	4/4	N/A	2/2	N/A	N/A
Mr. Zhang Shengfeng	0/1	4/4	N/A	N/A	2/2	N/A
Mr. Lin Zonghong	1/1	4/4	N/A	N/A	N/A	N/A
Ms. Wu Xiaoli	1/1	4/4	N/A	N/A	N/A	N/A
Non-executive Directors						
Mr. Cheng Zuming*	1/1	4/4	N/A	N/A	N/A	N/A
Mr. Wen Baoma	1/1	4/4	N/A	N/A	N/A	N/A
Mr. Yang Weiqiang	1/1	3/4	N/A	N/A	N/A	N/A
Mr. Hu Shengli*	N/A	2/3	N/A	N/A	N/A	N/A
Independent Non-executive Directors						
Mr. Yau Chi Ming	1/1	4/4	3/3	2/2	N/A	2/2
Dr. Dai Yiyi	1/1	4/4	3/3	N/A	2/2	2/2
Mr. Chen Zhigang	0/1	4/4	3/3	2/2	2/2	2/2
Dr. Lu Hong Te	1/1	3/4	2/3	2/2	2/2	2/2

* Mr. Cheng Zuming was redesignated from executive Director on 1 February 2019; Mr. Hu Shengli was appointed on 25 May 2018.

Appointment and Re-election of Directors

In accordance with article 112 of the Memorandum and Articles of Association of the Company, Mr. Hu Shengli was appointed as non-executive Director on 25 May 2018. He will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

In accordance with article 108 of the Memorandum and Articles of Association of the Company and code provision A.4.2 in Appendix 14 of the Listing Rules, Ms. Wu Xiaoli, Mr. Cheng Zuming, Dr. Dai Yiyi and Mr. Chen Zhigang will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Nomination Policy

The Nomination Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Group and the shareholders of the Company.

The Nomination Committee shall consider, among other things, the following key factors in assessing the suitability of a proposed candidate:

(a) diversity that the candidate can bring to the Board in all its aspects, including but not limited to gender, age, cultural and educational background, skills, knowledge, professional experience, expertise, length of service and other personal qualities of the candidate;

(b) the candidate's commitment in respect of available time and relevant interest, in particular, whether the candidate would be able to devote sufficient time to effectively carry out his/her duties;

(c) reputation for integrity;

(d) independence of candidate; and

(e) accomplishment and experience in the relevant industries involved in the Company's business.

The Nomination Committee has discretion to nominate any person, as it considers appropriate. Proposed candidates will be asked to submit the relevant and necessary documents and information (including personal information) for the Nomination Committee's consideration and assessment, together with their written consent to be appointed as Directors and to the public disclosure of their personal data on any documents or relevant websites in connection with their nomination. The Nomination Committee will evaluate and recommend retiring Directors to the Board for re-appointment by giving due consideration to the criteria including but not limited to (i) the overall contribution and service of the retiring Directors to the Company; and (ii) whether the retiring Directors continue to satisfy the above key factors.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

Directors have participated in continuous professional development by attending seminars and/or conferences and/or forums and/or in-house trainings, giving talks at seminars and/or conference and/or forums and reading materials on the relevant topics to develop and refresh their knowledge and skills.

A summary of the continuous professional development in which Directors participated during the year ended 31 December 2018 is as follows:

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

Notes:

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

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

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

* Mr. Cheng Zuming was redesignated from executive Director on 1 February 2019; Mr. Hu Shengli was appointed on 25 May 2018.

Corporate Governance Report

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2018.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2018 as disclosed in this report. The Directors have selected suitable accounting policies and applied them consistently, have made judgements and estimates that were prudent and reasonable and have prepared the consolidated financial statements on a going concern basis.

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

Risk Management and Internal Control

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

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

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

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

The Group has established a system for handling and dissemination of inside information to ensure that inside information remains confidential until the disclosure of such information is appropriately approved and the dissemination of such information is efficiently and consistently made.

The Board had authorized the Audit Committee and Risk Management Committee to review the effectiveness of the risk management and internal control systems. Information about the two Committees, including their work in 2018, is set out under the sections headed "Audit Committee" on page 19 and "Risk Management Committee" on page 20 of this report.

The Board, through the review of the Audit Committee and Risk Management Committee, was not aware of any areas of concern that would have a material impact on the Group's financial position or result of operations, and considered that the Group's risk management and internal control systems were adequate and effective. The Group had complied with the provisions on risk management and internal control as set out in the CG Code during the year ended 31 December 2018.

Auditor's Remuneration

The Company engages PricewaterhouseCoopers as external auditor and has received a written confirmation from PricewaterhouseCoopers confirming that they are independent and that there are no relationships between PricewaterhouseCoopers and the Company that are likely to impair its independence. The roles and responsibilities of our external auditor are stated under the section headed "Independent Auditor's Report" on pages 51 to 55. During the year ended 31 December 2018, PricewaterhouseCoopers provided the following services to the Group:

Services rendered	RMB'000
Audit services	
Annual audit and interim review	3,549
Non-audit services	
Tax services	596
Environmental, Social and Governance Services	184
Total	4,329

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders' Enquiries

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

Corporate Communication

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

Corporate Website

- a dedicated Investor Relations section is available on the Company's website (http://www.cosmo-lady.com.hk). Information on the Company's website is updated on a regular basis;
- information released by the Company to the Stock Exchange is also posted on the HKEx's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents, etc.; and
- all presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website as soon as practicable after their release.

Shareholders' Meetings

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

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

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

Investment Market Communications

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

SHAREHOLDERS' RIGHTS

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

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

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

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

Procedures for Putting Forward Enquiries to the Board

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

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

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents of the Company during the year ended 31 December 2018 and up to the date of this report.

Environmental, Social and Governance Report

ENVIRONMENT, SOCIAL AND GOVERNANCE APPROACH

Cosmo Lady (China) Holdings Company Limited (the "Company") is principally engaged in the design, research, development and sale of intimate wear in the People's Republic of China ("China" or the "PRC"). The brand is widely recognised in the region, having been officially certified as China's Top 500 Brand Value for the year. The Company and its subsidiaries (the "Group") have become the largest branded intimate wear enterprise in terms of total retail sales as well as the number of retail outlets. All of the above combined to make the Company an industry leader in the intimate wear business in China. The Group aims to enhance its product offerings and strengthen brand recognition to solidify its industry-leading position. The Group continues to align its strategy with sustainability objectives of the communities in which it operates while creating value for different stakeholders. The Group's value is reflected in the firm culture and embedded in daily operations:

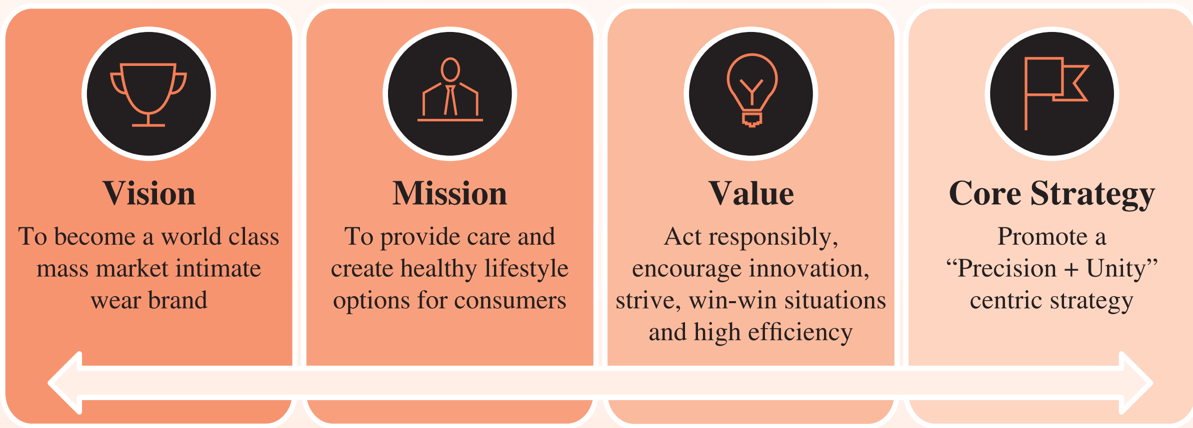

Figure 1 The Group vision, mission, value and core strategy

ABOUT THIS REPORT

In accordance with Environmental, Social and Governance ("ESG") Reporting Guide set out in Appendix 27 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), this report provides an overview of challenges and achievements, management systems, as well as initiatives planned and implemented for the year ended 31 December 2018.

REPORTING SCOPE

The report focuses on the Group's businesses, describing the overall ESG performance and initiatives of the head office and retail stores in China, with information and data of previous year provided for reference.

STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT

Recognition from stakeholders remains a key driver for the Group's ESG vision, policies and practices. Relying on the Group's previous stakeholder engagement results, the Group continues to gather impartial insight regarding to ESG performance and top areas of improvement from business operations.

The coverage and depth of stakeholder engagement are instrumental to a materiality assessment. Thanks to the support of employees, customers, suppliers, industry association and the community, the Group was able to receive valuable responses that help the sustainable growth of the business. Those responses were analysed in line with the requirements of the ESG Reporting Guide of the Stock Exchange.

The Group also leverages on the outcomes of the survey to realign its sustainability strategy, enabling itself to discover gaps between planning and operation, capturing its sustainable development opportunities and harness future measurable targets to enhance the Group's businesses. The following areas were noted to be of key importance to the Group by its stakeholders:

Topics	Material Aspects
Employment and Labour Practices	Employment Health and Safety Development and training Labour Standards
Operating Practices	Supply Chain Management Product Responsibility Anti-Corruption
Environmental Protection	Emission Use of Resources The Environment and Natural Resources
Community Investment	Community Investment

Table 1 Material aspects of the Group

EMPLOYMENT AND LABOUR PRACTICES

The Group honours the growth and success of the business to the hard work of its staffs. Their dedication, commitment, and creativity to go above and beyond the expectations of customers define the excellence that the Group stands for. The Group believes that having a strong team is a key factor in building a successful business. Investing in human resources management, anchored with mutual trust and respect, form the core of the Group strategy to create an inclusive, open, healthy and happy working environment.

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

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

Employment

In strict accordance with the Labour Contract Law of the PRC, the Law of the PRC on Promotion of Employment and the Employment Ordinance of Hong Kong, the Group opposes all forms of forced labour and child labour. To advocate for an open and trusting working relationship amongst its employees, great emphasis was placed on fair and equal treatment as well as diversity. The Group acquires new talents through various channels, which include but not limited to, experienced hire, campus recruitment, internal recommendations and the Group initiated competitions. All candidates are selected based on their competencies regardless of their age, disability, gender and race, etc.

Long term success of the business hinges on talented people and an engaging work force. The Group encourages employees to pursue their career paths within the Group by providing multiple promotion paths for career progression and tailored on-the-job training. As of 31 December 2018, the Group welcomed a total of 4,539 employees and the average monthly turnover rate is 7.2%. Given the nature of the business, the Group's workforce is composed of a majority of female and young people.

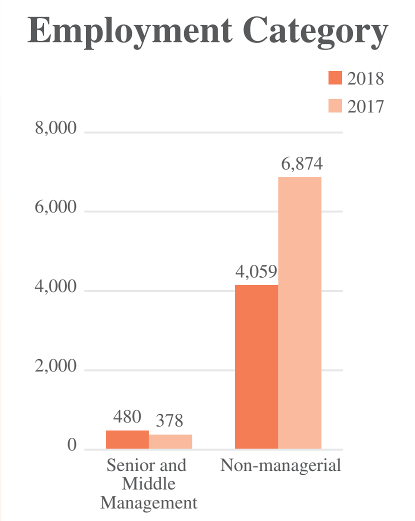

Figure 2 Total workforce by employment category

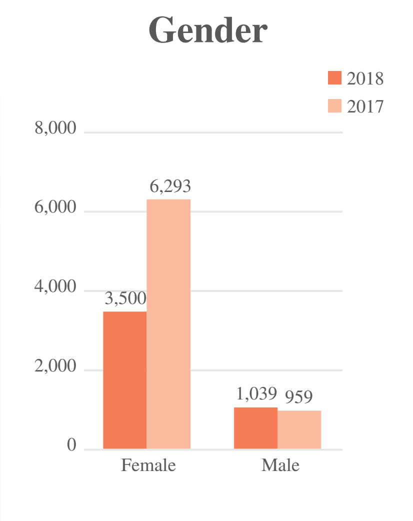

Figure 3 Total workforce by gender

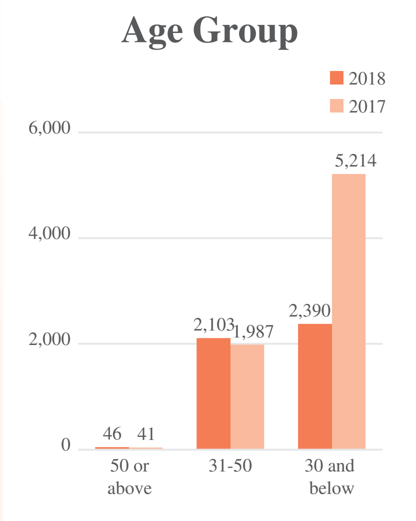

Figure 4 Total workforce by age group

* The total workforce has declined in light of the new cooperative arrangement as mentioned in Note 9 to the "Notes to the Consolidated Financial Statements" section.

Employee Benefits and Welfare

The Group offers above average remuneration packages as compared to other industry peers. An employee handbook was formally published as one of the human resource initiatives, which stipulates policies and procedures relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity, anti-discrimination, and other benefits and welfare. The Group also implemented a pay and performance management system, attendance and leave management system as well as a promotion management system. All initiatives are subject to an annual review to align with the market condition and business strategy.

The Group takes pride in offering flexible working arrangements and paid leave as part of the leave management system. The Group's payment and performance management system, remuneration policy, and bonus system are in place to align staff salaries with their work experience, qualifications, and individual performance and market conditions. The evaluation of employees' bonus are based on their performance assessment, the operating result of the business unit they work with, and the Group's overall operating result.

Care for Employees

The Group is dedicated to offer a comfortable, open and trusting working atmosphere in the workplace which motivate employees to deliver quality work with efficiency. On top of recognizing employees' performance at work by performance appraisals, rewards were also given to employees with achievements in the areas of innovation, service excellence, cost savings, and collaboration, aiming to encourage the culture of sharing and learning of different aspects between colleagues.

To foster a sense of belonging, the Group organised diverse entertainment and employee engagement activities including team training activities, staff birthday parties, cultural games, talent shows and competitions. Details of the events are typically announced through the Group's WeChat official account. The Group upholds the values of a healthy work-life balance and focuses on its employee's well-being and personal growth. During this year, a gym room and a yoga room were newly put into operation to promote healthy lifestyles among staffs. The Group also makes use of a number of channels to support transparent and effective communication between management and other employees, including informal gatherings, newsletter, office administrative bulletins, and online social networking group.

In 2018, the Group was honoured to have been recognised as one of the Best Employer by the China Employer Branding Forum.

Health and Safety

The Group prioritises the health and safety of its employees with safety being fundamental to the overall economic and social success. Apart from fulfilling the basic statutory obligations in occupational safety such as the Law of the PRC on Work Safety, the Law of the PRC on Prevention and Control of Occupational Diseases and the Occupational Safety and Health Ordinance of Hong Kong, the Group has policy and internal control in place to ensure a hazard-free workplace, minimizing threats that could causes injuries or fatal accidents. To align with Occupational Health and Safety Assessment Series, the Group has established "Occupational Health and Safety Management System" with reference to OHSAS 18001: 2007. The standard is focused on comprehensive identification, evaluation, and prevention of the hazards within the Group's scope of liability. During the reporting year, there were no record related to work-related injuries, fatalities as well as paid leave due to work injuries within the Group.

Development and Training

Development programs forms a key part of the core strategy to attract new talent, as well as unleash potential and retain of existing staff members. The Group is aware of its responsibility to continuously upskill staff members to align with the rapidly changing market and industry needs. Regular training is provided to the Group's employees and includes classroom training, e-learning, outdoor team building as well as sharing of stores and marketing updates.

In 2018, training sessions were provided to all employees. The percentage of staff trained and the average training hours per employee by categories are summarised below:

Employee Category	Rate of Employees Trained	2018 Average Training Hours	2017 Average Training Hour
Senior and Middle Management	100%	74	80
Non-managerial employees	100%	49	45
Store Salesmen	100%	27	14

Table 2 Average training hours per employee by category

The Group provides similar training for both internal staff and employees from third party business partners, who have been included in the calculation of the above average training hours.

Labour Standards

The Group safeguards the rights of employees by strictly complying with the regulations of the Labour Laws of the PRC and the Employment Ordinance of Hong Kong as well as other applicable laws and regulations of the jurisdictions where the Group operates. Regular review of corporate policy of employment and labour standards are established to ensure compliance with relevant legislations and regulations. The Group strictly follows the Provisions on the Prohibition of Using Child Labour of PRC and the Employment of Children Regulations of Hong Kong to protect human rights of children and disadvantage groups.

In alignment with the Group's commitment to conduct ethical business, precautionary measures were established to preclude possible immoral and corrupt practices within the business operations. These measures are continuously improved to align with necessary remedial measures.

OPERATING PRACTICES

To maintain its brand reputation as China's intimate wear industry leader, the Group conducts business in accordance with the highest ethical, social, and environmental standards. The Group continuously improves its internal workflows, product research and design, as well as supply chain processes. In addition, the Group ensures that it abides by the applicable laws of China and practice due diligence in the following areas:

- Supply chain management
- Product responsibility
- Anti-corruption

Supply Chain Management

The Group has established an extensive supply chain network in China, which includes the Guangdong Province, East China and other regions of China to source finished garments.

Geographic regions	Suppliers
Guangdong	114
Jiang, Zhe and Hu districts	51
Other areas	10
Total	**175**

Table 3 Distribution of supplier by geographic region

The Group's commitment to deliver quality products to its consumers relies heavily on partnership with suppliers and franchisees. When selecting new business partners, the Group places value not only on the quality of the products but also on potential suppliers' ethical standards. In each engagement, the Group ensures mutual understanding on each other's business operations, requirement and expectations to mitigate risks of misalignments and inconsistencies during the design, procurement, packaging and distribution of products.

The Group adopts a stringent sourcing strategy as the first step to achieve a sustainable supply chain. To guarantee continuous business thrives, the Group applies a formal process for selecting, evaluating, and communicating with current and prospective suppliers. The Group updates its suppliers list as appropriate to ensure that all its suppliers adhere to latest standards.

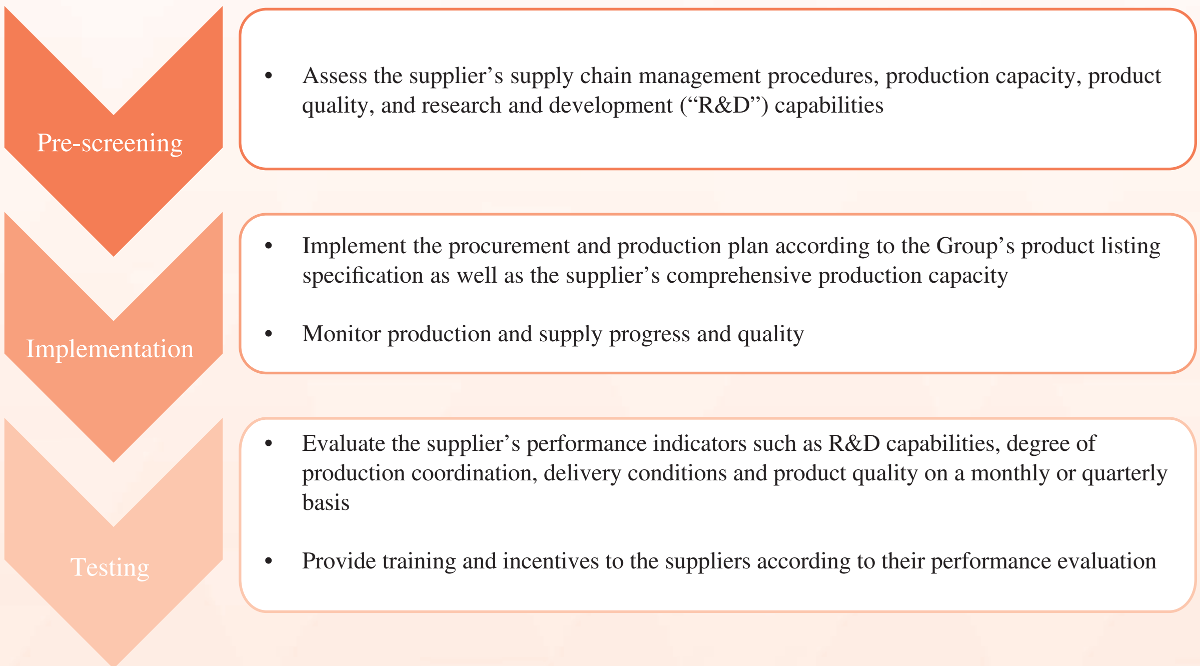

Figure 5 Illustration of supply chain management procedures

The Group has established a "Qualified Supplier Rating Criteria", which is assessed by an independent department for an objective supplier performance assessment. Specifically, the "Qualified Supplier Rating Criteria" aims to:

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

Product Responsibility

The Group takes full responsibility in strengthening brand recognition, solidifying its industry-leading position and offering its consumers with superior products. The Group complies with the Law of the PRC on Product Quality, the Advertisement Law of the PRC and the Law of the PRC on the Protection of Consumer Rights and Interests. To integrate its commitment within the Group, internal policies and procedures clearly describes the quality and safety management, duties, control methods and requirements across all the Group's properties. The policies focus on following areas:

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

Specifically, the Group categorises its product responsibility services into three major areas, namely product information, selection and advice, accidental injury and privacy protection. Highlighting the Group's concerns regarding product safety and customer privacy issues, the Group has implemented product quality and safety procedures across the pre-sales and after-sales business phases. They encompass the Group advertising, store shopping guide and customer service hotline (i.e. telephone and network) amongst other service sectors.

Online ordering and other customer interaction programs requires the Group to retain sensitive information and information relating to product preference. Strict policies are in place to protect the personal data collected for transaction purposes. As a safeguard against information leakage, the Group has implemented a secure member management system that serves the purpose of data collection, transmission, and storage of membership information.

The Group believes providing high quality shopping experience remains the best way to retain old customers and attract new customers. Initiatives such as "Customer Service Management System", "Store Shopping Guide Process" and "Exhibition Guideline" are constantly optimised across the Group. To further strengthen customer experience at the retail level, retailing staff undergo training to master "Underwear Product Knowledge Dictionary". Retail staff are proficient with products to introduce comprehensive intimate wear information to potential customers, assisting them to find their best fit under a relaxing and friendly environment.

The Group's quality control department implements the most stringent of quality inspection procedures to adhere to national standards in order to prevent any adverse effect of products on consumers. In the current year, the Group's ISO9001:2015 quality management system is no longer limited to quality department, and the logistic centre is also newly certified by ISO9001:2015. The achievement reconfirms the Group commitment in ensuring the consistency of products and services quality.

As pioneer for product quality within the industry, in-house physical and chemical laboratory was established to support the supply chain process. The Group's laboratory is a China National Accreditation Service ("CNAS") for Conformity Assessment certified laboratory for IEC CL01 "Accreditation Criteria for the Competency of Testing and Calibration Laboratories" and the laboratory complies with ISO 17025 standards.

Due to the nature of the retail industry in managing customer complaints and merchandise returns, the Group has set up a customer service centre to prioritise complaints, allowing the Group to manage key customer issues with quicker responses. For all customer complaints, the service centre will have procedures in place to manage them. In 2018, the percentage of total products sold or shipped subject to complaints for quality and other reasons is maintained in a level not higher than 0.01%, which is lower than those in the previous years and is below the average industry level. In addition, the Group is committed to abide by the national policies, laws and regulations related to intellectual property rights, and there are procedures in place to deal with patent infringement and other violations of the intellectual property rights.

Anti-Corruption

The Group believes that honesty, integrity and fairness are valuable intangible assets of an organization. To promote ethical behaviours in business operations, the Group has established anti-corruption policies and regulations to ensure that the Group conforms to the Criminal Law of the PRC, Anti-unfair Competition Law of the PRC and Prevention of Bribery Ordinance of Hong Kong. Anti-corruption policies and trainings are regularly reviewed, adopted, delivered and communicated within the Group. The Group has developed the following guidelines and management systems:

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

The Group has zero tolerance towards any form of unethical practice, including deception, bribery, forgery, extortion, conspiracy, embezzlement and collusion. Employees should not abuse their position to obtain illegal benefits in the form of either monetary or non-monetary favours. To communicate expected behaviour of staffs and implement relevant anti-corruption regulation within the Group, a "Reward and Punishment Management System" was developed. Once incidents of unethical conduct are investigated and verified by the internal monitoring centre, the Group will strictly impose punishment according to the records at the monitoring centre. Employees involved in any unlawful act may be subjected to the following:

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

An effective anti-corruption program demands collaboration with various stakeholders, the Group requires suppliers and third-party companies to agree to an Anti-Bribery Agreement, ensuring the integrity of all transactions. The Group's monitoring centre also cooperates with the local legislation and enforcement authority to follow up on proven cases of corruption and other unlawful acts. To minimise the risks in exposing illegal activities which may seriously tarnish the Group's reputation, employees are encouraged to report any suspicions of bribery through a reporting hotline and an e-mail address.

ENVIRONMENTAL PROTECTION

In recognition of the potential environmental impact of the business operations, the Group is committed to an ongoing improvement of environmental sustainability performance through daily activities. The Group complies with all applicable environmental protection laws and regulations across all operations. This includes the newly revised "Environmental Protection Law of the PRC" and rules set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO14001:2015 Environment Management Systems to further reinforce the Group's dedication to environmental protection.

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

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

Emission

To harness continuous improvements in environmental performance, the Group has established various initiatives to achieve significant reductions with respect to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. This includes the provision of shuttle buses for employees to workplace for minimizing pollutants from private vehicles. To integrate the emission from the business operation, the Group would only employ and purchase certified green label for the Group's transportation and logistics requirements.

The Group promotes responsible management of emission, natural resources and environment in accordance with the Group's "Environment Management Systems". Adhering to the principle of "Reduce, Reuse and Recycle", the Group facilitates the following segregation, storage, and handling practices:

- Encouraged the use of the reusable stainless steel tableware and restricted the use of disposable items in the staff canteen;
- Applied unrestricted fertilisers, pesticides and detergents for daily operations;
- Inspected grease trap to identify any further maintenance required; and
- Ensured that large-scale publicity and promotional activities would keenly endorse the proper use and handling of recyclable materials.

Use of Resources

To increase power usage efficiency, the Group has adopted energy conservation programs across its properties; to preserve freshwater resources, the Group mitigates its contribution to water pollution. Some specific examples of these policies and initiatives include:

Energy-saving initiatives

- Promote the culture of environmental friendly to staffs
- Maintain an average indoor temperature of 26°C
- Equip LEDs or energy efficient lights in office and shops
- Utilise natural light when possible in the interior design of department stores to reduce the energy used for lighting

Figure 6 Energy-saving initiatives

Freshwater resources preservation initiatives

- Installed faucets and water dispensers that minimise water wastage
- Conducted water conservation training to staffs
- Adopted stricter water utilization supervision to reduce water usage within operational processes

Figure 7 Freshwater resources preservation initiatives

Environmental, Social and Governance Report

The Group realises the impact of excess packaging to the environment. To promote the efficient utilization of packaging materials for the products, the Group has the following measures and practices in place:

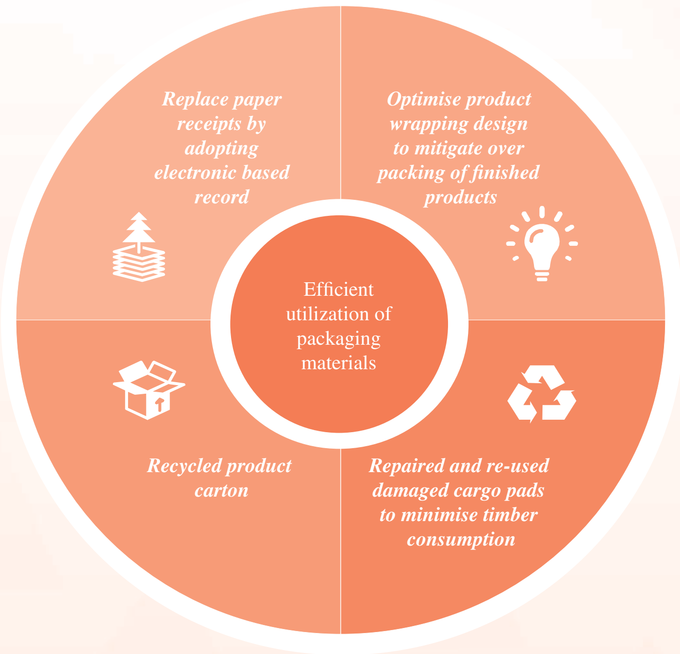

Figure 8 Efficient utilization of packaging materials initiatives

The Environment and Natural Resources

The Group is committed to manage impact on the environment and natural resources. To support this, strict environmental supervision and management are in place to push for continuous improvement in the environmental management system and targets and responsibility assessments. The aim is to minimise the negative impacts on the environment and natural resources when conducting business. The Group's commitment in environmental protection is evident throughout its factory, office space and other facilities. For instance, an air quality-processing device that measures and assesses the quality of air emitted from exhaust pipes was installed in the staff cafeteria. The Group also oversees noise pollution from facilities, by prohibiting the use of car horns in the factory. The plant equipment are calibrated on a timely manner to prevent environmental impact.

Environmental performance data for the year ended 31 December 2018:

Environmental KPIs	Unit	2018	2017*
NOx emissions	tonne	0.860	1.080
SOx emissions	tonne	0.00124	0.00109
Particulate matter emissions	tonne	0.0846	0.105
Total GHG emissions	tonne (CO_2)	16,281	15,800
Greenhouse gas emissions (Scope 1)	tonne (CO_2)	215.9	188.8
Greenhouse gas emissions (Scope 2)	tonne (CO_2)	16,065	15,611
Total non-hazardous waste produced	tonne	16.2	16.2
Total energy consumption	GJ	71,918	67,234
Total energy consumption intensity	GJ/Revenue (in million)	14.11	14.8
Total direct energy consumption	GJ	2,798	1,222
Petrol	GJ	1,475	1,222
Diesel oil	GJ	1,323	1,235
Total indirect energy consumption	GJ	69,121	64,777
Purchased electricity	GJ	69,121	64,777
Water consumption	m^3	193,471	170,426
Water consumption intensity	m^3/Revenue (in million)	37.96	37.52
Packaging material	tonne	293	317
Packaging material intensity	tonne/Revenue (in million)	0.06	0.07

Table 4 Environmental performance table

* The data is adjusted to reflect the actual circumstances in 2017.

COMMUNITY INVESTMENT

On giving back to society, the Group is dedicated to proactively seek appropriate community investment opportunities. Its approach to corporate philanthropy initiative is centred upon youth empowerment, caring of people in need, poverty relief, advocacy of women and cultural preservation.

To realise its vision, the Group endeavours to provide support to the local community through investment on children medical services, sponsoring sports tournament locally and aiding franchisees after natural disaster. Corresponding departments of the Group will keep close contact with local non-government organizations and participate in the charity program organised by community organizations. Progress of these initiatives are tracked to ensure the accountability and consistency of the community investment.

Through sponsorships and partnership with community organizations, the Group demonstrated its commitment to societal development. Chairman Mr. Zheng Yaonan was recognised as "The most socially responsible entrepreneur" for his effort in social investment. For the year ended 31 December 2018, the Group has contributed approximately RMB4,534,000 and 1,500 volunteer hours to charity. A total of eight volunteering projects were undertaken. The number and distribution of these projects are demonstrated by the table below:

Scope	Number of Projects
Aiding the Underprivileged Group	4
Sports Promotion	1
Others	3

Table 5 Number of social investment project by scope

CONTENT INDEX
HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

General disclosures and KPIs	Description	Reference paragraph, table and figure and remarks
A. ENVIRONMENTAL		
ASPECT A1: EMISSIONS		
General disclosure		Paragraph – Emissions
KPI A1.1	The types of emissions and respective emissions data	Table 4: Environmental performance table
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity	Table 4: Environmental performance table
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Not applicable. There is no significant hazardous waste generated by the Group during the reporting period.
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Table 4: Environmental performance table
KPI A1.5	Description of measures to mitigate emissions and results achieved	Paragraph – Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Paragraph – Emissions

General disclosures and KPIs	Description	Reference paragraph, table and figure and remarks
ASPECT A2: USE OF RESOURCES		
General disclosure		Paragraph – Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity	Table 4: Environmental performance table
KPI A2.2	Water consumption in total and intensity	Table 4: Environmental performance table
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Paragraph – Use of Resources
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Paragraph – Use of Resources
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Table 4: Environmental performance table
ASPECT A3: THE ENVIRONMENT AND NATURAL RESOURCES		
General disclosure		Paragraph – The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Paragraph – The Environment and Natural Resources
B. SOCIAL		
EMPLOYMENT AND LABOUR PRACTICES		
ASPECT B1: EMPLOYMENT		
General disclosure		Paragraph – Employment and Labour Practices
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Figure 2: Total workforce by employment category Figure 3: Total workforce by gender Figure 4: Total workforce by age group
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Paragraph – Employment
ASPECT B2: HEALTH AND SAFETY		
General disclosure		Paragraph – Health and Safety
KPI B2.1	Number and rate of work-related fatalities	Paragraph – Health and Safety
KPI B2.2	Lost days due to work injury	Paragraph – Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Paragraph – Health and Safety
ASPECT B3: DEVELOPMENT AND TRAINING		
General disclosure		Paragraph – Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category	Table 2: Average training hours per employee by category
KPI B3.2	The average training hours completed per employee by gender and employee category	Table 2: Average training hours per employee by category
ASPECT B4: LABOUR STANDARDS		
General disclosure		Paragraph – Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Paragraph – Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Paragraph – Labour Standards

General disclosures and KPIs	Description	Reference paragraph, table and figure and remarks
OPERATING PRACTICES		
ASPECT B5: SUPPLY CHAIN MANAGEMENT		
General disclosure		Paragraph – Supply Chain Management
KPI B5.1	Number of suppliers by geographical region	Table 3: Distribution of supplier by geographic region
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Paragraph – Supply Chain Management
ASPECT B6: PRODUCT RESPONSIBILITY		
General disclosure		Paragraph – Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable. There is no product recall for safety and health reasons during the reporting period.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Paragraph – Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Paragraph – Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures	Paragraph – Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Paragraph – Product Responsibility
ASPECT B7: ANTI-CORRUPTION		
General disclosure		Paragraph – Anti-Corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	There are no cases of significant corruption recorded during the reporting period.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Paragraph – Anti-Corruption
COMMUNITY		
ASPECT B8: COMMUNITY INVESTMENT		
General disclosure		Paragraph – Community Investment
KPI B8.1	Focus areas of contribution	Paragraph – Community Investment
KPI B8.2	Resources contributed to the focus area	Paragraph – Community Investment

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding company. The Group is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others, which include leggings and tights, vests, hosiery and accessories) in the People's Republic of China (the "PRC"). The Group is the largest branded intimate wear enterprise in the PRC in terms of total retail sales in 2018, according to Frost & Sullivan.

The detail principal activities of the subsidiaries of the Company were set out in Note 40 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group, a discussion and analysis of the Group's operating performance and a discussion on the Group's future development during the year are provided in the Statement from Chairman and Chief Executive Officer and the Management Discussion and Analysis sections, respectively on page 4 and on pages 5 to 10 of this report.

A description of the principal risks and uncertainties that the Company may be facing can be found in the Statement from Management Discussion and Analysis on pages 5 to 10 of this report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to the consolidated financial statements. Discussions on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided on pages 26 to 36 of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements on page 56.

The Board has recommended the payment of final dividend of HK3.75 cents (2017: HK3.34 cents) per share and special final dividend of HK6.20 cents per share (2017: nil) for celebrating the 5th anniversary of the listing of the Company's shares (equivalent to approximately RMB3.20 cents per share and RMB5.30 cents per share respectively, using the exchange rate quoted by the People's Bank of China on 26 March 2019) for the year ended 31 December 2018. The final dividend and special final dividend would be payable to shareholders whose names appear on the register of members of the Company on Wednesday, 29 May 2019, subject to the approval of shareholders at the annual general meeting of the Company to be held on Tuesday, 21 May 2019 (the "2019 AGM"). Dividend warrants are expected to be despatched on Monday, 10 June 2019.

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the 2019 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 15 May 2019 for registration.

The record date and time for entitlement to the proposed finial dividend and special final dividend for 2018 are Wednesday, 29 May 2019 at 4:30 p.m.. The register of members of the Company will be closed from Monday, 27 May 2019 to Wednesday, 29 May 2019, both days inclusive. In order to qualify for the final dividend and special final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Friday, 24 May 2019 for registration.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"). The recommendation of payment of any dividend is subject to the sole discretion of the Board and any declaration of final dividend will be subject to the approval of the shareholders of the Company. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account:

- the Group's actual and expected financial performance;
- retained earnings and distributable reserves of the Company and each of the members of the Group;
- shareholders' interests;
- the Group's expected working capital requirements and future expansion plans;
- taxation considerations;
- the level of the Group's debts to equity ratio, return on equity and financial covenants;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- general business conditions and strategies;
- general economic conditions, business cycles of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- any other factors the Board deem appropriate.

The declaration, recommendation and payment of any dividends are also subject to all requirements of the Companies Law of the Cayman Islands and the Memorandum and Articles of Association of the Company. The Dividend Policy will be reviewed when necessary, and can be revised and/or modified by the Board from time to time.

BORROWINGS

Details of borrowings of the Group as at 31 December 2018 are set out in Note 34 to the consolidated financial statements.

SHARE CAPITAL

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

DONATIONS

During the year ended 31 December 2018, charitable and other donations made by the Group amounted to approximately RMB4,534,000 (2017: RMB2,035,000).

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2018, the Company repurchased a total of 11,876,000 shares on the Stock Exchange at an aggregate consideration (excluding related expenses) of approximately HK$34,027,000. All the shares repurchased have been duly cancelled in 2018, except 210,000 shares which have been cancelled in early 2019. Particulars of the shares repurchased are as follows:

Month	Number of shares repurchased	Highest price per share (HK$)	Lowest price per share (HK$)	Aggregate consideration (HK$'000)
January 2018	5,505,000	2.65	2.61	14,520
September 2018	2,200,000	3.48	3.15	7,301
October 2018	787,000	3.40	3.21	2,615
November 2018	440,000	3.20	2.96	1,362
December 2018	2,944,000	2.95	2.65	8,229

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

RESERVES

The distributable reserves of the Company as at 31 December 2018 amounted to approximately RMB1,860,946,000 (2017: RMB1,496,802,000).

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the preceding five financial years is set out on page 130.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the percentage of the Group's turnover attributable to the Group's largest customer and the five largest customers in aggregate were approximately 1.6% and 5.8% (2017: 1.0% and 3.1%) respectively.

During the year ended 31 December 2018, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were approximately 4.1% and 14.9% (2017: 4.2% and 16.3%) respectively.

During the year ended 31 December 2018, none of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

Report of the Directors

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Cheng Zuming (redesignated from executive Directors on 1 February 2019)
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Hu Shengli (appointed on 25 May 2018)

Independent Non-executive Directors

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

A profile of the existing Directors of the Company is shown on pages 11 to 16.

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

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

All Directors are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Memorandum of Article of Association. Article 108 provides that at every annual general meeting, one-third of the Directors of the Company for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. In this connection, Ms. Wu Xiaoli, Mr. Cheng Zuming, Dr. DaiYiyi and Mr. Chen Zhigang will retire by rotation at the 2019 AGM and, being eligible, offer themselves for re-election.

Mr. Hu Shengli was appointed as a non-executive Director on 25 May 2018. In accordance with article 112 of the Memorandum and Articles of Association of the Company, he will retire at 2019 AGM and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at 2019 AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interest and short positions in the Company

Name of Directors	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Mr. Zheng Yaonan[2],[3]	Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion	1,193,529,678 (L)	52.90% (L)
Mr. Zhang Shengfeng[2]	Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion	1,193,529,678 (L)	52.90% (L)
Mr. Lin Zonghong[2]	Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion	1,193,529,678 (L)	52.90% (L)
Mr. Cheng Zuming[2]	Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion	1,193,529,678 (L)	52.90% (L)
Ms. Wu Xiaoli[2],[3]	Interest of spouse	1,193,529,678 (L)	52.90% (L)
Mr. Wen Baoma	Personal Interests	5,000,000 (L)	0.22% (L)
Dr. Lu Hong Te	Personal Interests	210,000 (L)	0.01% (L)

Notes:

(1) The letter "L" denotes the person's long position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,256,234,213 shares) of the Company as at 31 December 2018.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,193,529,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 52.90% of the total issued share capital in the Company.

(3) Ms. Wu Xiaoli is the spouse of Mr. Zheng Yaonan. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zheng Yaonan is interested. Ms. Wu Xiaoli is also one of the beneficiaries of a discretionary trust, founded by Mr. Zheng Yaonan, which holds the entire issued share capital of Yao Li Investment Holdings Limited.

(ii) Interest in associated corporations of the Company

Name of Directors	Name of associated corporation	Nature of interest	Number of shares held	Approximate percentage of shareholding interest
Mr. Zheng Yaonan	Harmonious Composition Investment Holdings Limited	Interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises its discretion	615,840	64.59%
Mr. Zhang Shengfeng	Harmonious Composition Investment Holdings Limited	Interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises its discretion	177,125	18.58%
Mr. Lin Zonghong	Harmonious Composition Investment Holdings Limited	Interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises its discretion	128,743	13.50%
Mr. Cheng Zuming	Harmonious Composition Investment Holdings Limited	Interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises its discretion	31,707	3.33%
Mr. Zheng Yaonan	Great Brilliant Investment Holdings Limited	Interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises its discretion	1	100%
Mr. Zheng Yaonan	Yao Li Investment Holdings Limited	Founder of a discretionary trust who can influence how the trustee exercises its discretion	1	100%

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, the following shareholders (other than the Directors and chief executive) were interested, directly or indirectly, in 5% or more of the number of issued shares and the underlying shares of the Company and those interests were required to be recorded in the register required to be kept under Section 336 of the SFO:

Name of Directors	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Forever Flourish International Holdings Limited[2], [7]	Interests held jointly with another person; interest of controlled company	1,193,529,678 (L)	52.90% (L)
Forever Shine Holdings Limited[2], [3]	Interests held jointly with another person; interest of controlled company	1,193,529,678 (L)	52.90% (L)
Great Brilliant Investment Holdings Limited[2], [8]	Interests held jointly with another person; interest of controlled company	1,193,529,678 (L)	52.90% (L)
Harmonious Composition Investment Holdings Limited[2]	Interests held jointly with another person; beneficial interest	1,193,529,678 (L)	52.90% (L)
Hong Ye Asset Holdings Limited[3], [6]	Interest of controlled company	1,193,529,678 (L)	52.90% (L)
Mountain Dragon Investment Limited[2], [9]	Interests held jointly with another person; interest of controlled company	1,193,529,678 (L)	52.90% (L)
Ms. Cai Jingqin[4]	Interest of spouse	1,193,529,678 (L)	52.90% (L)
Ms. Cai Shaoru[5]	Interest of spouse	1,193,529,678 (L)	52.90% (L)
TMF (Cayman) Limited[6]	Trustee	1,193,529,678 (L)	52.90% (L)
Xin Feng Asset Holdings Limited[6], [7]	Interest of controlled company	1,193,529,678 (L)	52.90% (L)
Yao Li Investment Holdings Limited[6], [8]	Interest of controlled company	1,193,529,678 (L)	52.90% (L)
Zuming Investment Holdings Limited[6], [9]	Interest of controlled company	1,193,529,678 (L)	52.90% (L)
Fosun International Holdings Limited[10]	Interest of controlled company	240,000,000 (L)	10.64% (L)
Fosun International Limited[10]	Interest of controlled company	240,000,000 (L)	10.64% (L)

Name of Directors	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Fosun Ruizhe Grace Investments Limited[10]	Beneficial interest	240,000,000 (L)	10.64% (L)
Guo Guangchang[10]	Interest of controlled company	240,000,000 (L)	10.64% (L)
Prime Capital Management Company Limited	Beneficial owner	196,837,478 (L)	8.72% (L)
Morgan Stanley[11]	Interest of controlled company; interests held jointly with another person	148,029,923 (L) 50,758,157 (S)	6.56% (L) 2.25% (S)
Capital Today Investment XVIII (HK) Limited[12]	Beneficial owner	133,156,000 (L)	5.90% (L)
Capital Today Investment XVIII Limited[12]	Interest of controlled company	133,156,000 (L)	5.90% (L)
Capital Today China Growth Fund, LP[12]	Interest of controlled company	133,156,000 (L)	5.90% (L)
Capital Today China Growth GenPar, LTD[12]	Interest of controlled company	133,156,000 (L)	5.90% (L)
Capital Today Partners Limited[12]	Interest of controlled company	133,156,000 (L)	5.90% (L)
Ms. Xu Xin[12]	Interest of controlled company	133,156,000 (L)	5.90% (L)

Notes:

(1) The letter "L" denotes the person's long position in the shares and the letter "S" denotes the person's short position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,256,234,213 shares) of the Company as at 31 December 2018.

(2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,193,529,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 52.90% of the total issued share capital in the Company.

(3) Forever Shine International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Hong Ye Asset Holdings Limited. Hong Ye Asset Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.

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

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

(6) TMF (Cayman) Ltd. in its capacity as the trustee holds the entire issued share capital of Yao Li Investment Holdings Limited, Xin Feng Asset Holdings Limited, Hong Ye Asset Holdings Limited and Zuming Investment Holdings Limited. The four discretionary trusts are founded by Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong and Mr. Cheng Zuming respectively for themselves and their close relatives.

(7) Forever Flourish International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Xin Feng Asset Holdings Limited. Xin Feng Asset Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.

(8) Great Brilliant Investment Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Yao Li Investment Holdings Limited. Yao Li Investment Holdings Limited is a company incorporated in the British Virgin Islands and owned by TMF (Cayman) Ltd. as the trustee.

(9) Mountain Dragon Investment Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Zuming Investment Holdings Limited. Zuming Investment Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.

(10) Pursuant to the subscription agreement entered into between the Company and Fosun Ruizhe Grace Investments Limited on 5 May 2017, Fosun Ruizhe Grace Investments Limited, an indirectly wholly-owned subsidiary of Fosun International Limited, designated by Fosun International Limited, subscribed and paid for 240,000,000 shares at the subscription price of HK$2.50 per share, which was completed on 17 May 2017. Each of Mr. Guo Guangchang, Fosun International Holdings Limited and Fosun International Limited were deemed to be interested in the 240,000,000 shares of the Company held by Fosun Ruizhe Grace Investments Limited because Fosun Ruizhe Grace Investments Limited is an indirect wholly-owned subsidiary of Fosun International Limited. Fosun International Limited is indirectly owned as to 71.77% by Fosun International Holdings Limited, which is owned as to 64.45% by Mr. Guo Guangchang.

(11) Morgan Stanley was deemed to have a long position in 148,029,923 shares and a short position in 50,758,157 shares in total by virtue of its control over the following corporations:

(a) Morgan Stanley & Co. International plc (Morgan Stanley's indirect subsidiary) had a long position in 145,528,725 shares and a short position in 50,757,962 shares.

(b) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 2,479,134 shares.

(c) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a long position in 22,064 shares and short position 195 shares.

In addition, the long position in 23,009 shares and short position in 50,758,157 shares involved cash settled derivatives (off exchange).

(12) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing approximately 5.90% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly-owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, LP, an exempted limited partnership registered in the Cayman Islands, holds approximately 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, LP is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, approximately 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. Xu Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, LP, Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. Xu Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing approximately 5.90% of the total issued share capital of the Company.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any person (other than the Directors and chief executive) who had, directly or indirectly, interest or short positions in shares and underlying shares of the Company and those interests or short positions were required to be recorded in the register kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 9 June 2014 (the "Share Option Scheme"), there were 55,300,000 options outstanding which represented approximately 2.45% of the total number of issued shares of the Company as at 31 December 2018.

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

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The maximum number of shares available for issuance under the Share Option Scheme is 190,645,700 shares, which are not more than 10% of the total number of issued shares of the Company as at the date of the approval of the Share Option Scheme, and represents approximately 8.45% of the total number of issued shares of the Company as at the date of this report.

(d) Maximum entitlement of each participants

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

(e) Acceptance of an offer of options

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

(f) Performance target and minimum holding period

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

(g) Basis of determining the exercise price

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

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

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

(iii) the nominal value of a share.

(h) The remaining life of the Share Option Scheme

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

During the year ended 31 December 2018, the movements of the options which has been granted under the Share Option Scheme were as follows:

Category and name of participant	Date of grant[1]	Exercise price per share (HK$)	Exercise period[1]	Number of options: Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year[2]	Balance as at 31 December 2018
Directors/ Non-executive Directors								
Mr. Zheng Yaonan	31 October 2017	3.288	31 October 2018 to 30 October 2027	2,100,000	–	–	–	2,100,000
Mr. Zhang Shengfeng	31 October 2017	3.288	31 October 2018 to 30 October 2027	2,100,000	–	–	–	2,100,000
Mr. Lin Zonghong	31 October 2017	3.288	31 October 2018 to 30 October 2027	2,100,000	–	–	–	2,100,000
Ms. Wu Xiaoli	31 October 2017	3.288	31 October 2018 to 30 October 2027	2,100,000	–	–	–	2,100,000
Mr. Cheng Zuming	31 October 2017	3.288	31 October 2018 to 30 October 2027	2,100,000	–	–	–	2,100,000
Total for Directors				10,500,000	–	–	–	10,500,000
Employees								
Employees of the Group	31 October 2017	3.288	31 October 2018 to 30 October 2027	64,500,000	–	–	(19,700,000)	44,800,000
Total for Employees of the Group				64,500,000	–	–	(19,700,000)	44,800,000
Total for all categories				**75,000,000**	**–**	**–**	**(19,700,000)**	**55,300,000**

Notes:

1. Subject to the terms of the Share Option Scheme, the options granted to each holder of the options are valid for a period of 10 years from the date of grant and shall be valid in five tranches in accordance with the following vesting dates:

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

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

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

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

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

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

Save as disclosed above, no other options under the Share Option Scheme were outstanding at the beginning or at the end of 2018, and no other options were granted, exercised, cancelled or lapsed at any time during the year.

SHARE AWARD SCHEME

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

As at 31 December 2018, a total of 8,018,000 shares have been purchased from the open market and no shares have been granted to the selected participants of the Group under the Share Award Scheme.

EQUITY-LINKED AGREEMENTS

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

DEED OF NON-COMPETITION

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

During 2018, the Controlling Shareholders provided the Company with all information necessary for the enforcement of the Company's rights under the Deed of Non-competition, all information reasonably requested by the Company from time to time relating to the Excluded Businesses (as defined in the Deed of Non-competition) and such other business opportunities or activities related to any business of the Group as the Company reasonably believed was available to the Controlling Shareholders or that the Controlling Shareholders may be planning to participate in, as well as access to appropriate staff members of the Controlling Shareholders to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the Deed of Non-competition.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this annual report, there had been no transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with the Director (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, were entered into during the year ended 31 December 2018 or subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group has entered into the following continuing connected transactions, details of which are set out below:

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

	2018 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Shengqiang	**32,000**	28,348

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

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

	2018 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Maosheng	**25,000**	8,847

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

Report of the Directors

REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

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

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

b. on normal commercial terms or better; and

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

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

RELATED PARTY TRANSACTIONS

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group commits to comply with the relevant laws and regulations including, inter alia, the Companies Ordinance, the Listing Rules, and other applicable local laws and regulations in various jurisdictions in which it operates. During the year ended 31 December 2018 and up to the date of this report, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RETIREMENT SCHEMES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2018 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM of the Company.

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

Hong Kong, 27 March 2019

Independent Auditor's Report

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 129, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

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

- Assessment on carrying value of inventories
- Assessment of loss allowance for trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on carrying value of inventories Refer to note 4(a) (Critical accounting estimates and judgements) and note 25 (Inventories) to the consolidated financial statements. As at 31 December 2018, the Group's gross inventories and provision for impairment of inventories amounted to RMB1,229 million and RMB64 million, respectively. As described in the Accounting Policies in note 2.13 to the consolidated financial statements, inventories are carried at lower of cost and net realisable value. As a result, the directors consistently apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of off-season inventories, net realisable value below cost based upon plans for clearance sales and inventories loss based upon turnover rate. The estimations used in applying this methodology are subject to uncertainty and judgement by directors as a result of changes in economic condition and customer needs.	We assess the appropriateness of management's assumptions applied in calculating the value of the inventories provisions by, amongst others: • evaluated the outcome of management's estimations in prior years, level of inventories write-off during the year in relation to stock loss, analysis and assessment made by management with respect to off-season and slow-moving inventories. • tested the accuracy of the season-by-season inventories and slow moving inventories analysis and performed analytics on stock holding and movement data to identify product lines with indicators of low turnover or slow moving. • met with marketing team of the Group to validate the assumptions applied by management in the underlying sales forecasts by category to assess the completeness of provisions for obsolescence. • compared the net realisable value, obtained through the sales subsequent to the year-end, to the cost of inventories to check for completeness of the associated provision. • recalculated the inventories provisions as at 31 December 2018. We found that management's assessment of the provision for obsolete or slow moving inventory was supported by the available audit evidence.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of loss allowance for trade receivables Refer to note 4(b) (Critical accounting estimates and judgements) and note 26 (Trade receivables) to the consolidated financial statements. As at 31 December 2018, the Group had gross trade receivables of RMB830 million and provision for impairment of trade receivables of RMB5 million. Provision is made for lifetime expected credit losses on trade receivables. Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced for the past twelve months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables.	We understood and validated the credit control procedures performed by management, including its procedures on periodic review of aged receivables and assessment on expected credit losses allowance of receivables. We tested on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices. We tested on a sample basis, the subsequent settlement of trade receivables against bank receipts. We obtained management's assessment on the expected credit losses allowance of receivables. We corroborated and validated management's assessment based on the historical settlement pattern for the past twelve months and market research regarding the relevant forward-looking information such as macroeconomic factors used in management's assessment. We consider the estimation and judgement made by management in respect of the expected credit losses allowance and the collectability of receivables were supportable by the available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	*6*	5,096,453	4,542,483
Cost of sales	*9*	(2,972,889)	(2,577,960)
Gross profit		2,123,564	1,964,523
Selling and marketing expenses	*9*	(1,471,006)	(1,337,868)
General and administrative expenses	*9*	(265,081)	(261,525)
Other income	*7*	90,937	55,354
Other gains/(losses) – net	*8*	5,564	(919)
Operating profit		483,978	419,565
Finance income	*12*	19,977	18,763
Finance expenses	*12*	(10,056)	(11,564)
Finance income – net	*12*	9,921	7,199
Share of profit/(losses) of equity investments	*20*	8,383	(1,493)
Profit before income tax		502,282	425,271
Income tax expense	*13*	(122,673)	(108,269)
Profit for the year		379,609	317,002
Other comprehensive income for the year			
(Item that may be reclassified subsequently to profit or loss)			
Exchange differences		34,433	(18,035)
Total comprehensive income for the year		414,042	298,967
Profit attributable to:			
Owners of the Company		378,229	317,002
Non-controlling interests		1,380	–
		379,609	317,002
Total comprehensive income attributable to:			
Owners of the Company		412,662	298,967
Non-controlling interests		1,380	–
		414,042	298,967
Earnings per share		RMB cents	RMB cents
– Basic earnings per share	*14*	17.15	15.45
– Diluted earnings per share	*14*	17.10	15.45

The notes on pages 61 to 129 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

		As at 31 December	
	Note	**2018 RMB'000**	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**564,357**	565,009
Land use rights	*18*	**85,231**	87,311
Intangible assets	*19*	**44,972**	45,390
Investment in joint ventures	*20*	**165,405**	19,900
Investment in an associate	*20*	**385**	2,507
Financial assets at fair value through profit or loss	*27*	**106,000**	–
Financial assets at fair value through other comprehensive income	*21*	**60,494**	–
Available-for-sale financial assets	*21*	**–**	23,100
Deposits, prepayments and other receivables	*22*	**14,417**	8,637
Deferred income tax assets	*23*	**79,983**	55,230
		1,121,244	807,084
Current assets			
Inventories	*25*	**1,164,933**	1,111,959
Trade receivables	*26*	**825,627**	554,279
Deposits, prepayments and other receivables	*22*	**790,493**	539,624
Financial assets at fair value through profit or loss	*27*	**7,885**	8,408
Term deposits and restricted bank deposits	*28*	**9,855**	109,855
Cash and cash equivalents	*28*	**1,496,163**	1,405,285
		4,294,956	3,729,410
Total assets		**5,416,200**	4,536,494

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*29*	140,755	133,792
Share premium	*29*	1,866,386	1,603,035
Other reserves	*30*	416,471	275,445
Retained earnings		1,623,937	1,343,841
		4,047,549	3,356,113
Non-controlling interests		15,056	–
Total equity		4,062,605	3,356,113
LIABILITIES			
Current liabilities			
Trade payables	*32*	711,105	583,568
Accruals and other payables	*33*	283,790	305,257
Contract liabilities	*6*	85,763	–
Current income tax liabilities		72,285	48,649
Borrowings	*34*	183,960	11,820
Deferred income	*35*	2,958	2,958
		1,339,861	952,252
Non-current liabilities			
Borrowings	*34*	–	211,260
Deferred income tax liabilities	*23*	1,247	1,424
Deferred income	*35*	12,487	15,445
		13,734	228,129
Total liabilities		1,353,595	1,180,381
Total equity and liabilities		5,416,200	4,536,494

The notes on pages 61 to 129 are integral parts of these consolidated financial statements.

Zheng Yaonan
Director

Zhang Shengfeng
Director

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company						
	Share capital RMB'000 *(Note 29)*	**Share premium** RMB'000 *(Note 29)*	**Other reserves** RMB'000 *(Note 30)*	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
As at 1 January 2018	133,792	1,603,035	275,445	1,343,841	3,356,113	–	3,356,113
Comprehensive income							
Profit for the year	–	–	–	378,229	378,229	1,380	379,609
Other comprehensive income							
Exchange differences	–	–	34,433	–	34,433	–	34,433
Total comprehensive income for the year	–	–	34,433	378,229	412,662	1,380	414,042
Transactions with owners							
Proceeds from shares issued	7,756	407,363	–	–	415,119	–	415,119
Dividends paid	–	(115,725)	–	–	(115,725)	–	(115,725)
Shares bought back on-market	(793)	(28,287)	–	–	(29,080)	–	(29,080)
Transaction with non-controlling interest	–	–	3,974	–	3,974	–	3,974
Equity-settled share-based compensation *(Note 31)*	–	–	5,607	–	5,607	–	5,607
Shares purchased for share award scheme *(Note 30 (d))*	–	–	(1,121)	–	(1,121)	–	(1,121)
Capital injection from non-controlling interests	–	–	–	–	–	13,676	13,676
Total transactions with owners	6,963	263,351	8,460	–	278,774	13,676	292,450
Appropriation to statutory reserves	–	–	98,133	(98,133)	–	–	–
As at 31 December 2018	140,755	1,866,386	416,471	1,623,937	4,047,549	15,056	4,062,605
As at 1 January 2017	117,320	1,254,574	260,929	1,061,006	2,693,829	–	2,693,829
Comprehensive income							
Profit for the year	–	–	–	317,002	317,002	–	317,002
Other comprehensive income							
Exchange differences	–	–	(18,035)	–	(18,035)	–	(18,035)
Total comprehensive income for the year	–	–	(18,035)	317,002	298,967	–	298,967
Transactions with owners							
Proceeds from shares issued	16,472	511,978	–	–	528,450	–	528,450
Dividends paid	–	(163,517)	–	–	(163,517)	–	(163,517)
Equity-settled share-based compensation *(Note 31)*	–	–	3,049	–	3,049	–	3,049
Shares purchased for share award scheme *(Note 30 (d))*	–	–	(4,665)	–	(4,665)	–	(4,665)
Total transactions with owners	16,472	348,461	(1,616)	–	363,317	–	363,317
Appropriation to statutory reserves	–	–	34,167	(34,167)	–	–	–
As at 31 December 2017	133,792	1,603,035	275,445	1,343,841	3,356,113	–	3,356,113

The notes on pages 61 to 129 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	*36(a)*	**174,764**	446,733
Income tax paid		**(123,967)**	(99,906)
Net cash generated from operating activities		**50,797**	346,827
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*36(b)*	**592**	561
Interest received		**21,864**	25,971
Investment income from financial assets at fair value through profit or loss		**8,885**	–
Dividends from financial assets at fair value through other comprehensive income		**14,000**	–
Payment for financial assets at fair value through other comprehensive income		**(37,394)**	–
Payment for an available-for-sale financial asset		**–**	(4,000)
Purchases of property, plant and equipment		**(101,245)**	(98,436)
Purchases of intangible assets		**(5,006)**	(6,323)
Purchases of financial assets at fair value through profit or loss		**(106,000)**	–
Advance to a joint venture		**(364)**	–
Capital contribution to joint ventures		**(135,000)**	(9,055)
Capital contribution to an associate		**–**	(4,000)
Term deposits with initial term of over three months		**100,000**	(100,210)
Repayment of loan by a third party		**–**	105,000
Repayment from a related party		**2,700**	–
Net cash used in investing activities		**(236,968)**	(90,492)
Cash flows from financing activities			
Payments for purchase of the Company's shares for share award scheme		**(1,121)**	(4,665)
Payments for repurchase of the Company's shares		**(29,080)**	–
Capital injections from non-controlling interests		**15,300**	–
Proceeds from shares issued		**415,119**	528,450
Proceeds from borrowings		**–**	30,000
Repayments of borrowings		**(39,120)**	(6,920)
Interest paid for borrowings		**(10,056)**	(11,564)
Dividends paid		**(115,725)**	(163,517)
Net cash generated from financing activities		**235,317**	371,784
Net increase in cash and cash equivalents		**49,146**	628,119
Cash and cash equivalents at beginning of the year	28	**1,405,285**	799,533
Effect of foreign exchange rate changes		**41,732**	(22,367)
Cash and cash equivalents at end of the year	28	**1,496,163**	1,405,285

The notes on pages 61 to 129 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board on 27 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
IAS 28 (Amendment)	Investments in Associates and Joint Ventures

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 2.2 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

The following new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 (Amendments)	Long-term Interests in Associates or Joint Ventures	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Annual Improvements to 2015-2017 Cycle	Improvements to IFRS	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The management is in the process of assessing the impact of these standards, amendments and interpretations on the consolidated financial statements of the Group. The adoption of the above is not expected to have a material impact on the consolidated financial statements of the Group, except the following:

IFRS 16, 'Leases'

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB168,155,000 (see Note 38(b)). Of these commitments, approximately RMB2,520,000 and RMB23,000 are related to short-term leases and low-value leases respectively, which will both be recognised on a straight-line basis as expenses in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB122,079,000 on 1 January 2019, lease liabilities of approximately RMB115,636,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately RMB6,443,000 higher, and net current assets will be approximately RMB54,642,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB3,164,000 for 2019 as a result of adopting the new rules.

For the year ending 31 December 2019, operating cash flows will increase and financing cash flows will decrease by approximately RMB56,121,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

IFRS 16, 'Leases' (Continued)

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods. Certain of the Group's accounting policies have been changed to comply with the adoption of IFRS 9 and IFRS 15.

Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in Notes 2.2.1 and 2.2.2 below, IFRS 9 and IFRS 15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated balance sheet	31 December 2017 As originally presented RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 Restated RMB'000
Non-current assets				
Financial assets at fair value through other comprehensive income ("FVOCI")	–	23,100	–	23,100
Available-for-sale financial assets	23,100	(23,100)	–	–
Current liabilities				
Accruals and other payables	50,703	–	(50,703)	–
Contract liabilities	–	–	50,703	50,703

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 Adoption of IFRS 9 "Financial Instruments"

(a) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in 2.2.1(b) below.

Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 measurement categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with IAS 39 and IFRS 9 on 1 January 2018, the measurement categories of each material class of financial assets and liabilities were as follows:

	Measurement and category under IAS 39	**Measurement and category under IFRS 9**
Financial assets		
Trade receivables	Amortised cost	Amortised cost
Other receivables	Amortised cost	Amortised cost
Cash and cash equivalents	Amortised cost	Amortised cost
Financial assets at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
Financial assets at fair value through other comprehensive income ("FVOCI")	Fair value through other comprehensive income	Fair value through other comprehensive income
Available-for-sale financial assets	Fair value through profit or loss	Not applicable
Financial liabilities		
Trade payables	Amortised cost	Amortised cost
Other payables	Amortised cost	Amortised cost

Reclassification from available-for-sale to financial asset with fair value change through other comprehensive income ("FVOCI")

The Group has certain equity investments and these investments were classified as available-for-sale at fair value under previous standard IAS 39. With the adoption of IFRS 9, these assets were currently classified as financial assets at fair value and the Group elected to present any changes in the fair value through other comprehensive income, because the investment is held as long-term strategic investments that are not expected to be sold in the short to medium term.

As a result of the adoption of IFRS 9, the above investments have been fair valued as at 1 January 2018 with reference to the valuation conducted by an independent external valuer. There was no significant difference between the fair value and the carrying amount of the investment as at 1 January 2018, and therefore no adjustment was recorded to opening equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 Adoption of IFRS 9 "Financial Instruments" (Continued)

(a) IFRS 9 Financial Instruments – Impact of adoption (Continued)

Reclassification from available-for-sale to financial asset with fair value change through other comprehensive income ("FVOCI") (Continued)

Other than that, there were no changes to the classification and measurement of financial instruments.

Summary of effects resulting from adoption of IFRS 9 is as follows:

	IAS 39 Measurement category	Carrying amount RMB'000	IFRS 9 Measurement category	Carrying amount RMB'000
Financial assets				
Equity investment	Available-for-sale financial assets	23,100	FVOCI	23,100

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. The Group has the following type of financial assets measured at amortised cost that are subject to IFRS 9's new expected credit loss model:

- Trade receivables
- Deposits and other receivables

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment of deposit and other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The impact of the change in impairment methodology on the Group's retained earnings and equity is immaterial.

The Group established expected credit losses model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on financial assets has not resulted in any additional impairment loss as at 1 January 2018.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 Adoption of IFRS 9 "Financial Instruments" (Continued)

(b) IFRS 9 Financial Instruments – summary of significant accounting policies

The following describes the Group's updated financial instruments policy to reflect the adoption of IFRS 9:

Classification and measurement of financial instruments

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Recognition and measurement

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

Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 Adoption of IFRS 9 "Financial Instruments" (Continued)

(b) IFRS 9 Financial Instruments – summary of significant accounting policies (Continued)

Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Noted 4(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of deposit and other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition, then impairment is measured as lifetime ECL.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcome;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.2.2 Adoption of IFRS 15 "Revenue from Contracts with Customers"

(a) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contract" and related interpretations. The new accounting policies are set out in Note 2.2.2(b) below.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transitional provision in IFRS 15, comparative figures have not been restated.

The Group has assessed its performance obligations under its arrangements pursuant to IFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under IFRS 15 and the deliverables considered to be units of account under IAS 18.

The new standard requires the Group to estimate the total consideration, including an estimate of future variable consideration, receive in exchange for the goods delivered or services rendered. The Group's revenue streams are not significantly impacted by the new standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.2 Adoption of IFRS 15 "Revenue from Contracts with Customers" (Continued)

(b) IFRS 15 Revenue from Contracts with Customers – summary of significant accounting policies

The following describes the Group's updated revenue recognition policy to reflect the adoption of IFRS 15:

Sales of goods – sales to franchisees

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

The goods are sold and the customers have a right to return faulty products in the wholesale market. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated returns at the time of sale. Accumulated experience is used to estimate and provide for the returns, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 60 to 90 days, which is consistent with market practice. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales of goods – retail and e-commerce transaction

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

Payment of the transaction price is due immediately when the customer purchases the intimate wear products which is usually at the time a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Franchise fee and software usage fee income

Revenue from franchise fee and software usage fee income is recognised in the accounting period in which the services are rendered.

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

Logistic warehousing and delivery income

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

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

Other service income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries

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

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

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

2.3.2 Associates

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

2.3.3 Joint arrangements

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

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

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

2.3.4 Changes in ownership interests in subsidiaries without change of control

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.5 Disposal of subsidiaries

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

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.8 Land use rights

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets

(a) Acquired trademark

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

(b) Computer software

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

(c) Goodwill

Goodwill is measured as described in Note 2.10. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.10 Impairment of non-financial assets

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

2.11 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

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

Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(a) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 26 for further details.

(b) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

Equity instruments (Continued)

(b) Accounting policies applied until 31 December 2017 (Continued)

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

(i) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

(ii) Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

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

- for 'financial assets at FVPL' – in profit or loss within other gains/(loss).

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

Equity instruments (Continued)

(b) Accounting policies applied until 31 December 2017 (Continued)

(iii) Impairment

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

Assets carried at amortised cost

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

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

Impairment testing of trade receivables is described in Note 3.1(d).

Assets classified as available-for-sale

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

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

2.13 Inventories

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Restricted bank deposits

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

2.17 Share capital and shares held for employee share scheme

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

Where any Group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Group as treasury shares until the shares are cancelled.

Shares held by the Group are disclosed as treasury shares and deducted from contributed equity.

2.18 Trade and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Borrowings

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

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

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

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

2.20 Borrowing costs

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

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

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

Borrowing costs include interest expense.

2.21 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax

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

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

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

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

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

2.22 Employee benefits

(a) Pension obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits (Continued)

(b) Termination benefits

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

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

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

(d) Bonus entitlements

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

2.23 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Share-based payments (Continued)

(b) *Shares held for the 2016 Share Award Scheme*

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

(c) *Employee options*

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

- including any market performance conditions (for example, the entity's share price)

- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

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

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

The Employee Option Plan is administered by the Company Employee Share Trust, which is consolidated in accordance with the principles in Note 2.23(b). When the options are exercised, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

(d) *Share-based payment transactions among group entities*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Provisions

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

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

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

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

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

2.25 Operating leases – as leasee

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

2.26 Revenue recognition

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

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

The goods are sold and the customers have a right to return faulty products in the wholesale market. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated returns at the time of sale. Accumulated experience is used to estimate and provide for the returns, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 60 to 90 days, which is consistent with market practice. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

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

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

Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell its products to the end customer which is usually at the time a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Accumulated experience is used to estimate and provide for such returns at the time of sale.

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

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

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

(d) *Logistic warehousing and delivery income*

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

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

(e) *Other services income*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Interest income

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

2.29 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

2.30 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.31 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Note 7 provides further information on how the Group accounts for government grants.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) *Foreign exchange risk*

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

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's recognized assets and liabilities in the consolidated balance sheet as at 31 December 2018 are denominated in the respective Group companies' functional currencies.

(b) *Cash flow and fair value interest rate risk*

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

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

(c) *Price risk*

Except for the investments held by the Group and classified on the consolidated balance sheet as FVOCI of RMB60,494,000 and FVPL of RMB113,885,000 (2017: available-for-sale financial assets of RMB23,100,000 and FVPL of RMB8,408,000 respectively), the Group is not exposed to any equity securities price risk.

(d) *Credit risk*

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

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) *Credit risk* (Continued)

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

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

The Group also has policies in place to ensure that bank balances, term deposits and restricted bank deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions. As at 31 December 2018, the bank balances, term deposits and restricted bank deposits with banks as detailed in Note 28 are held in the following banks in the PRC and Hong Kong:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Top-four major state-owned banks in the PRC/Hong Kong	**783,903**	646,227
Listed banks	**535,951**	613,336
Other regional banks in the PRC	**185,745**	255,247
	1,505,599	1,514,810

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

(e) *Liquidity risk*

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

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

As at 31 December 2018, the Group has borrowings of RMB183,960,000 (Note 34) (2017: RMB11,820,000) that are due for settlement contractually within 12 months, and the contractual undiscounted cash outflow of the Group's financial liabilities approximate their carrying amounts included in the consolidated balance sheet.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

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

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

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

As at 31 December 2018, the Group has a net cash position and the aggregate balances of bank deposits, cash and cash equivalents and liquid investment exceeded the balance of bank loans by approximately RMB1,329,943,000 (2017: RMB1,300,468,000).

3.3 Fair value estimation

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

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

As at 31 December 2018, except for the financial assets at FVOCI of RMB60,494,000 (2017: RMB23,100,000) and financial assets at fair value through profit or loss of RMB113,885,000 (2017: RMB8,408,000), which were measured at either level 3 or level 1 fair value respectively, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Analysis of level 3 and level 1 financial instruments for the year ended 31 December 2018 are as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000 *(Note)*	Total RMB'000
Financial assets at fair value through profit or loss	7,885	–	106,000	113,885
Financial asset at fair value through other comprehensive income	–	–	60,494	60,494
At 31 December 2018	7,885	–	166,494	174,379
At 31 December 2017	8,408	–	23,100	31,508

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

	Unlisted equity securities RMB'000
As at 1 January 2017	18,600
Additions	4,500
As at 31 December 2017	23,100
Additions	143,394
As at 31 December 2018	166,494

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

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

The fair value of the Group's financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss was developed through the application of the income approach technique, the discounted cash flow method and market approach method by looking at comparable companies with similar size, features, operations, industry and economic conditions. The income approach is the conversion of expected periodic benefits of ownership into an indication of value. The discounted cash flow considered the future business plan, specific business and financial risks.

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

The following significant unobservable inputs have been applied in the discounted cash flow calculations in determining the fair value of the Group's financial assets at FVOCI as at 31 December 2018:

Twelve entities engaging in the manufacturing of intimate wear in the PRC

Discount rate	15%
Long term revenue growth rates	3%
Long term profit margins	3% – 16%
Discount for lack of marketability	30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(a) Net realizable value of inventories

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

(b) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The loss allowances for trade receivables and other receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(c) Current and deferred income taxes

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Fair value of certain financial assets

The fair value of FVOCI and FVPL that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

5 SEGMENT INFORMATION

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

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

For the year ended 31 December 2018, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2017: None).

6 REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales to franchisees	**2,800,790**	2,433,468
Retail sales	**1,494,518**	1,566,039
E-commerce	**712,450**	542,976
Trading of raw materials	**88,695**	–
	5,096,453	4,542,483

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contract liabilities related to sales to franchisees	**77,621**	–
Contract liabilities related to trading of raw materials	**8,142**	–
	85,763	–

The Group has adopted IFRS 15 from 1 January 2018 without restating comparative figures as at 31 December 2017. The revenue recognised in the current reporting year relating to carried-forward contract liabilities as at 1 January 2018 is approximately RMB50,703,000.

7 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants *(Note)*	**41,268**	40,349
Dividends from FVOCI	**14,000**	–
Logistic warehousing and delivery income	**10,564**	3,100
Investment income from FVPL	**8,885**	–
Software usage fee income	**2,462**	1,833
Franchise fee income	**1,489**	922
Others	**12,269**	9,150
	90,937	55,354

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 2.31 for further details.

8 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net foreign exchange gains/(losses)	**7,293**	(4,332)
Fair value (losses)/gains on financial asset at fair value through profit or loss *(Note 27)*	**(523)**	2,606
Loss on disposal of property, plant and equipment – net	**(1,206)**	(571)
Gain on disposal of a subsidiary – net	**–**	1,378
	5,564	(919)

9 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Costs of inventories recognized in cost of sales	**2,895,327**	2,511,457
Employee benefit expenses (including Directors' emoluments) *(Note 10)*	**376,097**	506,845
Operating expenses in respect of stores under cooperative arrangements *(Note)*	**677,488**	479,934
Other operating rental expenses	**30,845**	30,664
Marketing and promotion expenses	**160,963**	133,255
Depreciation and amortization *(Notes 17, 18 and 19)*	**87,602**	81,654
E-commerce platforms commission expenses	**80,748**	74,003
Logistic warehousing and delivery expenses	**42,297**	48,475
Write-down of inventories *(Note 25)*	**27,902**	19,574
Government charges and levies	**38,946**	35,927
Utilities expenses	**33,082**	30,981
Travelling expenses	**41,258**	30,676
Consumables recognized in expenses	**26,386**	23,682
Consulting service expenses	**15,133**	17,219
Auditor's remuneration		
– Audit services	**3,549**	3,380
– Non-audit services	**780**	347
Provision for impairment of other receivables *(Note 22)*	**2,120**	3,326
Provision for impairment of trade receivables *(Note 26)*	**2,372**	393
Miscellaneous	**166,081**	145,561
Total cost of sales, selling and marketing expenses and general and administrative expenses	**4,708,976**	4,177,353

Notes: For certain self-managed stores, the Group has entered into new cooperative arrangements with third party business partners during the year such that these business partners bear the operating lease rentals and the staff costs of the stores (2017: only bore lease rentals) while the Group paid each of them an amount of money based on the revenue of the respective store.

10 EMPLOYEE BENEFIT EXPENSES

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

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Wages, salaries and bonuses	**316,982**	448,680
Pension costs – defined contribution plans	**38,331**	42,523
Welfare and allowance	**15,177**	12,593
Equity-settled share-based compensation *(Note 31)*	**5,607**	3,049
	376,097	506,845

11 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Benefits and interests of Directors

Directors' and chief executive's emoluments for the year ended 31 December 2018 are set out below:

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Zheng Yaonan*(Note (i))*	–	827	70	897
Mr. Zhang Shengfeng	–	697	70	767
Mr. Lin Zonghong	–	106	70	176
Ms. Wu Xiaoli	–	268	70	338
Non-executive Directors				
Mr. Cheng Zuming*(Note (iii))*	–	687	68	755
Mr. Wen Baoma	–	50	–	50
Mr. Yang Weiqiang*(Note (ii))*	–	–	–	–
Mr. Hu Shengli*(Note (iv))*	–	–	–	–
Independent Non-executive Directors				
Dr. Dai Yiyi	150	–	–	150
Mr. Chen Zhigang	120	–	–	120
Mr. Yau Chi Ming	175	–	–	175
Dr. Lu Hong Te*(Note (ii))*	150	–	–	150
	595	2,635	348	3,578

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

(a) Benefits and interests of Directors (continued)

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

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

Notes:

(i) Mr. Zheng Yaonan is also the chief executive officer of the Group.

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

(iii) Mr. Cheng Zuming has been designated from executive Director on 1 February 2019.

(iv) Mr. Hu Shengli has been appointed as a non-executive Director on 25 May 2018.

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

No retirement benefits were paid to or receivable by any Directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: Nil).

No payment was made to Directors as compensation for the early termination of the appointment during the year (2017: Nil).

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

(a) Benefits and interests of Directors (continued)

No payment was made to the former employer of Directors for making available the services of them as a Director of the Company (2017: Nil).

There are no loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors during the year (2017: Nil).

Except for those disclosed in Note 39, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one Director (2017: 1), whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 4 (2017: 4) during the year are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**5,857**	4,439
Pension costs – defined contribution plans	**192**	319
Equity-settled share-based compensation	**–**	521
	6,049	5,279

The emoluments fell within the following bands:

	Year ended 31 December	
	2018 Number of individual	2017 Number of individual
Emolument bands:		
HK$500,000 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**2**	1

During the year, no director or none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2017: Nil).

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

(c) Senior management remuneration by band

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

	Year ended 31 December	
	2018 Number of individual	2017 Number of individual
Emolument bands:		
HK$0 to HK$500,000	**2**	–
HK$500,001 to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**2**	1

12 FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Finance income		
Interest income on short-term bank deposits	**16,491**	4,822
Interest income on available-for-sale financial assets	**–**	12,228
Interest income on loan to a third party *(Note 24)*	**–**	1,713
Others	**3,486**	–
	19,977	18,763
Finance expense		
Interest expense on bank borrowings	**(10,056)**	(11,564)
	9,921	7,199

13 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax *(Note (a))*	**–**	–
– PRC corporate income tax *(Note (b))*	**147,603**	124,467
	147,603	124,467
Deferred income tax *(Note 23)*	**(24,930)**	(16,198)
Income tax expense	**122,673**	108,269

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the year ended 31 December 2018 (2017: 16.5%).

(b) PRC corporate income tax

The Group's subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2018 (2017: 25%), based on the existing legislation, interpretations and practices in respect thereof.

(c) Overseas income tax

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**502,282**	425,271
Tax calculated at statutory tax rates applicable to each group entity *(Note)*	**122,890**	104,338
Tax losses for which no deferred income tax asset was recognised	**534**	9,301
Income not subject to taxation	**(5,736)**	(13,600)
Expenses not deductible for tax purposes	**1,712**	4,563
Withholding tax	**3,273**	3,667
Income tax expense	**122,673**	108,269

Note: The weighted average applicable tax rate for the year is 24.4% (2017: 25.5%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

14 EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2018	2017
Profit for the year attributable to owners of the Company (RMB'000)	**378,229**	317,002
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	**2,205,670**	2,051,303
Basic earnings per share (RMB cents per share)	**17.15**	15.45

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2018 has been adjusted for the effects of the issuance of new shares on 25 May 2018, purchase and withholding of the ordinary shares of the Company for the share award scheme and the repurchase and cancellation of ordinary shares of the Company during the year ended 31 December 2018.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options.

	Year ended 31 December	
	2018	2017
Profit for the year attributable to owners of the Company (RMB'000)	**378,229**	317,002
Weighted average number of ordinary shares for the purposes of basic earnings per share (thousands of shares)	**2,205,670**	2,051,303
Adjustment for share options (thousands of shares)	**5,813**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (thousands of shares)	**2,211,483**	2,051,303
Diluted earnings per share (RMB cents per share)	**17.10**	15.45

15 DIVIDENDS

At a meeting held on 27 March 2019, the Board recommended a final dividend of HK3.75 cents (2017: HK3.34 cents) per ordinary share and special final dividend of HK6.20 cents (2017: nil) per ordinary share for celebrating the 5th anniversary of the listing of the Company's shares (equivalent to approximately RMB3.20 cents and RMB5.30 cents per ordinary share of the Company respectively), totalling approximately HK$224,403,000 (equivalent to approximately RMB191,683,000) for the year ended 31 December 2018. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements for the year ended 31 December 2018, but will be reflected as an appropriation for the year ending 31 December 2019.

At a meeting held on 20 August 2018, the Board has recommended the payment of an interim dividend of HK2.73 cents (equivalent to approximately RMB2.40 cents) per ordinary share of the Company, totalling approximately HK$61,763,000 (equivalent to approximately RMB54,171,000) for the six months ended 30 June 2018 (2017: HK$55,378,000 (equivalent to approximately RMB47,246,000)), which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2018.

At the annual general meeting held on 21 May 2018, the shareholders approved a final dividend of HK3.34 cents (equivalent to approximately RMB2.70 cents) per ordinary share of the Company, totalling approximately HK$75,564,000 (equivalent to approximately RMB61,554,000) for the year ended 31 December 2017, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2018.

16 DISPOSAL OF SUBSIDIARY

On 23 June 2017, the Group disposed of 95% equity interest in Cosmo Lady Guangdong Intelligent Industry Investment Co., Ltd. ("CLGIII"), which was engaged in property investment, to Guangdong Zhengji Innovative Industrial Park Development Co., Ltd. ("Guangdong Zhengji"), a company controlled by the Company's shareholder and Director (Note 39), for a consideration of RMB10,809,100 settled through current accounts.

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	–	263
Land use rights	–	48,640
Deposits, prepayments and other receivables	–	14,360
Cash and cash equivalents	–	354
Accruals and other payables *(Note)*	–	(53,690)
Net assets	–	9,927
95% of carrying amount of net assets	–	9,431
Settlement through current account	–	10,809
Gain on disposal of a subsidiary	–	1,378

Note: Payable amount of RMB3,200,000 were related to the Group and settled subsequently.

Notes to the Consolidated Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture, fittings and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017							
Cost	305,745	133,348	50,280	106,340	5,415	159,530	760,658
Accumulated depreciation	(48,498)	(86,468)	(21,083)	(54,971)	(3,992)	–	(215,012)
Net book amount	257,247	46,880	29,197	51,369	1,423	159,530	545,646
Year ended 31 December 2017							
Opening net book amount	257,247	46,880	29,197	51,369	1,423	159,530	545,646
Additions	258	23,068	8,485	23,292	342	38,762	94,207
Transfer	139,736	413	20,086	–	–	(160,235)	–
Disposals	–	–	(12)	(786)	(334)	–	(1,132)
Depreciation *(Note 9)*	(14,646)	(32,579)	(6,122)	(19,708)	(657)	–	(73,712)
Closing net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
At 31 December 2017							
Cost	445,739	156,829	78,839	128,846	5,423	38,057	853,733
Accumulated depreciation	(63,144)	(119,047)	(27,205)	(74,679)	(4,649)	–	(288,724)
Net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
Year ended 31 December 2018							
Opening net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
Additions	106	55,419	1,442	13,454	439	9,017	79,877
Transfer	–	1,576	–	2,115	–	(3,691)	–
Disposals	(438)	(432)	(26)	(847)	(55)	–	(1,798)
Depreciation *(Note 9)*	(21,159)	(31,943)	(6,780)	(18,425)	(424)	–	(78,731)
Closing net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
At 31 December 2018							
Cost	445,407	213,392	80,255	143,568	5,807	43,383	931,812
Accumulated depreciation	(84,303)	(150,990)	(33,985)	(93,104)	(5,073)	–	(367,455)
Net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**1,087**	1,457
Selling and marketing expenses	**10,413**	10,487
General and administrative expenses	**67,231**	61,768
	78,731	73,712

18 LAND USE RIGHTS

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**87,311**	89,391
Amortization charge *(Note 9)*	**(2,080)**	(2,080)
At 31 December	**85,231**	87,311

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Selling and marketing expenses	**866**	866
General and administrative expenses	**1,214**	1,214
	2,080	2,080

19 INTANGIBLE ASSETS

	Goodwill RMB'000	Acquired trademark RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2017				
Cost	2,887	10,190	53,921	66,998
Accumulated amortization	–	(2,610)	(24,939)	(27,549)
Net book amount	2,887	7,580	28,982	39,449
Year ended 31 December 2017				
Opening net book amount	2,887	7,580	28,982	39,449
Additions	–	–	11,803	11,803
Amortization charge *(Note 9)*	–	(1,028)	(4,834)	(5,862)
Closing net book amount	2,887	6,552	35,951	45,390
At 31 December 2017				
Cost	2,887	10,190	65,724	78,801
Accumulated amortization	–	(3,638)	(29,773)	(33,411)
Net book amount	2,887	6,552	35,951	45,390
Year ended 31 December 2018				
Opening net book amount	**2,887**	**6,552**	**35,951**	**45,390**
Additions	**–**	**26**	**6,347**	**6,373**
Amortization charge *(Note 9)*	**–**	**(1,021)**	**(5,770)**	**(6,791)**
Closing net book amount	**2,887**	**5,557**	**36,528**	**44,972**
At 31 December 2018				
Cost	**2,887**	**10,216**	**72,071**	**85,174**
Accumulated amortization	**–**	**(4,659)**	**(35,543)**	**(40,202)**
Net book amount	**2,887**	**5,557**	**36,528**	**44,972**

19 INTANGIBLE ASSETS (Continued)

Amortization of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income within selling and marketing expenses and general and administrative expenses of RMB1,969,000 (2017: RMB1,615,000) and RMB4,822,000 (2017: RMB4,247,000), respectively.

Impairment review on goodwill of the Group has been conducted by management as at 31 December 2018 and 31 December 2017 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 3% (2017: not more than 3%). The growth rates used do not exceed the industry growth forecast for the market in which the Group operates. The discount rate used of 19% (2017: 19%) is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

20 INVESTMENT IN JOINT VENTURES AND AN ASSOCIATE

The carrying amount of equity-accounted investments has changed as follows in the year ended 31 December 2018.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Beginning of the year	**22,407**	1,990
Additions	**135,000**	21,910
Share of profit/(losses) for the year	**8,383**	(1,493)
End of the year	**165,790**	22,407

20 INVESTMENT IN JOINT VENTURES AND AN ASSOCIATE (Continued)

Name of entity	Place of business/ country of incorporation	% of ownership interest 2018 %	% of ownership interest 2017 %	Nature of relationship	Measurement method	Carrying amount 2018 RMB'000	Carrying amount 2017 RMB'000
Guangdong Dongdu Holdings Limited	PRC	19.9	19.9	Joint venture *(Note (a))*	Equity method	18,347	19,900
Zhong Rui Run He (Ningbo) Investment Management Company Limited	PRC	40	40	Associate *(Note (b))*	Equity method	385	2,507
Jinghedu (Dongguan) Equity Investment Management Company Limited	PRC	60	–	Joint venture *(Note (c))*	Equity method	15,056	–
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership)	PRC	69	–	Joint venture *(Note (c))*	Equity method	132,002	–

Note:

(a) Guangdong Dongdu Holdings Limited is primarily engaged in developing an industrial centre in Shaoguan, Guangdong Province.

(b) Zhong Rui Run He (Ningbo) Investment Management Company Limited is primarily engaged in investments and assets management.

(c) Jinghedu (Dongguan) Equity Investment Management Company Limited and Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) are primarily engaged in assets management and equity investment respectively. According to the investment agreement of Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership), total investment of the Group is RMB242,000,000. As at 31 December 2018, a total amount of RMB135,000,000 on top of share capital of 300,000 has been paid.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Equity investments at fair value through other comprehensive income

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Unlisted equity investments	**60,494**	–

(b) Financial assets previously classified as available-for-sale financial assets (2017)

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Unlisted equity investments	–	23,100

These investments were classified as available-for-sale in 2017.

22 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Prepayments for acquisition of property, plant and equipment and intangible assets	**5,043**	3,989
Value added tax recoverable	**157,705**	152,541
Prepayments and deposits	**11,715**	7,593
Prepaid rental expenses	**302,576**	260,225
Prepayments for purchase of goods	**142,056**	6,089
Prepayments for purchase of raw materials	**67,766**	53,591
Other receivables from agents	**58,292**	25,077
Other receivables from staffs	**19,404**	5,769
Others	**40,353**	33,387
	804,910	548,261
Less: non-current portion	**(14,417)**	(8,637)
Current portion	**790,493**	539,624

As at 31 December 2018, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

As at 31 December 2018, the Group's deposits and other receivables are fully performing under normal business terms except that certain other receivables of RMB2,120,000 (2017: RMB3,326,000) have been fully impaired.

23 DEFERRED INCOME TAX

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

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**15,040**	12,461
Deferred tax assets to be recovered within 12 months	**64,943**	42,769
	79,983	55,230

23 DEFERRED INCOME TAX (Continued)

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

	Write-down of inventories RMB'000	Provision for trade receivables RMB'000	Provision for sales return RMB'000	Deferred income RMB'000	Tax losses carried forward RMB'000	Accrued interest RMB'000	Total RMB'000
At 1 January 2017	15,933	773	832	–	15,057	6,614	39,209
Credited/(charged) to the profit or loss *(Note 13)*	92	(162)	(227)	4,601	5,633	6,084	16,021
At 31 December 2017	16,025	611	605	4,601	20,690	12,698	55,230
Credited/(charged) to the profit or loss *(Note 13)*	(68)	503	170	(740)	15,863	9,025	24,753
At 31 December 2018	**15,957**	**1,114**	**775**	**3,861**	**36,553**	**21,723**	**79,983**

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

	Intangible assets	
	2018 RMB'000	2017 RMB'000
At 1 January	**1,424**	1,601
Credited to the statement of profit or loss *(Note 13)*	**(177)**	(177)
At 31 December	**1,247**	1,424

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

Deferred income tax assets are recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group recognised deferred income tax assets of RMB36,553,000 (2017: RMB20,690,000) in respect of tax losses amounting to RMB146,212,000 (2017: RMB82,759,000) that can be carried forward to offset against future taxable income. Tax losses of RMB64,425,000 (2017: RMB47,788,000) will expire within 4 years from 31 December 2018.

As at 31 December 2018, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,649,577,000 (2017: RMB1,397,866,000). Deferred tax liabilities of RMB164,958,000 (2017: RMB139,786,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

24 LOAN TO A THIRD PARTY

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

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

25 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**23,121**	17,922
Work in progress	**6,683**	3,532
Finished goods	**1,198,958**	1,154,604
	1,228,762	1,176,058
Less: provision for impairment	**(63,829)**	(64,099)
	1,164,933	1,111,959

Inventories are valued at the lower of cost and estimated net realizable value. Provision is made for obsolete and slow-moving items. The inventory write-down and write-back recognized in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB27,902,000 and RMB28,172,000 respectively for the year ended 31 December 2018 (2017: RMB19,574,000 and RMB19,208,000 respectively).

26 TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Due from third parties	**830,401**	556,723
Less: provision for impairment	**(4,774)**	(2,444)
Trade receivables – net	**825,627**	554,279

(a) As at 31 December 2018, the carrying amounts of the trade receivables of the Group approximate their fair values and are substantially denominated in RMB.

26 TRADE RECEIVABLES (Continued)

(b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new retail stores. The Group would also extend the credit period of 180 to 360 days for certain franchise customers under certain circumstances. The aging analysis of trade receivables based on invoice date, as at 31 December 2018 is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables, gross		
– Within 30 days	**401,470**	291,628
– Over 30 days and within 60 days	**113,493**	59,296
– Over 60 days and within 90 days	**155,705**	73,527
– Over 90 days and within 180 days	**107,243**	39,409
– Over 180 days and within 360 days	**33,291**	71,730
– Over 360 days	**19,199**	21,133
	830,401	556,723

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Fully performing under credit terms	**687,697**	531,624
Past due but not impaired	**137,930**	22,655
Non-performing and impaired	**4,774**	2,444
	830,401	556,723
Less: provision for impairment	**(4,774)**	(2,444)
Trade receivables – net	**825,627**	554,279

As at 31 December 2018, trade receivables of RMB4,774,000 of the Group are provided for (2017: RMB2,444,000). The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles of sales before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP rate of PRC in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

26 TRADE RECEIVABLES (Continued)

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

On that basis, the loss allowance as at 31 December 2018 was determined as follows for the trade receivables:

	Within 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 360 days	More than 360 days	Total
31 December 2018							
Expected loss rate	0%	0%	0% – 10%	0% – 20%	0% –40%	0% – 50%	
Gross carrying amount							
– trade receivables	401,470	113,493	155,705	107,243	33,291	19,199	830,401
Loss allowance	–	–	–	587	1,000	3,187	4,774

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
31 December – calculated under IAS 39	2,444	3,093
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	2,444	–
Increase in loan loss allowance recognised in profit or loss during the year	2,711	1,510
Unused amounts reversed	(339)	(1,117)
Receivables written off during the year as uncollectible	(42)	(1,042)
At 31 December	4,774	2,444

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

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
– Within 30 days	42,305	13,837
– Over 30 days and within 60 days	18,156	3,586
– Over 60 days and within 90 days	29,931	2,761
– Over 90 days and within 180 days	38,659	1,589
– Over 180 days and within 360 days	5,079	311
– Over 360 days	3,800	571
	137,930	22,655

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include the following:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Current asset		
Japan listed equity security *(Note (a))*	**7,885**	8,408
Non-current asset		
Entrusted investment *(Note (b))*	**106,000**	–
	113,885	8,408

(a) Amount recognised in profit or loss
Changes in fair value of financial assets at fair value through profit or loss are recorded in other (losses)/gains (2018: loss of RMB523,000; 2017: gain of RMB2,606,000).

(b) The Group has invested in an unlisted company through a third party investment management company. According to the agreement entered into with the investment management company, the Group is committed to pay a total amount of RMB106,000,000 to the investment company. As at 31 December 2018, the full amount was paid and the fair value of the investment is RMB106,000,000.

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

28 BANK BALANCES AND CASH

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**1,496,163**	1,405,285
Term deposits with initial term of over three months *(Note (a))*	**630**	100,630
Restricted bank deposits *(Note (b))*	**9,225**	9,225
Total bank balances and cash	**1,506,018**	1,515,140
Denominated in:		
RMB	**856,911**	1,158,982
HK$	**496,136**	213,346
Other currencies	**152,971**	142,812
	1,506,018	1,515,140

Notes:

(a) As at 31 December 2018, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 2.81% (2017: 1.12%) per annum.

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

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

29 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 31 December 2016	1,906,457,000	117,320	1,254,574	1,371,894
Proceeds from shares issued *(Note (a))*	240,000,000	16,472	511,978	528,450
Dividends	–	–	(163,517)	(163,517)
As at 31 December 2017	2,146,457,000	133,792	1,603,035	1,736,827
Proceeds from shares issued *(Note (b))*	**121,443,213**	**7,756**	**407,363**	**415,119**
Shares bought back on-market and cancelled	**(11,666,000)**	**(778)**	**(27,809)**	**(28,587)**
Shares bought back on-market but not yet cancelled *(Note (c))*	**–**	**(15)**	**(478)**	**(493)**
Dividends	**–**	**–**	**(115,725)**	**(115,725)**
As at 31 December 2018	**2,256,234,213**	**140,755**	**1,866,386**	**2,007,141**

Notes:

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

(b) Pursuant to an agreement dated 26 April 2018 entered into among the Company, Windcreek Limited, Image Frame Investment (HK) Limited, Vipshop International Holdings Limited and Quick Returns Global Limited, the Company allotted and issued 121,443,213 shares at the price of HK$4.2 per share on 25 May 2018.

(c) 210,000 shares purchased from the market were cancelled in early 2019.

30 OTHER RESERVES

	Merger reserve RMB'000 *Note (a)*	Shares held for share award scheme RMB'000 *Note (d)*	Statutory reserve RMB'000 *Note (b)*	Capital reserve RMB'000 *Note (c)*	Capital contribution reserve RMB'000	Equity-settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2017	(8,938)	(14,872)	64,056	192,790	18,429	6,540	2,924	260,929
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	3,049	–	3,049
– Transfer upon vested	–	–	–	–	4,948	(4,948)	–	–
Shares purchased for share award scheme	–	(4,665)	–	–	–	–	–	(4,665)
Exchange differences	–	–	–	–	–	–	(18,035)	(18,035)
Appropriation to statutory reserves	–	–	34,167	–	–	–	–	34,167
At 31 December 2017	(8,938)	(19,537)	98,223	192,790	23,377	4,641	(15,111)	275,445
Equity-settled share-based compensation								
– Value of employee services	–	–	–	–	–	5,607	–	5,607
– Transaction with non-controlling interest	–	–	–	3,974	–	–	–	3,974
Shares purchased for share award scheme	–	(1,121)	–	–	–	–	–	(1,121)
Exchange differences	–	–	–	–	–	–	34,433	34,433
Appropriation to statutory reserves	–	–	98,133	–	–	–	–	98,133
At 31 December 2018	(8,938)	(20,658)	196,356	196,764	23,377	10,248	19,322	416,471

Notes:

(a) Merger reserve

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

(b) Statutory reserve

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

(c) Capital reserve

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

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

30 OTHER RESERVES (Continued)

Notes: (Continued)

(d) Shares held for share award scheme

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

During the year, the Share Scheme Trustee acquired and withheld 500,000 ordinary shares of the Company (2017: 1,941,000) from the open market with funds provided by the Company by way of contributions, for an aggregate consideration of approximately HK$1,356,000 (equivalent to approximately RMB1,121,000) (2017: RMB4,665,000), which had been deducted from shareholders' equity.

31 EQUITY-SETTLED SHARE-BASED COMPENSATION

(a) Pre-IPO Share Award Scheme

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

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

	Year ended 31 December	
	2018	2017
At 1 January	–	6,900,000
Vested	–	–
Forfeited	–	(6,900,000)
At 31 December	–	–

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

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

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

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

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(b) 2016 Share Award Scheme

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

No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 31 December 2018.

(c) Employee Option Plan

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

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

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

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

	2018		2017	
	Average exercise price per share option	**Number of options**	Average exercise price per share option	Number of options
As at 1 January	**HK$3.288**	**75,000,000**	–	–
Granted	**HK$3.288**	**–**	HK$3.288	79,100,000
Forfeited	**HK$3.288**	**(19,700,000)**	HK$3.288	(4,100,000)
As at 31 December	**HK$3.288**	**55,300,000**	HK$3.288	75,000,000
Vested and exercisable at 31 December	**–**	**–**	–	–

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(c) Employee Option Plan (continued)

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

Grant Date	Expiry date	Exercise price	Share options 2018	Share options 2017
31 October 2017	30 October 2027	HK$3.288	55,300,000	75,000,000

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2017 was HK$1.1598 to HK$1.2502 per option (no option granted in 2018). The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model, Binomial Model and its variants that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

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

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

(ii) exercise price: HK$3.288

(iii) grant date: 31 October 2017

(iv) expiry date: 30 October 2027

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

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

(vii) expected dividend yield: 2.4%

(viii) risk-free interest rate: 1.778%

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

31 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(d) Expenses arising from share-based payment transactions

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

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
General and administrative expenses:		
Options issued under employee option plan *(Note (a))*	–	2,717
Pre-IPO Share Award Scheme	–	(1,063)
Share-based compensation related to senior managements' interest in subsidiaries *(Note (b))*	**5,607**	–
Selling and marketing expenses		
Options issued under employee option plan	–	1,924
Pre-IPO Share Award Scheme	–	(529)
	5,607	3,049

Note:

(a) During the year, with failure to meet the performance indicators both at personal and Group levels, no share options were vested.

(b) During the year, certain senior management together with their management team invested in two subsidiaries of the Group. The fair value of the shares invested over their actual investment amount was booked as share-based compensation.

32 TRADE PAYABLES

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Due to third parties	**703,688**	577,900
Due to related parties *(Note 39(d))*	**7,417**	5,668
	711,105	583,568

As at 31 December 2018, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

32 TRADE PAYABLES (Continued)

At 31 December 2018, trade payables are denominated in RMB. The aging analysis of trade payables based on invoice date, as at 31 December 2018 is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables		
– Within 30 days	**128,260**	158,783
– Over 30 days and within 60 days	**185,045**	125,781
– Over 60 days and within 90 days	**229,615**	107,847
– Over 90 days and within 180 days	**82,371**	170,253
– Over 180 days and within 360 days	**39,235**	14,633
– Over 360 days	**46,579**	6,271
	711,105	583,568

33 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Payables for purchases of property, plant and equipment and intangible assets	**37,943**	54,504
Receipts in advance from customers	**–**	50,703
Salaries and welfare payables	**47,827**	58,188
Accrued taxes other than income tax	**36,753**	6,956
Deposits from franchisees	**54,731**	61,134
Payable for logistics	**26,963**	13,171
Payable for advertisements	**13,338**	1,502
Provision for sales return	**3,100**	2,419
Other accrued expenses and payables	**63,135**	56,680
	283,790	305,257

As at 31 December 2018, accruals and other payables of the Group are non-interest bearing, and their fair values, except for the provision for sales return and receipts in advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2018, accruals and other payables of the Group are denominated in RMB.

34 BORROWINGS

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Non-current	**–**	211,260
Current	**183,960**	11,820
	183,960	223,080

Movements in borrowings are analysed as follows:

	RMB'000
Opening amount as at 1 January 2018	223,080
Repayments of bank borrowings	(39,120)
Closing amount as at 31 December 2018	**183,960**

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

The Group's bank borrowings are unsecured and repayable until 2019 and bearing interest at 5.22% per annum (2017: 5.20%). The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.22% (2017: 5.20%) and are within level 2 of the fair value hierarchy.

35 DEFERRED INCOME

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Non-current	**12,487**	15,445
Current	**2,958**	2,958
	15,445	18,403

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

36 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**502,282**	425,271
Adjustments for:		
Depreciation of property, plant and equipment *(Note 17)*	**78,731**	73,712
Amortization of land use rights *(Note 18)*	**2,080**	2,080
Amortization of intangible assets *(Note 19)*	**6,791**	5,862
Provision for impairment of other receivables *(Note 9)*	**2,120**	3,326
Provision for impairment of trade receivables *(Note 9)*	**2,372**	393
Write-down of inventories *(Note 25)*	**27,902**	19,574
Fair value (losses)/gains on financial asset at fair value through profit or loss *(Note 8)*	**523**	(2,606)
Finance income *(Note 12)*	**(19,977)**	(18,763)
Finance expense *(Note 12)*	**10,056**	11,564
Foreign exchange (gains)/losses *(Note 8)*	**(7,293)**	4,332
Equity-settled share-based compensation *(Note 31)*	**5,607**	3,049
Gain on disposal of a subsidiary *(Note 8)*	**–**	(1,378)
Share of (profit)/losses of equity investments	**(8,383)**	1,493
Investment income from FVOCI *(Note 7)*	**(8,885)**	–
Dividends from FVOCI *(Note 7)*	**(14,000)**	–
Loss on disposal of property, plant and equipment – net *(Note 8)*	**1,206**	571
	581,132	528,480
Changes in working capital:		
Increase in trade receivables	**(273,720)**	(103,442)
Increase in deposits, prepayments and other receivables	**(259,591)**	(45,814)
(Increase)/decrease in inventories	**(80,876)**	19,146
Increase in financial asset at fair value through profit or loss	**–**	(5,802)
Increase in trade payables	**127,537**	29,314
(Decrease)/increase in accruals and other payables	**(2,496)**	6,448
Increase in contract liabilities	**85,763**	–
(Decrease)/increase in deferred income	**(2,985)**	18,403
Cash generated from operations	**174,764**	446,733

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount of property, plant and equipment *(Note 17)*	**1,798**	1,132
Loss on disposal of property, plant and equipment – net *(Note 8)*	**(1,206)**	(571)
Proceeds from disposal of property, plant and equipment	**592**	561

Notes to the Consolidated Financial Statements

36 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Net cash reconciliation

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Total bank balances and cash	1,506,018	1,515,140
Liquid investment *(Note)*	7,885	8,408
Borrowings – repayable within one year *(Note 34)*	(183,960)	(11,820)
Borrowings – repayable after one year *(Note 34)*	–	(211,260)
Net cash	1,329,943	1,300,468
Cash and liquid investments	1,513,903	1,523,548
Gross debt – fixed interest rates	(183,960)	(193,980)
Gross debt – variable interest rates	–	(29,100)
Net cash	1,329,943	1,300,468

	Other assets			Liabilities from financing activities		
	Cash, cash equivalents RMB'000	Term deposits and restricted bank deposits RMB'000	Liquid investment *(Note)* RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
Net cash as at 1 January 2017	799,533	9,645	–	–	(200,000)	609,178
Cash flows	628,119	100,210	5,802	(11,820)	(11,260)	711,051
Foreign exchange adjustments	(22,367)	–	–	–	–	(22,367)
Other non-cash movements	–	–	2,606	–	–	2,606
Net cash as at 31 December 2017	1,405,285	109,855	8,408	(11,820)	(211,260)	1,300,468
Net cash as at 1 January 2018	1,405,285	109,855	8,408	(11,820)	(211,260)	1,300,468
Cash flows	49,146	(100,000)	–	11,820	27,300	(11,734)
Foreign exchange adjustments	41,732	–	–	–	–	41,732
Other non-cash movements	–	–	(523)	(183,960)	183,960	(523)
Net cash as at 31 December 2018	1,496,163	9,855	7,885	(183,960)	–	1,329,943

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

37 BALANCE SHEET AND RESERVES OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries *(Note (a))*	**1,169,604**	1,145,957
Current assets		
Other receivables	**823**	383
Amounts due from a subsidiary *(Note (b))*	**146,392**	146,281
Financial asset at fair value through profit or loss	**7,885**	8,408
Bank balances and cash	**691,513**	342,784
	846,613	497,856
Total assets	**2,016,217**	1,643,813
Equity		
Capital and reserves		
Share capital *(Note 29)*	**140,755**	133,792
Share premium *(Note 29)*	**1,866,386**	1,603,035
Other reserves	**169,916**	67,050
Accumulated losses	**(167,996)**	(164,802)
Total equity	**2,009,061**	1,639,075
Liabilities		
Current liabilities		
Accruals and other payables	**7,156**	4,738
Total liabilities	**7,156**	4,738
Total equity and liabilities	**2,016,217**	1,643,813

Zheng Yaonan
Director

Zhang Shengfeng
Director

37 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Accumulated losses of the Company

	RMB'000
At 1 January 2017	(159,866)
Loss for the year	(4,936)
At 31 December 2017	(164,802)
Loss for the year	(3,194)
At 31 December 2018	(167,996)

Other reserves of the Company

	Shares held for share award scheme RMB'000	Capital contribution reserve RMB'000	Equity – settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2017	(14,872)	18,429	6,540	168,746	178,843
Equity-settled share-based compensation					
– Value of employee services	–	–	3,049	–	3,049
– Transfer upon vested	–	4,948	(4,948)	–	–
Shares purchased for share award scheme	(4,665)	–	–	–	(4,665)
Currency translation differences	–	–	–	(110,177)	(110,177)
At 31 December 2017	(19,537)	23,377	4,641	58,569	67,050
Shares purchased for share award scheme	(1,121)	–	–	–	(1,121)
Currency translation differences	–	–	–	103,987	103,987
At 31 December 2018	**(20,658)**	**23,377**	**4,641**	**162,556**	**169,916**

37 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Other reserves of the Company (Continued)

Notes:

(a) Interests in subsidiaries

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Capital contribution relating to share-based payment	**27,341**	27,341
Loans to subsidiaries	**1,142,263**	1,118,616
	1,169,604	1,145,957

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

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

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

38 COMMITMENTS

(a) Capital commitments

As at 31 December 2018, the Group had the following capital commitments not provided for:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Contracted but not provided for:		
Property, plant and equipment	**28,880**	34,757
Intangible assets	**697**	2,417
	29,577	37,174

38 COMMITMENTS (Continued)

(b) Operating lease commitments

The Group leases certain of its stores, warehouses and office properties under lease arrangements with leases negotiated for terms mainly ranging from one to five years.

As at 31 December 2018, the future aggregate minimum lease payments in respect of buildings under non-cancellable operating leases were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**82,466**	202,095
Later than 1 year and no later than 5 years	**85,689**	292,960
Later than 5 years	**–**	3,678
	168,155	498,733

The Group's lease terms range from 1 to 4 years.

39 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and balances arising from related party transactions as at 31 December 2018.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. Zhang Shengfeng	Director
Mr. Lin Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd (汕頭市盛強針織實業有限公司) ("Shantou Shengqiang")	Controlled by a brother of Mr. Zhang Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd (汕頭市茂盛針織內衣有限公司 ("Shantou Maosheng")	Controlled by a brother of Mr. Lin Zonghong
Guangdong Zhengji Innovative Industrial Park Development Co., Ltd. (廣東正基創新產業園發展有限公司) ("Guangdong Zhengji")	Controlled by Mr. Zheng Yaonan
Cosmo Lady Guangdong Intelligent Industry Investment Co., Ltd. 廣東都市麗人智能產業投資有限公司) ("CLGIII")	Controlled by Mr. Zheng Yaonan
Guangdong Dongdu Holdings Limited (廣東東都實業有限公司)	Joint venture

39 RELATED PARTY TRANSACTIONS (Continued)

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

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Continuing transactions:		
Shantou Shengqiang	**28,348**	20,819
Shantou Maosheng	**8,847**	8,089
	37,195	28,908

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

(c) Disposal of equity interest in a subsidiary

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

(d) Balances with related parties

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade payables balances *(Note 32)*:		
Shantou Shengqiang	**7,417**	4,405
Shantou Maosheng	**–**	1,263
	7,417	5,668

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

(e) Key management compensation

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

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**10,846**	10,307
Pension costs – defined contribution plans	**663**	660
Equity-settled share-based compensation	**–**	2,146
	11,509	13,113

40 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP

(a) Particulars of the subsidiaries of the Group as at 31 December 2018 are set out below:

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2018	2017	
Directly held:					
Cosmo Lady (International) Holdings Co., Ltd (都市麗人(國際)控股有限公司)	BVI	1 share of US$1	100%	100%	Investment holding/ Hong Kong
Indirectly held:					
Cosmo Lady Guangdong Holdings Limited (廣東都市麗人實業有限公司)	PRC	RMB 420,000,000	100%	100%	Sale of intimate wear/ PRC
Beijing Ziseyangguang Sale Co., Ltd (北京紫色陽光銷售有限公司)	PRC	RMB 1,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Shenzhen) Co., Ltd (深圳市都市麗人服裝有限公司)	PRC	RMB 2,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Guangzhou) Co., Ltd (廣州市都市麗人服裝有限公司)	PRC	RMB 2,000,000	100%	100%	Sale of intimate wear/ PRC
Tianjin Dushifengshang Fashion Co., Ltd. (天津都市風尚服裝銷售有限公司)	PRC	RMB 30,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Chongqing) Co., Ltd (重慶市凡雪服裝有限公司)	PRC	RMB 20,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Shanghai) Co., Ltd (上海市凡雪服裝有限公司)	PRC	RMB 3,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (TianJin) E-commerce Company Limited (天津都市麗人電子商務有限公司)	PRC	RMB10,000,000	95%	100%	Sale of intimate wear/ PRC
Freeday (Tianjin) Fashion Company Limited (天津自在時光服裝銷售有限公司)	PRC	RMB15,000,000	100%	100%	Sale of intimate wear/ PRC
Ordinfen(Tianjin) Fashion Company Limited (天津歐迪芬服裝銷售有限公司)	PRC	RMB100,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Guang Dong) Technology Company Limited (廣東都市麗人科技有限公司)	PRC	RMB3,000,000	100%	100%	Sale of raw material/ PRC
Guangdong Cosmo Logistics Technology Company Limited (廣東都市物流科技有限公司)	PRC	RMB10,000,000	100%	100%	Logistics warehousing and distribution services/PRC

40 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2018 are set out below: (Continued)

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2018	2017	
Cosmo Lady (International) Company Limited (都市麗人 (國際) 集團有限公司)	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Holdings Co., Ltd. (都市麗人 (香港) 控股有限公司)	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong
Freeday (Hong Kong) Holdings Company Limited (自由時光 (香港) 控股有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Hong Kong) Holdings Company Limited (歐迪芬 (香港) 控股有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Industrial Company Limite (都市麗人 (香港) 工業有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordinfen (Shanghai) Corporate Management Consulting Co., Ltd (上海歐迪芬企業管理諮詢有限公司)	PRC	HK$10,000,000	100%	100%	Corporate consulting and sale of intimate wear/ PRC
Guangdong Qipao Living goods Company Limited (廣東汽泡生活用品有限公司)	PRC	RMB10,000,000	100%	–	Sale of household products/PRC
Dongguan Jiali Intelligence Technology goods Company Limited (東莞市佳麗智能科技有限公司)	PRC	RMB8,000,000	60%	–	Sale of intimate wear/ PRC
Dongguan Liruiyao Textile Company Limited (東莞市利瑞瑤紡織有限公司)	PRC	RMB10,000,000	51%	–	Sale of intimate wear/ PRC
Dongguan Cosmo Lady Sales Company Limited (東莞市都市麗人銷售有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Fanxue Fashion (Kashi) Co., Ltd (喀什市凡雪服裝有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Shenzhen Yueshang IT Company Limited (深圳悦尚信息科技有限公司)	PRC	RMB5,000,000	100%	–	Software development/ PRC
Cosmo Lady (Dongguan) E-commerce Company Limited (東莞市都市麗人電子商務有限公司)	PRC	RMB5,000,000	100%	–	Sale of intimate wear/ PRC
Shenzhen Dushi Fashion Company Limited (深圳都市貝比服飾有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC

40 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2018 are set out below: (Continued)

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group 2018	Interests held by the Group 2017	Principal activities/ place of operation
Shangyue (Tianjin) Fashion Company Limited (悅尚(天津)服飾有限公司)	PRC	RMB20,000,000	75%	–	Sale of intimate wear/ PRC
Dongguan Yimaotong Supply Chain Management Company Limited (東莞市易貿通供應鏈管理有限公司)	PRC	RMB10,000,000	100%	–	Sale of raw material/ PRC
Shenzhen Yimaotong Supply Chain Management Company Limited (深圳市易貿通供應鏈管理有限公司)	PRC	RMB10,000,000	100%	100%	Sale of raw material/ PRC
Dongguan Kejiayi Textile Sales Company Limited (東莞市科嘉藝紡織銷售有限公司)	PRC	RMB10,000,000	51%	–	Sale of raw material/ PRC

(b) Particulars of the associate of the Group as at 31 December 2018 are set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2018	Interests held by the Group 2017	Principal activities/ place of operation
Zhong Rui Run He (Ningbo) Investment Management Company Limited (中瑞潤和(寧波)投資管理有限公司)	PRC	RMB4,000,000	40%	40%	Investment management/ PRC

(c) Particulars of the joint ventures of the Group as at 31 December 2018 are set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2018	Interests held by the Group 2017	Principal activities/ place of operation
Guangdong Dongdu Holdings Limited (廣東東都實業有限公司)	PRC	RMB100,000,000	19.9%	19.9%	Real estate development/ PRC
Jinghedu (Dongguan) Equity Investment Management Company Limited (京合都(東莞)股權投資管理有限公司)	PRC	RMB3,000,000	60%	–	Investment management/ PRC
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) (京合都(東莞)股權投資基金合夥企業(有限合夥))	PRC	RMB132,000,000	69%	–	Investment management/ PRC

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

Five-year Financial Summary

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

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**5,096,453**	4,542,483	4,512,385	4,953,415	4,007,636
Gross profit	**2,123,564**	1,964,523	2,002,037	2,114,794	1,567,519
Gross profit margin	**41.7%**	43.2%	44.4%	42.7%	39.1%
Operating profit	**483,978**	419,565	305,449	688,803	575,056
Operating profit margin	**9.5%**	9.2%	6.8%	13.9%	14.3%
Profit attributable to owners of the Company	**378,229**	317,002	241,961	540,008	425,227
Net profit margin	**7.4%**	7.0%	5.4%	10.9%	10.6%

	As of 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Bank balances and cash	**1,506,018**	1,515,140	809,178	960,074	1,080,562
Borrowings	**183,960**	223,080	200,000	–	–
Non-current assets	**1,121,244**	807,084	760,100	766,268	444,182
Current assets	**4,294,956**	3,729,410	3,019,286	2,716,499	2,324,689
Non-current liabilities	**13,734**	228,129	201,601	1,778	–
Current liabilities	**1,339,861**	952,252	883,956	842,127	531,339
Net current assets	**2,955,095**	2,777,158	2,135,330	1,874,372	1,793,350
Total assets	**5,416,200**	4,536,494	3,779,386	3,482,767	2,768,871
Total liabilities	**1,353,595**	1,180,381	1,085,557	843,905	531,339
Total equity	**4,062,605**	3,356,113	2,693,829	2,638,862	2,237,532

	2018	2017	2016	2015	2014
Current ratio (times)	**3.2**	3.9	3.4	3.2	4.4
Average inventory turnover period (days)	**139.8**	160.2	141.8	92.5	78.0
Average trade receivables turnover period (days)	**49.4**	40.4	39.2	29.4	20.6
Average trade payables turnover period (days)	**79.5**	80.5	76.3	49.2	36.6