# La Chapelle

Shanghai La Chapelle Fashion Co., Ltd.

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

# INTERIM REPORT 2019

(Stock Code: 06116)

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# La Chapelle


Puella


MUSICAL COMEDY
Dress

# 7MODIFIER


SMOOTHIES
EVERYONE
IS
HAPPY


VALRHONA
TAINORI
R.G

# CORPORATE INFORMATION

## REGISTERED CHINESE NAME

上海拉夏貝爾服飾股份有限公司

## ENGLISH NAME

Shanghai La Chapelle Fashion Co., Ltd.

## HEADQUARTERS

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

## REGISTERED OFFICE IN THE PRC

Room 3300, Level 3, Block 1
270 Cao Xi Road
Xuhui District, Shanghai, PRC

## PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

## COMPANY'S WEBSITE

www.lachapelle.cn

## DIRECTORS

### Executive Directors

Mr. XingJiaxing *(Chairman)*
Mr. Yu Qiang
Ms. Hu Lijie
Mr. Mao Jianong

### Non-executive Directors

Mr. Lu Weiming
Mr. Luo Bin

### Independent Non-executive Directors

Dr. Chen Jieping
Mr. Zhang Zeping
Mr. Chan, Wing Yuen Hubert

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

Mr. Chan, Wing Yuen Hubert *(Chairman)*
Mr. Xing Jiaxing
Mr. Mao Jianong
Mr. Zhang Zeping
Dr. Chen Jieping

## REMUNERATION AND APPRAISAL COMMITTEE

Mr. Zhang Zeping *(Chairman)*
Mr. Mao Jianong
Mr. Lu Weiming
Dr. Chen Jieping
Mr. Chan Wing Yuen Hubert

## BUDGET COMMITTEE

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

## STRATEGY AND DEVELOPMENT COMMITTEE

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

## SUPERVISORS

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

## COMPANY SECRETARIES

Ms. Wong Wai Ling *(ACS, ACIS)*

## AUTHORIZED REPRESENTATIVES

Mr. Xing Jiaxing
Mr. Yu Qiang

## LEGAL ADVISERS

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

## AUDITOR

Ernst & Young Hua Ming LLP

## H SHARE REGISTRAR

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

## PRINCIPAL BANKERS

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

## STOCK CODE

H share: 6116
A share: 603157

# FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2019** | 2018 | Increase/ (decrease) |
| | **RMB'000** | RMB'000 | % |
| | **(unaudited)** | (unaudited) | |
| **Financial highlights** | | | |
| Revenue | **3,950,645** | 5,141,407 | (23.2) |
| Gross profit | **2,405,081** | 3,519,658 | (31.7) |
| Operating (loss)/profit | **(718,119)** | 323,240 | (322.2) |
| (Loss)/profit before income tax | **(718,251)** | 320,764 | (324.0) |
| Income tax expenses | **(153,564)** | 79,295 | (293.7) |
| (Loss)/profit for the period | **(564,687)** | 241,469 | (333.9) |
| Basic and diluted (losses)/earnings per share (RMB) | **(0.91)** | 0.43 | (311.6) |
| **Financial Ratios** | | | |
| Gross profit margin | **60.9%** | 68.5% | |
| Operating profit/(loss) margin | **(18.2%)** | 6.3% | |
| (Loss)/profit margin for the period | **(14.3%)** | 4.7% | |

*Note:* In 2017, the Ministry of Finance of the People's Republic of China ("MOF") released the revised 'Accounting Standards for Business Enterprises No.14 – Revenue' ("New Revenue Standards"), the consolidated financial statements have been prepared in accordance with the New Revenue Standards since 1 January 2018. For details, please refer to the announcement of the Company dated 28 March 2019 in relation to its annual results for the year ended 31 December 2018. Unless otherwise indicated, the revenue in this interim report is presented in the New Revenue Standards. For purpose of comparability, the Company also reports its revenue from 1 January to 30 June 2018 in accordance with the New Revenue Standards. For the six months ended 30 June 2018, the Group reported revenue of RMB4,378.817 million under the old revenue standards and reported revenue of RMB5,141.407 million under the New Revenue Standards. The difference of RMB762.6 million is the amount of concessionaire fee and online platform commissions.

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

Due to the China-United States trade tension, the economy has been under pressure in 2019. Data from the National Bureau of Statistics shows that the per capita clothing consumption expenditure of Chinese residents for the first half of 2019 was RMB731, representing a period-on-period increase of 2.96%, which is significantly lower than the growth in per capita consumption expenditure and accounted for 7.08% of the per capita consumption expenditure, being less than the 7.39% of the corresponding period in 2018. As a traditional consumer goods industry, the apparel industry is facing changes such as consumers' demand for upgrade and innovation of business model, and the industry is in a stage of transformation and adjustment.

According to the new revenue standards (gross revenue method), the Group's revenue for the first half of the year was RMB3,951 million, representing a decrease of RMB1,190 million or 23.2% from RMB5,141 million of the corresponding period of last year. The period-on-period decrease in revenue for the Reporting Period was mainly attributable to: (1) the Company's proactive implementation of a strategic contraction tactic, continued optimisation of offline direct channels during the Reporting Period and closing of underperforming or loss-making retail outlets to reduce inefficient allocation of resources. As at the end of June 2019, the Company's domestic retail network comprised 6,799 retail points, which is a net decrease of 2,470 from 9,269 as at the end of December 2018, representing a decrease of 26.65% in the number of its retail points; (2) under the impact of factors such as the Company's intentional reduction of business scale, a slower growth in consumption and decrease in store traffic, the Company's revenue from its major women's wear brands La Chapelle, Puella, 7 Modifier and La Babité all decreased by more than 20% as compared with the corresponding period of last year. In terms of channels, the revenue of concessionaire counters, standalone retail outlets and online platforms decreased by 32.8%; 12.9%; 20.8%, respectively, as compared with the same period of last year.

The Company recorded net losses attributed to shareholders of the company of RMB718 million for the first half of 2019. The losses were mainly attributable to: (1) gross profit of sales decreased by RMB1,115 million, which was caused by a significant decrease in revenue and the accelerated sales of off-season inventories, which resulted in a decrease of the average gross margin; (2) despite a decrease in expenses period-on-period, the rate of decrease, due to higher fixed costs, is significantly smaller than the rate of decrease of revenue; (3) adoption of the new lease standards led to a decrease of RMB44.61 million in net profit for the period; and (4) although the Company is implementing measures for business transformation and adjustment, the actual effect could only be seen gradually over a certain period and the reduction of expenses was unable to offset the impact of the decrease in gross profit.

## FINANCIAL REVIEW

For the six months ended 30 June 2019, the Group's revenue and operating loss reached RMB3,950.6 million and RMB718.1 million respectively, representing a decrease of 23.2% from its revenue and a decrease of 322.2% from its operating profit, respectively, as compared with the corresponding period of last year. The loss for the first half of 2019 amounted to RMB564.7 million, representing an decrease of 333.9% as compared with a profit for the corresponding period of last year.

### Revenue

Under the gross revenue method, the revenue of the Group in the first half of 2019 decreasing from RMB5,141.4 million in the first half of 2018 to RMB3,950.6 million, representing a decrease of 23.2%.

The decrease in revenue was mainly due to the active contraction strategy of the Group's offline business outlets and the decrease in online sales of the Group. The number of retails points of the Group in China decreased from 9,269 as at 31 December 2018 to 6,799 as at 30 June 2019.

## Revenue by distribution channel

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

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | | 2018 | | |
| | **Revenue (RMB'000)** | **% of total** | **Gross Profit Margin** | Revenue (RMB'000) | % of total | Gross profit margin increase or decrease compared to the same period of last year (percentage point(s)) |
| Concessionaire counters | **1,683,877** | **42.6** | **65.7** | 2,507,487 | 48.8 | (5.5) |
| Standalone retail outlets | **1,645,122** | **41.6** | **60.7** | 1,888,423 | 36.7 | (5.4) |
| Online platform | **527,392** | **13.4** | **47.6** | 665,672 | 12.9 | (13.9) |
| Others Note 1 | **94,254** | **2.4** | **51.1** | 79,826 | 1.6 | (44.9) |
| **Total** | **3,950,645** | **100.0** | **60.9** | 5,141,407 | 100.0 | (7.6) |

Under the gross revenue method, the revenue from concessionaire counters decreased from RMB2,507.5 million in the first half of 2018 to RMB1,683.9 million in the first half of 2019, representing a decrease of 32.8%. The revenue from retail outlets decreased from RMB1,888.4 million in the first half of 2018 to RMB1,645.1 million in the first half of 2019, representing a decrease of 12.9%. The decreases in revenue from concessionaire counters and retail outlets were mainly due to the decrease in numbers of retail outlets which caused by the active contraction strategy implemented by the Group. The numbers of retail outlets for concessionaire counters and standalone retail outlets decreased approximately 27.2% and 29.9%, respectively, as compared with the number of retail outlets at the end of 2018. The revenue from retail outlets accounted for 41.6% of the total revenue of the Group in the first half of 2019, representing a period-on-period increase of 4.9 percentage points. The revenue from online platform reached RMB527.4 million, which accounted for 13.4% of the total revenue, representing a period-on-period increase of 0.5 percentage point.

Note 1: "Others" mainly refers to the revenue from franchise and affiliation etc, which is presented as a separate item due to the expansion of its business size and increased in proportion of revenue.

## Revenue by brand

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

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Revenue (RMB'000) | % of total | Gross Profit Margin | Revenue (RMB'000) | % of total | Gross profit margin increase or decrease compared to the same period of last year (percentage point) |
| La Chapelle | 893,809 | 22.6 | 68.3 | 1,189,868 | 23.1 | (2.9) |
| Puella | 703,217 | 17.8 | 65.2 | 944,954 | 18.4 | (5.0) |
| 7 Modifier | 634,943 | 16.1 | 63.4 | 887,399 | 17.3 | (6.9) |
| La Babité | 550,191 | 13.9 | 62.6 | 750,344 | 14.6 | (8.3) |
| Candie's | 363,254 | 9.2 | 59.1 | 397,829 | 7.7 | (8.5) |
| Men's wear brands | 225,757 | 5.7 | 50.9 | 344,821 | 6.7 | (12.5) |
| 8ém | 86,185 | 2.2 | 63.4 | 105,020 | 2.0 | (4.8) |
| Naf Naf | 139,318 | 3.5 | 58.3 | – | – | – |
| Other brands | 353,971 | 9.0 | 35.1 | 521,172 | 10.1 | (21.4) |
| **Total** | 3,950,645 | 100.0 | 60.9 | 5,141,407 | 100.0 | (7.6) |

Note: 1. The comparison base varies from the original disclosure data for the same period of last year, as the above data is based on the operating revenue in the first half of 2019 and the same period of last year under the "Gross Revenue Method". Unless otherwise stated, the operating revenue in this report represents the operating revenue based on the Gross Revenue Method under the New Revenue Standards. 2. Menswear brands comprise JACK WALK, Pote and MARC ECKŌ brands. 3. During the Reporting Period, the Company completed the acquisition of the Naf Naf brand, which recorded the operating revenue of RMB139,318,000 in June 2019.

As affected by the decrease in numbers of retail outlets and the decrease in same store revenue, the revenue of the Group for the first half of 2019 had an overall decrease of 23.2%. The revenue from each of the major brands recorded decreases, in which revenue from women's wear brands decreased by 24.6%, and revenue from men's wear brands decreased by 34.5%. At the same time, as the proportion of off-season products to total products increased, the overall gross profit margins of the Group also decreased, in which gross profit margin of women's wear decreased by 5.8%, and gross profit margin of men's wear decreased by 12.5%.

## Revenue by tier of cities

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Revenue (RMB'000)** | **% of total** | Revenue (RMB'000) | % of total |
| First-tier cities | **716,592** | **18.1** | 635,384 | 12.6 |
| Second-tier cities | **1,600,140** | **40.5** | 2,128,082 | 42.8 |
| Third-tier cities | **778,749** | **19.7** | 1,299,922 | 24.2 |
| Other cities | **715,846** | **18.1** | 1,078,019 | 20.4 |
| Overseas region | **139,318** | **3.6** | – | – |
| **Total** | **3,950,645** | **100.0** | 5,141,407 | 100.0 |

Note: For the classification of domestic cities in various tiers, please refer to the prospectus disclosed by the Company on 24 September 2014. "Overseas region" corresponds to the operating revenue recorded through the Company's new brand, Naf Naf store during the Reporting Period.

In the first half of 2019, the Group's revenue decreased in all cities except in first-tier cities, mainly due to the decline in the number of sales outlets.

## Revenue by product type

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Revenue (RMB'000)** | **% of total** | Revenue (RMB'000) | % of total |
| Tops | **2,644,104** | **66.9** | 3,382,868 | 65.8 |
| Bottoms | **447,870** | **11.3** | 591,204 | 11.5 |
| Dresses | **839,564** | **21.3** | 1,151,843 | 22.4 |
| Accessories and others | **19,107** | **0.5** | 15,492 | 0.3 |
| **Total** | **3,950,645** | **100.0** | 5,141,407 | 100.0 |

Under the gross revenue method, in the first half of 2019, revenue from sales of different products of the Group recorded a decrease, which was attributed to the decrease in purchase volume and sales volume period-on-period, Revenue contribution from sales of different products as compared with last year: revenue contribution from sales of tops increased by 1.1%, revenue contribution from sales of bottoms decreased by 0.2% and revenue contribution from sales of dresses decreased by 1.1%.

## Cost of Sales

The cost of sales of the Group decreased by 4.7% from RMB1,621.7 million in the first half of 2018 to RMB1,545.6 million in the first half of 2019.

## Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB3,519.7 million in the first half of 2018 to RMB2,405.1 million in the first half of 2019, representing a decrease of 31.7%, mainly attributable to an increase in proportion of sales of off-season products for the Reporting Period resulting in a lower decrease in cost comparing to a higher decrease in revenue.

The overall gross profit margin of the Group decreased to 60.9% in the first half of 2019 from 68.5% in the first half of 2018, mainly due to an increase in proportion of sales of off-season products in the first half of 2019, resulting in a slight period-on-period decrease in actual comprehensive average gross profit margin.

## Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in the first half of 2019 amounted to RMB2,728.3 million (the first half of 2018: RMB2,905.7 million), consisting primarily of sales staff salaries and benefits, concession expenses relating to retail points and online stores, depreciation of store lease assets, amortisation of store decoration expenses, rental expenses and shopping mall expenses. Expressed as a percentage, selling and distribution expenses in the first half of 2019 as a percentage of total revenue in the first half of 2019 was 69.1% (the first half of 2018: 56.5%), the ratio of sales expenses of certain fixed nature (such as salary and welfare expenses, depreciation of store lease assets, amortization of store decoration expenses, shopping mall expenses, etc.) to revenue for the Reporting Period increased from the corresponding period of last year. General and administrative expenses in the first half of 2019 amounted to RMB231.5 million (the first half of 2018: RMB226.5 million), consisting primarily of administrative employee salaries and benefit expenses, rental expenses for offices, amortization of intangible assets, sample expenses and consulting service fees. Expressed as a percentage, general and administrative expenses as a percentage of total revenue in the first half of 2019 were 5.9% (the first half of 2018: 4.4%). The contribution of administrative staff salaries and benefits and consulting service fees to our revenue for the Reporting Period has increased from the corresponding period of last year.

## Asset Impairment Loss

The asset impairment loss for the first half of 2019 was RMB206.6million (the first half of 2018: RMB154.2 million), which was provided for impairment of inventories.

## Other Income – Net

The Group's other income amounted to RMB84.3 million (the first half of 2018: RMB85.1 million) in the first half of 2019, mainly due to the receipt of financial subsidies of RMB84.3 million in the first half of 2019.

## Finance Expenses/Income – Net

The Group's net finance expenses were RMB118.6 million in first half of 2019 (the first half of 2018: net financial expenses of RMB14.0 million). The increase in the net financial expenses is mainly a result of the new lease liability interest expense by implementing the new lease standards and the period-on-period increase of interest expenses from borrowing.

## Loss before Income Tax

Profit before income tax of the Group decreased from RMB320.8 million in the first half of 2018 to a loss before income tax of RMB718.3 million in the first half of 2019, representing an decrease of 323.9% from the corresponding period of last year. The decrease in total profit was mainly due to the decrease in sales income and gross profit margin as well as the increase in general and administrative expenses, and financial expenses.

## Income Tax Expense

Income tax credited amounted to RMB(153.6) million in the first half of 2019 (the first half of 2018: RMB79.3 million). The effective income tax rate in the first half of 2019 was 21.4% (the first half of 2018: 24.7%).

## Loss for the period and Loss Margin for the period

As a result of the foregoing, net loss for the period of the Group in the first half of 2019 amounted to RMB564.7 million, representing an decrease by 333.9% from the net profit for the period of RMB241.5 million in the first half of 2018. In particular, net loss for the period attributable to the owner of the Group was RMB498.1 million, representing an decrease by 311.2% from the net profit for the period of RMB235.8 million in the first half of 2018. Loss margin for the period of the Group was 14.3% in the first half of 2019, compared to a profit margin of 4.7% in the first half of 2018.

## Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. In the first half of 2019, the capital expenditure incurred by the Group was RMB474.9 million (the first half of 2018: RMB527.6 million).

## Cash and Cash Flow

In the first half of 2019, net cash generated from operating activities amounted to an inflow of RMB1,157.5 million (first half of 2018: outflow of RMB256.3 million). The net cash inflow from operating activities was mainly due to the acceleration of collection in the Reporting Period and the extension of payment cycle of some suppliers.

In the first half of 2019, net cash used in investing activities amounted to a net outflow of RMB687.9 million (the first half of 2018: net outflow of RMB768.3 million). In particular, the major investment activities in the first half of 2019 was for: 1) the net cash inflow of RMB16.3 million for disposal of subsidiaries; 2) the net cash outflow of RMB304.7 million for investment subsidiaries, associates and other business units; 3) the net cash outflow for purchase of properties, warehouses and equipment of RMB474.9 million; and 4) net cash inflow relating to other investing activities activities amounted to RMB76.8 million.

In the first half of 2019, net cash used in financing activities amounted to an outflow of RMB627.9 million (the first half of 2018: net inflow of RMB480.0 million). Major financing activities in the first half of 2019 were: (i) obtaining bank loans resulting in net cash inflow of RMB748.3 million; (ii) repayment of bank loans and interests resulting in net cash outflow of RMB1,044.8 million; and (iii) payment of payment relating to other financing activities Company resulting in net cash outflow of RMB261.2 million.

As at 30 June 2019, the Group held cash and cash equivalents in the total amount of RMB290.2 million. (31 December 2018: RMB270.9 million), mainly due to the increase in net cash flows from operating activities compared with the corresponding period of last year.

In the first half of 2019, the average inventory turnover of the Group was 313.1 days (the first half of 2018: 243.1 days), and the average receivables turnover was 40.2 days for the first half of 2019 (the first half of 2018: 37.0 days). The decrease in inventory turnover rate period-on-period is mainly due to the higher average inventory balance and the decrease in revenue.

As at 30 June 2019, the impact of the implementation of the New Standards on Leases on the net profit attributable to the shareholders of the Company for the first half of 2019 was RMB-44.61 million. At the same time, the total assets of the Company's consolidated statements increased by RMB2,248,72 million and the total liabilities increased by RMB2,293.33 million. Net current liabilities of the Group amounted to RMB568.4 million. Total assets less current liabilities amounted to RMB5,598.3 million, and gearing ratio (the formula is used in gearing ratio: total liabilities/ total assets) was 72.0%. Taking away the impact on the New Standards on Leases, the Company's gearing ratio was 64%.

As the Group carries out its businesses in mainland China, most of the transactions are settled in Renminbi. The Group has a portion of term deposits and cash and cash equivalents denominated in Hong Kong dollars. The Group also pays dividends to holders of H Shares in Hong Kong dollars. In June 2019, after the Group completed the acquisition of Naf Naf, part of the Group's business will be settled mainly in euros. The Group manages foreign exchange risk by monitoring foreign exchange rates on a regular basis.

## Bank loans and other borrowings

As at 30 June 2019, bank borrowings of the Group amounted to RMB2,055.9 million (31 December 2018: RMB2,277.4 million for balance of borrowings), which was mainly the credit borrowings repayable within one year.

## Pledge of assets

(a) As at 30 June 2019, properties and buildings with a carrying amount of RMB248.437 million were used as collaterals for a long-term borrowing of RMB343.411 million and a long-term borrowing due within one year of RMB27.699 million (31 December 2018: properties and buildings with a carrying amount of RMB206.567 million were used as collaterals for a long-term borrowing of RMB330.911 million and a long-term borrowing due within one year of RMB17.416 million). Properties and buildings with a carrying amount of RMB364.546 million were used as collaterals for a short-term borrowing of RMB200 million (in which RMB40 million was credit deposits) (31 December 2018: Properties and buildings with a carrying amount of RMB345.099 million were used as collaterals for the bank's credit investment contract).

(b) As at 30 June 2019, the Wu Jing headquarter project with a carrying amount of RMB507.958million was used as collateral for a long-term borrowing of RMB343.411 million and a long-term borrowing due within one year of RMB27.699 million (31 December 2018: the Wu Jing headquarter project with a carrying amount of RMB525.861 million was used as collateral for a long-term borrowing of RMB330.911 million and a long-term borrowing due within one year of RMB17.416 million, and Taicang logistics center project phase II and III with a carrying amount of RMB40.827 million were used as collaterals for the bank's credit investment contract).

(c) As at 30 June 2019, land use right with a carrying amount of RMB53.707 million was used as collateral for a long-term borrowing of RMB343.411 million and a long-term borrowing due within one year of RMB27.699 million (31 December 2018: land use right with a carrying of RMB54.297 million was used as collateral for a long-term borrowing of RMB330.911 million and a long-term borrowing due within one year of RMB17.416 million). Land use right with a carrying amount of RMB33.615 million was used as collateral for short-term borrowing of RMB200 million (in which RMB40 million was credit deposits) (31 December 2018: land use right with a carrying amount of RMB33.994 million was used as collateral for the bank's credit investment contract).

## Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities.

## BUSINESS REVIEW

### Retail Network

For the six months ended 30 June 2019, the number of domestic retail outlets of the Group was 6,799, decreasing from 9,269 as at 31 December 2018, which were situated at approximately 2,111 physical locations. In addition, due to the acquisition of Naf Naf in overseas regions, the Company added 580 retail outlets. The number of retail points was counted on the basis used for that as at 31 December 2015.

The table below sets out the distribution of the Group's retail points as at 30 June 2019 and as at 31 December 2018 by tier of cities in the PRC and in overseas region:

| | **As at 30 June 2019** | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Number of retail points** | **% of total** | Number of retail points | % of total |
| First-tier cities | **606** | **8.2** | 833 | 9.0 |
| Second-tier cities | **2,573** | **34.9** | 3,541 | 38.2 |
| Third-tier cities | **1,868** | **25.3** | 2,573 | 27.8 |
| Other cities | **1,752** | **23.7** | 2,322 | 25.0 |
| Overseas region | **580** | **7.9** | – | – |
| **Total** | **7,379** | **100.0** | 9,269 | 100.0 |

Note: In respect of the classification of the tier of cities, please refer to the Prospectus. Overseas region refers to Naf Naf stores added to the Group in the Reporting Period.

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2019 and as at 31 December 2018 by type of the retail points:

| | **As at 30 June 2019** | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Number of retail points** | **% of total** | Number of retail points | % of total |
| Concessionaire counters | **3,958** | **53.6** | 5,281 | 57.0 |
| Standalone retail outlets | **2,946** | **40.0** | 3,957 | 42.7 |
| Franchise/Associate | **475** | **6.4** | 31 | 0.3 |
| **Total** | **7,379** | **100.0** | 9,269 | 100.0 |

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2019 and as at 31 December 2018 by brands:

| | **As at 30 June 2019** | | As at 31 December 2018 | |
|---|---|---|---|---|
| | **Number of retail points** | **% of total** | Number of retail points | % of total |
| La Chapelle | **1,539** | **20.9** | 1,966 | 21.2 |
| Puella | **1,396** | **18.9** | 1,907 | 20.6 |
| 7 Modifier | **1,350** | **18.3** | 1,730 | 18.7 |
| La Babité | **1,060** | **14.4** | 1,540 | 16.6 |
| Candie's | **713** | **9.7** | 927 | 10.0 |
| Menswear | **456** | **5.9** | 715 | 7.7 |
| 8ém | **184** | **2.5** | 274 | 3.0 |
| Naf Naf | **580** | **7.9** | – | – |
| Other brands | **101** | **1.5** | 210 | 2.2 |
| **Total** | **7,379** | **100.00** | 9,269 | 100.0 |

Note: 1. The number of stores of the Company is calculated based on the number of outlets, that is, if multiple brands are included in the same collection store, the collection store is counted as multiple terminal outlets. During the Reporting Period, the Company conducted a comprehensive evaluation of all stores in the terminal channel and closed some loss-making and inefficient stores. 2. Other brands mainly included OTR, siastella, drömGalaxy, GARTINE and others invested by the Company.

The table below sets out the distribution of the Group's net additional retail points in the PRC in the first half of 2019 by brands:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **Number of net additional retail points** | **% of total** |
| La Chapelle | **(427)** | **22.6** |
| Puella | **(511)** | **27.0** |
| 7 Modifier | **(380)** | **20.1** |
| La Babité | **(480)** | **25.4** |
| Candie's | **(214)** | **11.3** |
| Menswear | **(259)** | **13.7** |
| 8ém | **(90)** | **4.8** |
| Other brands | **(109)** | **5.8** |
| Naf Naf | **580** | **(30.7)** |
| **Total** | **(1,890)** | **100.00** |

In the first half of 2019, the number of retail outlets of the group's major brands declined. In addition, the acquisition of Naf Naf in the first half of 2019 resulted in the incorporation of its brand stores into the sales outlets of the Group.

## Same store sales

Due to the adjustments of market structure, some customers of department stores and shopping centers moved to rapidly emerging online shopping platforms, causing reduction in same store sales of traditional clothing enterprises that relied on department stores as primary distribution channel. Regardless of our Group's continuous strategy of reducing the reliability on income from department stores, proportion of sales from concessionaire counters is currently still at 42.6%. On the other hand, due to the insignificant recovery of consumption market, same store sales of retail shops in first half of 2019 decreased by 23.3%, compared to that of 2018.

## Intentional reduction of scale, focus on core brands

During the Reporting Period, the Company established its development direction of brand differentiation with major women's wear brands as the core, and intentionally reduced the scale of business development of men's wear brands, Pote, JACK WALK and MARC ECKŌ, so as to enhance the returns for resources invested. For other brands, the Company focused on profit improvement, intentionally reduced the scale of business development and reduced inefficient allocation of resources.

## Accurately meeting consumer demands and enhancing brand vitality

During the Reporting Period, we actively promoted IP cooperation to enhance brand vitality. The Group carried out cooperation with fashion illustrator, street graffiti artist, literature and art writer, dance studio and renowned IP such as Puella × MARK WIGAN, 7 Modifier × Keith Haring and 7 Modifier ×安東尼; while cross-sector cooperation such as 7 Modifier × 1MILLION dance studio of Korea, 7 Modifier × 5KM dance studio of China and Puella × Doraemon were also made to add new elements to our products, enhance brand vitality and attract young consumers.

## Orderly promotion of marketing targeted at members

As of the end of June 2019, the Company had a total of over 11 million valid members. In the first half of 2019, the total number of newly recruited members exceeded the number for the whole year of 2018. Sales to members accounted for over 40% of total sales, representing a growth of more than 30% as compared with the corresponding period of last year. In March 2019, the WeChat official account named La Chapelle Member Center (拉夏貝爾會員中心) had a total of 6.4 million followers and 1.79 million new followers were added during March to July 2019, representing a cumulative growth of 508% over the same period of 2018. The high quality content of the account attracted and boosted the activity of followers with 4.77 million subscription readers during March to July, representing a growth of 208% over the same period last year, and the total amount of reading of WeChat image and text reached 7.74 million, representing a growth of 244% over the same period last year.

## Proactive optimisation of offline channel and enhancing same-period sales of existing stores

In line with the strategy of reduction in scale and the direction of brand development, the Group intentionally closed underperforming or loss-making retail outlets. As at the end of June 2019, the Company's domestic retail network comprised 6,799 retail points, of which 2,111 outlets were in department stores/shopping malls and the net number of outlets closed was 2,470. The Company actively promoted franchise and associate business during the Reporting Period. However, the progress of franchise/associate business fell short of expectation due to slower growth in the retail market in the first half of 2019. We will continue to promote such business in the second half of 2019.

Since April 2019, benefited from the refined management implemented, the declining trend of sales for our TOP 300 stores was effectively reined in and the associated rate of outlet sales steadily increased. As the underperforming or loss-making stores are closed and refined management is implemented, the decrease in same-period sales of existing stores will narrow further.

### Disposal of certain assets

During the Reporting Period, the Company disposed of its 54.05% equity interest in Hangzhou Anshe E-Commerce Company Limited and its 98.04% share in Tianjin Xingkuang Enterprise Management Consulting Partnership (Limited Partnership) successively to further optimise the Company's internal asset structure, provide funding support for development of core business and further strengthen its ability to continue operation on the going concern basis.

## FUTURE PROSPECTS

According to experts, "overturn" will be the focus of the industry in 2019. In order to maintain competitive edge among young consumers, there is an increasing number of traditional brands seeking "self-overturning" so as to adapt to new trends. The Company will also strive for improvement in this scaling back and reform, closely follow consumers' demand, enhance its operating efficiency and manage the business with a cautious and humble manner. In the second half of 2019, the Company will continue to proceed with the following tasks:

1. In the third quarter of 2019, the Company will continuously implement the retail points optimization strategy that will complete the optimization target of domestic retail points by the end of September 2019, retain not more than 6,000 business outlets, and enhance single-store operation efficiency and profitability. The main business is expected to enter into a more positive development track in the fourth quarter of 2019;

2. To develop our core women's wear brands with concentrated superior resources, clearly define brand positioning and construct a brand matrix with differentiation;

3. To utilize gap markets to accelerate the sale of off-season inventories, and gradually reduce the ending balance of inventory accounting for the proportion of the Company's product structure;

4. To innovate its business development model:

   – focus on operation and marketing targeted at members with comprehensive online-offline integration and proactively explore new sales channels to increase repurchase rate and associated rate;

   – actively promote affiliation and franchise and diversify channel structure;

   – respond to market trend and consumers' demand, increase the proportion of multi-brand stores and use more digital tools to increase the frequency of product changes.

5. To focus on improving the structure of assets and liabilities and balancing of cash flows. Revitalise existing long-term assets in the next two years, reduce debt ratio and increase the cash source during the current period;

6. To focus on reducing costs and increasing efficiency and further explore potential so as to hedge against changes in internal and external operating environment;

7. To implement a flat organizational structure, optimise operation process, improve management efficiency, and quickly respond to consumer and market changes.

# OTHER INFORMATION

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

As at 30 June 2019, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

| Name of Director | Nature of interest and capacity | Number of shares interested [2] | Approximate percentage of shareholding A shares as at 30 June 2019 | Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2019 |
|---|---|---|---|---|
| Mr. Xing Jiaxing[1] | Beneficial owner | 141,874,425 A Shares (L) | 42.62% | 25.91% |
| | Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO | 45,204,390 A Shares (L) | 13.58% | 8.25% |
| | Beneficial owner | 141,600,000 A Shares (S) | 42.54% | 25.85% |
| | Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO | 32,500,000 A Shares (S) | 9.76% | 5.93% |

Notes:

1 Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.91% of the total issued share capital of the Company as at 30 June 2018. In addition, Mr. Xing Jiaxing and Shanghai Hexia entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares mentioned above), which represents approximately 8.25% of the total issued share capital of the Company as at 30 June 2019.

Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017 and 7 December 2017 and 19 September 2018 and 18 October 2018 and 1 February 2019 and 10 June 2019, respectively, pursuant to which 141,600,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 68,400,000 A Shares and 732,000,000 A Shares will be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 25.85% of the total issued capital of the Company as at 30 June 2019.

Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018 and 18 October 2018 and 1 February 2019, pursuant to which 32,500,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 32,500,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 5.93% of the total issued capital of the Company as at 30 June 2019.

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

Save as disclosed above, as at 30 June 2019, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2019, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 30 June 2019, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name of shareholder | Nature of interest and capacity | Number of shares interested[6] | Approximate percentage of shareholding in the relevant class of shares as at 30 June 2019 | Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2019 |
|---|---|---|---|---|
| Shanghai Hexia[1] | Beneficial owner | 45,204,390 A Shares (L) | 13.58% | 8.25% |
| | A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO | 141,874,425 A Shares (L) | 42.62% | 25.91% |
| | A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO | 141,600,000 A Shares (S) | 42.54% | 25.85% |
| | Beneficial owner | 32,500,000 A Shares (S) | 9.76% | 5.93% |
| The Goldman Sachs Group, Inc.[2] | Interest in controlled corporation | 18,236,842 A Shares (L) | 5.48% | 3.33% |
| Haitong Securities Co., Ltd. | Person having a security interest in shares | 141,600,000 A Shares (L) | 42.54% | 25.85% |
| Citic Securities Co., Ltd. | Person having a security interest in shares | 32,500,000 A Shares (L) | 9.76% | 5.93% |

| Name of shareholder | Nature of interest and capacity | Number of shares interested [6] | Approximate percentage of shareholding in the relevant class of shares as at 30 June 2019 | Approximate percentage of shareholding in the total issued share capital of the Company at 30 June 2019 |
|---|---|---|---|---|
| Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership) | Beneficiary of a trust | 22,150,000 H Shares (L) | 10.31% | 4.04% |
| Gabriel Li[3] | Interest in controlled corporation | 21,655,200 H Shares (L) | 10.08% | 3.95% |
| Lam Lai Ming[3] | Interest in controlled corporation | 21,655,200 H Shares (L) | 10.08% | 3.95% |
| Zhejiang Longsheng Group Co., Ltd.[4] | Interest in controlled corporation | 22,236,800 H Shares (L) | 10.35% | 4.06% |
| Senda International Capital Limited | Beneficial owner | 16,630,800 H Shares (L) | 7.74% | 3.04% |
| Wang Shenghong[5] | Beneficiary of a trust | 26,179,200 H Shares (L) | 12.19% | 4.78% |

Notes:

1 Shanghai Hexia was interested in 45,204,390 A Shares, which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2019. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested or having short positions in the Company's shares in which Mr. Xing Jiaxing is interested or having short positions (being the 141,874,425 A Shares (L) and 141,600,000 A Shares (S) held by Mr. Xing Jiaxing as at 30 June 2019), representing approximately 25.91% and 25.85% respectively of the total issued share capital of the Company as at 30 June 2019.

Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018 and 18 October 2018 and 1 February 2019, pursuant to which 32,500,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 32,500,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 5.93% of the total issued capital of the Company as at 30 June 2019.

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

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

4 These H shares of the Company were held by Senda International Capital Limited and Well Prospering Limited, which hold 16,630,800 and 5,606,000 H shares of the Company respectively.

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

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

Other than as disclosed above, as at 30 June 2019, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB0.25 (tax inclusive) per share of the Company).

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2019.

## USE OF PROCEEDS FROM IPO

The Company has received approximately HK$1,830.12 million (equivalent to approximately RMB1,450,214,934.20) as net proceeds (the "IPO Proceeds") from the global offering of the Company's H Shares. As disclosed in the announcements dated 28 March 2019 and 28 May 2019 and the circular dated 11 April 2019, the Company proposed to change the use of the IPO Proceeds partially, and the revised use of proceeds approved at an annual general meeting of the Company held on 28 May 2019 by the Shareholders.

As at 30 June 2019, the Company has utilised part of the IPO Proceeds. The revised use of proceeds as approved on 28 May 2019 (the "2019 Revised Use of Proceeds"), and the actual amount of the IPO Proceeds utilised as at 30 June 2019 are set out below:

| | Pursuant to the 2019 Revised Use of Proceeds | | As at 30 June 2019 | |
|---|---|---|---|---|
| **Intended use of proceeds** | **Allocation of the IPO Proceeds (approximately)** | **Percentage of the IPO Proceeds (approximately)** | **Amount of utilised IPO Proceeds (approximately)** *Note* | **Percentage of the IPO Proceeds (approximately)** |
| Repaying existing bank loans taken out by the Group | HK$603,939,600 | 33.00% | HK$603,939,600 (equivalent to RMB482,635,980.56) | 33.00% |
| Pursuing acquisition and strategic alliance opportunities to complement the Group's existing business and further solidifying its market position | HK$366,024,000 | 20.00% | HK$366,024,000 (equivalent to RMB288,829,538.40) | 20.00% |
| Expanding the retail network, including the opening of new retail outlets in mainland China | HK$366,024,000 | 20.00% | HK$366,024,000 (equivalent to RMB288,829,538.40) | 20.00% |

| Intended use of proceeds | Pursuant to the 2019 Revised Use of Proceeds: Allocation of the IPO Proceeds (approximately) | Pursuant to the 2019 Revised Use of Proceeds: Percentage of the IPO Proceeds (approximately) | As at 30 June 2019: Amount of utilised IPO Proceeds (approximately) *Note* | As at 30 June 2019: Percentage of the IPO Proceeds (approximately) |
|---|---|---|---|---|
| Further improvement of the Group's management information system | HK$69,545,560 | 3.80% | HK$67,139,148.43 (equivalent to RMB52,978,159.24) | 3.67% |
| Development of the Group's management school in Shanghai | HK$18,301,200 | 1.00% | HK$18,301,200 (equivalent to RMB14,441,476.92) | 1.00% |
| Working capital and other general corporate purposes | HK$406,286,640 | 22.20% | HK$406,286,640 (equivalent to RMB320,600,787.62) | 22.20% |

Note: When calculating the amount of the utilised IPO Proceeds for each of the above items, the Company adopted the intermediate exchange rate published by the People's Bank of China on 31 July 2015, except the exchange rate used for the amount utilised for repaying existing bank loans taken, which is the actual exchange rate used in the settlement of the repayment using Hong Kong dollars.

As at 30 June 2019, the total amount of the unutilised IPO Proceeds amounted to approximately RMB2,026,500.49, of which the balance of the interest and handling fee amounted to approximately RMB1,143,696.28.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2019, save as to the deviation from the Code Provision A.2.1.

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

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in the Appendix 14 to the Listing Rules for the six months ended 30 June 2019.

## SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the six months ended 30 June 2019.

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

In accordance with Rule 13.51B(1) of the Listing Rules, there is no change in the personal information regarding Supervisors, except for the changes in the personal information regarding Directors are set out below:

Mr. Xing Jiaxing obtained a finance EMBA degree at PBC School of Finance, Tsinghua University.

Mr. Mao Jianong has been re-designated from a non-executive Director to an executive Director and has been appointed as the vice chairman of the Company with effect from 21 June 2019. Mr. Mao has been appointed as an additional member of the Budget Committee with effect from 28 August 2019. Pursuant to a letter of appointment entered into by the Company and Mr. Mao, Mr. Mao's term of services with the Company commenced from 21 June 2019 and will end on the expiry date of the term of the third session of the Board (i.e. 11 May 2020). Mr. Mao is entitled to remuneration of RMB150,000 (before tax) per month with effect from 21 June 2019.

Mr. Luo Bin has been appointed as the chairman of the Budget Committee with effect from 28 August 2019. Mr. Luo obtained a finance EMBA degree at PBC School of Finance, Tsinghua University.

Dr. Chen Jieping resigned as an independent non-executive Director, the chairman of the Audit Committee and the Budget Committee, and a member of the Nomination Committee and the Remuneration and Appraisal Committee on 28 August 2019, the resignation of which shall take effect from the date on which the new independent non-executive Director is elected at the 2019 third extraordinary general meeting ("2019 third EGM") to be held on 16 October 2019. Dr. Chen resigned as the chairman of the Budget Committee on 28 August 2019 and remains as a member of the Budget Committee.

Mr. Rui Peng recommended by the nomination committee will be proposed as an independent non-executive Director that is subject to the shareholders' approval by way of an ordinary resolution at the 2019 third EGM.

## REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the unaudited interim results of the Group for the six months ended 30 June 2019 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee currently comprises one non-executive Director, namely Mr. Luo Bin, and two independent non-executive Directors, namely Dr. Chen Jieping and Mr. Chan, Wing Yuen Hubert.

## EVENT AFTER REPORTING PERIOD

On 16 July 2019, the Company's shareholders approved by way of ordinary resolution at the extraordinary general meeting, the proposed appointment of Ernst & Young Hua Ming LLP as the new international and domestic auditor of the Company following the retirement of PwC to fill the casual vacancy. For further information, please refer to the Company's circular dated 30 May 2019.

As disclosed in the Company's announcement published on 6 August 2019, the Company received a notice from Mr. Xing Jiaxing, the controlling shareholder and actual controller (as defined under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange) of the Company, that the 141,600,000 restricted A shares of the Company (the "A Shares") pledged by him to Haitong Securities Co., Ltd. (the "Pledgee") fell below the lowest collateral coverage ratio. As Mr. Xing Jiaxing did not repurchase the pledged A Shares in advance, nor adopt security measures in performing its obligations, the Pledgee has issued a written notice of breach in contract in respect of the A Share pledge. The Company also received a notice from Shanghai Hexia Investment Co., Ltd. ("Shanghai Hexia"), a concert party of Mr. Xing Jiaxing, that Shanghai Hexia has provided a supplemental pledge of 6,000,000 restricted A shares of the Company. For further information, please refer to the Company's announcement dated 6 August 2019.

On 28 August 2019, the Board proposed to elect Mr. Rui Peng as an independent non-executive Director of the Company that is subject to the approval by way of an ordinary resolution to be passed at the 2019 third EGM held on 16 October 2019. On 28 August 2019, Dr. Chen Jieping resigned as an independent non-executive Director, the chairman of the Audit Committee and the Budget Committee, and a member of the Nomination Committee and the Remuneration and Appraisal Committee, the resignation of which shall take effect from the date on which the new independent non-executive Director is elected at the 2019 third EGM. For further information, please refer to the paragraph headed "CHANGE IN INFORMATION REGARDING DIRECTORS AND SUPERVISORS ACCORDING TO RULE 13.51B (1) OF THE LISTING RULES" on page 29 of this interim report and the Company's circular dated 30 August 2019.

On 28 August 2019, the meeting of the Board considered and approved, among others, relevant resolutions in respect of the proposal to make certain adjustments (the "A Share Repurchase Mandate Adjustment") to the A Share Repurchase Mandate granted by the Shareholders to the Board. The proposed A Share Repurchase Mandate Adjustment is subject to the Shareholders' approval by way of a special resolution passed at the 2019 third EGM and by special resolutions passed by holder(s) of H Shares and holder(s) of A Shares at the class meeting of holders of H Shares and the class meeting of holders of A Shares to be held on 16 October 2019. For further information, please refer to the Company's circular dated 30 August 2019.

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

## APPRECIATION

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

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

Shanghai, the PRC, 18 September 2019

# Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

| Assets | Notes | 30 June 2019 | 31 December 2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank and on hand | 1 | **363,352** | 605,293 |
| Financial assets held for trading | 2 | **–** | 25,475 |
| Accounts receivable | 3 | **631,332** | 1,031,810 |
| Advances to suppliers | 4 | **265,970** | 329,458 |
| Other receivables | 5 | **564,125** | 382,211 |
| Inventories | 6 | **2,159,613** | 2,534,238 |
| Other current assets | 7 | **79,080** | 307,534 |
| **Total current assets** | | **4,063,472** | 5,216,019 |
| **Non-current assets** | | | |
| Long-term receivables | 8 | **127,716** | – |
| Long-term equity investments | 9 | **230,780** | 635,934 |
| Other equity instruments | 10 | **28,605** | 28,605 |
| Other non-current financial assets | 11 | **83,200** | 28,200 |
| Fixed asset | 12 | **999,424** | 865,049 |
| Construction in progress | 13 | **740,771** | 615,952 |
| Right-of-use assets | 14 | **2,317,795** | – |
| Intangible assets | 15 | **317,770** | 205,652 |
| Goodwill | 16 | **209,476** | 108,535 |
| Long-term prepaid expenses | 17 | **476,387** | 570,867 |
| Deferred tax assets | 20 | **500,949** | 247,787 |
| Debt investments | 18 | **7,110** | 6,934 |
| Other non-current assets | 19 | **126,689** | 159,964 |
| **Total non-current assets** | | **6,166,672** | 3,473,479 |
| **TOTAL ASSETS** | | **10,230,144** | 8,689,498 |

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

# Consolidated Balance Sheet

As at 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| Liabilities And Equity | Notes | 30 June 2019 | 31 December 2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term borrowings | 22 | **1,657,106** | 1,911,645 |
| Notes payable | 23 | **628,031** | 712,556 |
| Accounts payable | 24 | **1,362,046** | 1,120,987 |
| Contract liabilities | 25 | **13,708** | 2,399 |
| Employee benefits payable | 26 | **222,088** | 223,362 |
| Taxes payable | 27 | **65,068** | 166,468 |
| Other payables | 28 | **593,728** | 558,153 |
| Current portion of non-current liabilities | 29 | **90,090** | 24,219 |
| **Total current liabilities** | | **4,631,865** | 4,719,789 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 32 | **343,411** | 330,911 |
| Lease liabilities | 30 | **2,300,191** | – |
| Deferred tax liabilities | 20 | **43,421** | 28,424 |
| Other non-current liabilities | 31 | **45,745** | 48,417 |
| **Total non-current liabilities** | | **2,732,768** | 407,752 |
| **Total liabilities** | | **7,364,633** | 5,127,541 |
| **Equity** | | | |
| Share capital | 33 | **547,672** | 547,672 |
| Capital surplus | 34 | **1,909,959** | 1,895,342 |
| Other comprehensive (losses)/income | 35 | **2,121** | (13,187) |
| Surplus reserve | 36 | **246,885** | 246,885 |
| Undistributed profits | 37 | **272,572** | 770,706 |
| **Total equity attributable to shareholders of the Company** | | **2,979,209** | 3,447,418 |
| **Minority interests** | | **(113,698)** | 114,539 |
| **Total equity** | | **2,865,511** | 3,561,957 |
| **TOTAL LIABILITIES AND EQUITY** | | **10,230,144** | 8,689,498 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Company Balance Sheet

As at 30 June 2019

(All amounts in RMB'000 unless otherwise stated)

| Assets | Notes | 30 June 2019 | 31 December 2018 |
|---|---|---|---|
| **Current assets** | | | |
| Cash at bank and on hand | | **61,850** | 284,879 |
| Accounts receivable | 1 | **1,392,461** | 912,517 |
| Advances to suppliers | | **54,704** | 86,888 |
| Other receivables | 2 | **1,293,470** | 2,289,664 |
| Inventories | 3 | **1,739,382** | 2,165,516 |
| Other current assets | | **4,400** | 92,613 |
| **Total current assets** | | **4,546,267** | 5,832,077 |
| **Non-current assets** | | | |
| Long-term receivables | | **78,614** | – |
| Long-term equity investments | 4 | **1,172,964** | 1,378,867 |
| Other non-current financial assets | | **18,200** | 18,200 |
| Fixed asset | | **24,460** | 28,313 |
| Construction in progress | | **18,514** | 13,319 |
| Right-of-use assets | | **81,214** | – |
| Intangible assets | | **9,284** | 11,370 |
| Long-term prepaid expenses | | **139,410** | 104,210 |
| Deferred tax assets | | **123,885** | 80,316 |
| Debt investments | | **7,110** | 6,934 |
| Other non-current assets | | **25,969** | 33,487 |
| **Total non-current assets** | | **1,699,624** | 1,675,016 |
| **TOTAL ASSETS** | | **6,245,891** | 7,507,093 |

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

# Company Balance Sheet

As at 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| Liabilities And Equity | Notes | **30 June 2019** | 31 December 2018 |
|---|---|---|---|
| **Current liabilities** | | | |
| Short-term borrowings | | **1,130,000** | 1,909,789 |
| Notes payable | | **450,704** | – |
| Accounts payable | | **1,160,249** | 1,958,596 |
| Employee benefits payable | | **45,968** | 46,604 |
| Taxes payable | | **5,754** | 9,877 |
| Other payables | | **358,220** | 444,419 |
| Current portion of non-current liabilities | | **15,136** | 268 |
| **Total current liabilities** | | **3,166,031** | 4,369,553 |
| **Non-current liabilities** | | | |
| Lease liabilities | | **71,234** | – |
| Other non-current liabilities | | **–** | 140 |
| **Total non-current liabilities** | | **71,234** | 140 |
| **Total liabilities** | | **3,237,265** | 4,369,693 |
| **Equity** | | | |
| Share capital | | **547,672** | 547,672 |
| Capital surplus | | **1,896,424** | 1,895,342 |
| Surplus reserve | | **246,885** | 246,885 |
| Undistributed profits | | **317,645** | 447,501 |
| **Total equity** | | **3,008,626** | 3,137,400 |
| **TOTAL LIABILITIES AND EQUITY** | | **6,245,891** | 7,507,093 |

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

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

# Consolidated Income Statements

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | Notes | **30 June 2019** | 30 June 2018 |
|---|---|---|---|
| **Revenue** | 38 | **3,950,645** | 5,141,407 |
| Less: Cost of sales | 38 | **1,545,564** | 1,621,749 |
| Taxes and surcharges | 39 | **15,325** | 35,371 |
| Selling and distribution expenses | 40 | **2,728,253** | 2,905,666 |
| General and administrative expenses | 41 | **231,507** | 226,496 |
| Financial expenses | 42 | **118,561** | 13,999 |
| Including: interest expenses | | **136,954** | 31,623 |
| interest income | | **13,323** | 5,753 |
| Credit impairment losses | 45 | **(10,155)** | (2,811) |
| Asset impairment losses | 46 | **206,613** | 154,238 |
| Add: Other income | 43 | **84,291** | 85,137 |
| Investment income | 44 | **67,805** | 51,526 |
| Including: investment income of associates and a joint venture | | **77,874** | 63,658 |
| Gains/(losses) on disposals of assets | 47 | **14,808** | (122) |
| **Operating (loss)/profit** | | **(718,119)** | 323,240 |
| Add: Non-operating income | 48 | **5,717** | 3,491 |
| Less: Non-operating expenses | 49 | **5,849** | 5,967 |
| **(Loss)/profit before tax** | | **(718,251)** | 320,764 |
| Less: Income tax expenses | 51 | **(153,564)** | 79,295 |
| **Net (loss)/profit** | | **(564,687)** | 241,469 |
| Classified by continuity of operations | | | |
| Net (loss)/profit from continuing operations | | **(564,687)** | 241,469 |
| Classified by ownership of the equity | | | |
| Attributable to shareholders of the Company | | **(498,134)** | 235,827 |
| Attributable to minority interests | | **(66,553)** | 5,642 |

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

# Consolidated Income Statements

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | Notes | **30 June 2019** | 30 June 2018 |
|---|---|---|---|
| Other comprehensive income, net of tax | | **15,308** | 5,692 |
| Attributable to shareholders of the Company, net of tax | | **15,308** | 5,692 |
| Other comprehensive income reclassified to profit or loss | | | |
| Translation differences on translation of foreign currency financial statements | | **15,308** | 5,692 |
| **Total comprehensive (loss)/income** | | **(549,379)** | 247,161 |
| Including: | | | |
| Attributable to shareholders of the Company | | **(482,826)** | 241,519 |
| Attributable to minority interests | | **(66,553)** | 5,642 |
| **(Losses)/Earnings per share** | | | |
| Basic (losses)/earnings per share (RMB) | 52 | **(0.91)** | 0.43 |
| Diluted (losses)/earnings per share (RMB) | | **(0.91)** | 0.43 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Company Income Statements

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | Notes | **30 June 2019** | 30 June 2018 |
|---|---|---|---|
| **Revenue** | 5 | **1,963,388** | 2,456,129 |
| Less: Cost of sales | | **1,285,115** | 1,482,649 |
| Taxes and surcharges | | **325** | 5,008 |
| Selling and distribution expenses | | **554,681** | 733,462 |
| General and administrative expenses | | **118,715** | 116,733 |
| Financial expenses | | **31,088** | 18,105 |
| Including: interest expenses | | **36,460** | – |
| interest income | | **11,162** | 10,540 |
| Asset impairment losses | | **158,016** | 128,546 |
| Add: Other income | | **33,375** | 42,092 |
| Investment income | 6 | **(20,647)** | 340,816 |
| Including: share of net profit of associates and a joint venture | | **904** | 20,651 |
| Gains on disposals of assets | | **68** | 179 |
| **Operating (loss)/profit** | | **(171,756)** | 354,713 |
| Add: Non-operating income | | **2,441** | 1,059 |
| Less: Non-operating expenses | | **4,110** | 5,216 |
| **(Loss)/profit before tax** | | **(173,425)** | 350,556 |
| Less: Income tax expenses | | **(43,569)** | 2,511 |
| **Net (loss)/profit** | | **(129,856)** | 353,067 |
| Classified by continuity of operations | | | |
| Net (loss)/profit from continuing operations | | **(129,856)** | 353,067 |
| Other comprehensive (loss)/income, net of tax | | **(129,856)** | 353,067 |
| **Total comprehensive (loss)/income** | | **(129,856)** | 353,067 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Consolidated Cash Flow Statements

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | Notes | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| **1. Cash flows from operating activities** | | | |
| Cash received from sales of products or rendering of services | | **4,626,370** | 5,403,784 |
| Cash received relating to other operating activities | 53 | **121,084** | 96,785 |
| **Sub-total of cash inflows** | | **4,747,454** | 5,500,569 |
| Cash paid for goods and services | | **(1,951,354)** | (3,603,749) |
| Cash paid to and on behalf of employees | | **(1,126,751)** | (1,253,794) |
| Payments of taxes and surcharges | | **(144,066)** | (544,647) |
| Cash paid relating to other operating activities | 53 | **(367,832)** | (354,677) |
| **Sub-total of cash outflows** | | **(3,590,003)** | (5,756,867) |
| **Net cash flows from/(used in) operating activities** | 54 | **1,157,451** | (256,298) |
| **2. Cash flows used in investing activities** | | | |
| Net cash received from disposals of fixed assets, intangible assets and other long-term assets | | **1,281** | 392 |
| Net cash received from disposal of subsidiaries and other business units | 54 | **162,976** | – |
| Cash received relating to other investing activities | 53 | **82,287** | 4,981 |
| **Sub-total of cash inflows** | | **246,544** | 5,373 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | **(474,890)** | (527,561) |
| Net cash paid to acquire a subsidiary and other business units | 54 | **(304,670)** | (201,494) |
| Net cash paid to dispose subsidiaries and other business units | | **(149,366)** | – |
| Cash paid relating to other investing activities | 53 | **(5,500)** | (44,618) |
| **Sub-total of cash outflows** | | **(934,426)** | (773,673) |
| **Net cash flows used in investing activities** | | **(687,882)** | (768,300) |

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

(All amounts in RMB'000 unless otherwise stated)

| | Notes | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| **3. Cash flows from financing activities** | | | |
| Cash received from borrowings | | **748,270** | 1,170,000 |
| Cash received relating to other financing activities | 53 | **–** | 2,310 |
| **Sub-total of cash inflows** | | **748,270** | 1,172,310 |
| Cash repayments of borrowings | | **(1,044,813)** | (437,602) |
| Cash payments for distribution of dividends, profits or interest expenses | | **(70,121)** | (254,750) |
| Cash payments relating to other financing activities | 53 | **(261,247)** | – |
| **Sub-total of cash outflows** | | **(1,376,181)** | (692,352) |
| **Net cash flows (used)/from financing activities** | | **(627,911)** | 479,958 |
| **4. Effect of foreign exchange rate changes on cash and cash equivalents** | | **(1,312)** | (35) |
| **5. Net decrease in cash and cash equivalents** | | **(159,654)** | (544,675) |
| Add: Cash and cash equivalents at beginning of the period | | **449,863** | 815,580 |
| **6. Cash and cash equivalents at end of the period** | | **290,209** | 270,905 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Company Cash Flow Statements

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| 1. | **Cash flows from operating activities** | | |
| | Cash received from sales of products or rendering of services | **1,633,927** | 3,739,465 |
| | Cash received relating to other operating activities | **1,149,192** | 65,903 |
| | **Sub-total of cash inflows** | **2,783,119** | 3,805,368 |
| | Cash paid for products and services | **(1,559,906)** | (3,298,498) |
| | Cash paid to and on behalf of employees | **(277,891)** | (267,862) |
| | Payments of taxes and surcharges | **(6,966)** | (117,784) |
| | Cash paid relating to other operating activities | **(329,098)** | (239,093) |
| | **Sub-total of cash outflows** | **(2,173,861)** | (3,923,237) |
| | **Net cash flows from/(used) in operating activities** | **609,258** | (117,869) |
| 2. | **Cash flows used in investing activities** | | |
| | Net cash received from disposals of fixed assets, intangible assets and other long-term assets | **67** | 281 |
| | Net cash received from disposal of subsidiaries and other business units | **80,000** | – |
| | Cash received relating to other investing activities | **–** | 333,923 |
| | **Sub-total of cash inflows** | **80,067** | 334,204 |
| | Cash paid to acquire fixed assets, intangible assets and other long-term assets | **(64,969)** | (73,757) |
| | Net cash paid to acquire an associate and a joint venture | **(3,000)** | (405,000) |
| | Cash paid relating to other investing activities | **–** | (654,918) |
| | **Sub-total of cash outflows** | **(67,969)** | (1,133,675) |
| | **Net cash flows from/(used) in investing activities** | **12,098** | (799,471) |

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

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

| | | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| | Cash received from borrowings | **280,000** | 1,170,000 |
| | **Sub-total of cash inflows** | **280,000** | 1,170,000 |
| | Cash repayments of borrowings | **(1,059,789)** | (436,000) |
| | Cash payments for distribution of dividends, profits or interest expenses | **(47,334)** | (193,154) |
| | Cash payments relating to other financing activities | **(17,262)** | – |
| | **Sub-total of cash outflows** | **(1,124,385)** | (629,154) |
| | **Net cash flows (used)/from financing activities** | **(844,385)** | 540,846 |
| **4.** | **Effect of foreign exchange rate changes on cash and cash equivalents** | **–** | – |
| **5.** | **Net decrease in cash and cash equivalents** | **(223,029)** | (376,494) |
| | Add: Cash and cash equivalents at beginning of the period | **284,879** | 561,359 |
| **6.** | **Cash and cash equivalents at end of the period** | **61,850** | 184,865 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Consolidated Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

**For the 6 months ended 30 June 2019**

| | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Share Capital | Capital surplus | Other comprehensive income/(loss) | Surplus reserves | Undistributed profits | Subtotal | Minority interests | Total shareholders' equity |
| **1. Balance at 31 December 2018** | 547,672 | 1,895,342 | (13,187) | 246,885 | 770,706 | 3,447,418 | 114,539 | 3,561,957 |
| **2. Movements for the period ended 30 June 2019** | | | | | | | | |
| (1) Total comprehensive income | - | - | 15,308 | - | (498,134) | (482,826) | (66,553) | (549,379) |
| (2) Capital contribution and withdrawal by shareholders | | | | | | | | |
| i Amount recorded in shareholders' equity arising from share-based payment arrangements | - | 1,082 | - | - | - | 1,082 | - | 1,082 |
| Ii Minority interests reduced due to subsidiary disposal | - | - | - | - | - | | (148,149) | (148,149) |
| **3. Internal carry forward of owner's equity** | | | | | | | | |
| i Minority interests reduced due to disposal of part of equity of the subsidiary | - | 13,535 | - | - | - | 13,535 | (13,535) | - |
| **4. Balance at 30 June 2019** | 547,672 | 1,909,959 | 2,121 | 246,885 | 272,572 | 2,979,209 | (113,698) | 2,865,511 |

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

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

**For the 6 months ended 30 June 2018**

| | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Share Capital | Capital surplus | Other comprehensive income/(loss) | Surplus reserves | Undistributed profits | Subtotal | Minority interests | Total shareholders' equity |
| **1. Balance at 31 December 2017** | 547,672 | 1,894,097 | (723) | 219,154 | 1,215,356 | 3,875,556 | 193,672 | 4,069,228 |
| Changes in accounting policies | – | – | – | (2,124) | 2,124 | – | – | – |
| **2. Balance at 1 January 2018** | 547,672 | 1,894,097 | (723) | 217,030 | 1,217,480 | 3,875,556 | 193,672 | 4,069,228 |
| **3. Movements for the period ended 30 June 2018** | | | | | | | | |
| (1) Total comprehensive income | – | – | 5,692 | – | 235,827 | 241,519 | 5,642 | 247,161 |
| (2) Capital contribution and withdrawal by shareholders | | | | | | | | |
| i Amount recorded in shareholders' equity arising from share-based payment arrangements | – | 145 | – | – | – | 145 | – | 145 |
| Ii Minority interests reduced due to subsidiary disposal | – | – | – | – | – | – | 25,505 | 25,505 |
| (3) Profit distribution | | | | | | | | |
| i. Profit distribution to shareholders | – | – | – | – | (120,488) | (120,488) | (62,033) | (182,521) |
| **4. Balance at 30 June 2018** | 547,672 | 1,894,242 | 4,969 | 217,030 | 1,332,819 | 3,996,732 | 162,786 | 4,159,518 |

Legal representative: Xing Jiaxing

Principal in charge of accounting: Shen Jiaming

Head of accounting department: Yu Luwen

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

# Company Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2019
(All amounts in RMB'000 unless otherwise stated)

**For The 6 Months Ended 30 June 2019**

| | Share capital | Capital surplus | Surplus reserves | Undistributed profits | Total shareholders' equity |
|---|---|---|---|---|---|
| **1. Balance at 31 December 2018** | **547,672** | **1,895,342** | **246,885** | **447,501** | **3,137,400** |
| **2. Balance at 30 June 2019** | | | | | |
| (1) Total comprehensive income | – | – | – | (129,856) | (129,856) |
| (2) Capital contribution and withdrawal by shareholders | – | – | – | – | – |
| i Amount recorded in shareholders' equity arising from share-based payment arrangements | – | 1,082 | – | – | 1,082 |
| **3. Balance at 30 June 2019** | **547,672** | **1,896,424** | **246,885** | **317,645** | **3,008,626** |

**For The 6 Months Ended 30 June 2018**

| | Share capital | Capital surplus | Surplus reserves | Undistributed profits | Total shareholders' equity |
|---|---|---|---|---|---|
| **1. Balance at 31 December 2017** | 547,672 | 1,894,097 | 219,154 | 455,325 | 3,116,248 |
| **2. Balance at 31 December 2017** | | | | | |
| (1) Total comprehensive income | – | – | – | 353,067 | 353,067 |
| (2) Capital contribution and withdrawal by shareholders | | | | | |
| i Amount recorded in shareholders' equity arising from share-based payment arrangements | – | 145 | – | – | 145 |
| (3) Profit distribution | | | | | |
| i Profit distribution to shareholders | – | – | – | (120,488) | (120,488) |
| **3. Balance at 30 June 2018** | 547,672 | 1,894,242 | 219,154 | 687,904 | 3,348,972 |

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

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

## I. GENERAL INFORMATION

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

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

In October 2014, the Company completed its global initial public offering and its H Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited by issuing 138,643 thousands of overseas-listed shares (" Shares" at par value of RMB 1 (including the Over-Allotment Option of 17,064 thousands of H Shares). Stock code: 06116, stock short name"La Chapelle".

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

For the 6 months ended 30 June 2019, the share capital of the company was RMB547,672 thousand and the total number of the Company' shares was 547,672 thousands of shares, including 332,882 thousands of A Shares and 214,790 thousands of H Shares respectively.

Subsidiary newly included for the 6 months ended 30 June 2019 in the scope of consolidation mainly is Naf Naf SAS ("af Naf"). Subsidiary excluded from the scope of consolidation is Hangzhou Anshe E-Commerce Company Limited ("angzhou Anshe").

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

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared in accordance with Accounting Standards for Business Enterprises — Basic Standards issued by the Ministry of Finance and the specific accounting standards, application guide, interpretation and other relevant provisions promulgated and revised thereafter (the "Accounting Standards for Business Enterprises").

The financial statements are prepared on a going concern basis.

Except for certain financial instruments and investment properties which are measured at fair value, the financial statements have been carried at historical cost basis. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group formulated specific accounting policies and accounting estimates according to the characteristics of its actual production and operation, which are mainly embodied in the bad debt provision of receivables, method of inventory valuation, depreciation of fixed asset, amortization of intangible assets and the recognition and measurement of revenue.

### 1. Declaration following Accounting Standards for Business Enterprises (ASBE)

The financial statements have been prepared in accordance with ASBE, and presented the Company's and the Group's financial position as on 30 June 2019, and the operating results and cash flows for the 6 months ended 30 June 2019 truly and completely.

### 2. Accounting period

The Group has adopted the calendar year as its accounting year i.e. from 1 January to 31 December.

### 3. Functional currency

The Group adopts Renminbi ("RMB") as its functional currency and to prepare its financial statements. Unless otherwise stated, the financial statements are all presented in RMB'000.

The functional currency of the Company's subsidiaries is determined based on the primary economic environment where they incorporated and operated. The Group translates functional currency amounts into RMB when preparing the financial statements.

### 4. Business combination

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

*Business combinations involving enterprises under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combination date is the merging party, the other combining enterprise(s) is (are) the merged party. The combination date refers to the date on which the merging party actually obtains control of the merged parties.

Assets and liabilities that are obtained in a business combination involving enterprises under common control, including goodwill arising from the acquisition of the merging party by the ultimate controller, shall be accounted for on the basis of the carrying amounts on the financial statements of the ultimate controller on the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued) is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess is adjusted against retained earnings.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 4. Business combination (continued)

*Business combinations involving enterprises not under common control*

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. In a business combination not under common control, the party which obtains control of other combining enterprise(s) on the acquisition date is the acquirer, the other combining enterprise(s) is (are) the acquiree(s). The acquisition date refers to the date on which the acquirer actually obtains control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination involving entities not under common control are measured at fair value at the acquisition date.

The excess of the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date over the fair value of the acquiree's identifiable net assets acquired in combination, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date is less than the fair value of the acquiree's identifiable net assets acquired in combination, a review of the measurement of the fair values of the various identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination of the acquiree (or the fair value of equity securities issued) and the equity interests in the acquiree held prior to the acquisition date is conducted. If the review indicates that the fair value of the sum of the combination consideration paid (or the fair value of equities securities issued) and equity interests in the acquiree held prior to the acquisition date is indeed less than the fair value of the acquiree's identifiable net assets acquired in combination, the difference is recognized in current profit or loss.

For the business combination involving enterprises not under common control is achieved in stages, the long-term equity investments of the acquiree held prior to the acquisition date is remeasured at the fair value on the acquisition date, and the difference between the fair value and the carrying amount is recognized in profit or loss for the current period. For the other comprehensive income generated under the equity method from the long-term equity investments of the acquiree held prior to the acquisition date, the same accounting treatment of which the investee directly disposes of the related assets or liabilities should be used. Movement of other shareholders' equity (excluding net profit or loss, other comprehensive income and profit distribution) shall be transferred to profit or loss for the current period to which the acquisition date belongs. For other equity instrument investments of the acquiree held prior to the acquisition date, the movement of the fair value of equity instrument investment is transferred to retained earnings before the acquisition date.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 5. Consolidated financial statement

The consolidation scope of the consolidated financial statements is determined on the basis of control, including the financial statement of the Company and all of its subsidiaries, which represent the entities controlled by the Company (contain enterprises, a divisible portion of the invested enterprises and structured entities controlled by the Company).

In preparation of consolidated financial statements, the subsidiaries use the same accounting period and accounting policies as those of the Company. All intra-group assets, liabilities, interests, income, expenses and cash flow are eliminated in full on consolidation.

Where the amount of losses of a subsidiary attributable to the minority shareholders in the current period exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against minority interests.

For a subsidiary acquired through a business combination involving enterprises not under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statement from the date on which the Group gains control till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative consolidated financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination has been existing since the ultimate controller begins to exercise control.

The Group's control over an investee is re-assessed if change in relevant facts and situations causes changes in one or more of the control substances.

Where there is no loss of control, the change in minority interests is accounted for as equity transaction.

### 6. Classification of joint arrangements and joint ventures

There are two types of joint arrangements – joint operations and joint ventures. A joint operation is a joint arrangement whereby the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement.

A joint operator recognizes the following items in relation to its interest in a joint operation: its solely-held assets, and its share of any assets held jointly; its solely-assumed liabilities, and its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; its solely-incurred expenses, and its share of any expenses incurred jointly.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 7. Cash and cash equivalent

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

### 8. Translation of transactions and financial statements denominated in foreign Currencies

The Group translates the amount of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying the foreign currency amount the spot exchange rate prevailing on the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate prevailing on the balance sheet date. All the resulting differences on settlement and monetary item translation are taken to profit or loss in the current period, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The difference thus resulted are recognized in profit or loss for the current period or as other comprehensive income based on the nature of the non-monetary items.

For foreign operations, the Group translates their functional currency amounts into RMB when preparing the financial statements as follows: as at the balance sheet date, the assets and liabilities are translated using the spot exchange rate at the balance sheet date, and equity items other than "unappropriated profit" are translated at the spot exchange rates at the dates of transactions; revenue and expense items in profit or loss are translated using the spot exchange rates prevailing on the dates of the transactions. The resulting exchange differences are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss. If the disposal only involves a portion of a particular foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss on a pro-rata basis.

Foreign currency cash flows and the cash flows of foreign subsidiaries are translated using the spot exchange rates prevailing on the dates of cash flows. The effect of exchange rate changes on cash is separately presented as an adjustment item in the statement of cash flows.

# III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

## 9. Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Recognition and derecognition of financial instruments*

A financial asset or financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or part of a financial asset, or part of a group of similar financial assets), i.e. writes off the financial asset from the account and balance sheet, when the following conditions are met:

(1) the rights to receive cash flows from the financial asset expire;

(2) the Group has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control of the financial asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss for the current period.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales of financial assets refer to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date is the date on which the Group undertakes to buy or sell a financial asset.

*Classification and measurement of financial assets*

On initial recognition, the Group's financial assets are classified based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Financial assets are initially recognized at fair value. However, if the initial recognition of accounts receivable or notes receivable arising from sale of goods or provision of services does not include significant financing components or does not consider financing components not exceeding one year, it shall be recognized as the transaction price.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instrument (continued)

*Classification and measurement of financial assets (continued)*

For the financial assets at fair value through profit or loss, related transaction expenses are directly charged to profit or loss for the current period; for other financial assets, related transaction expenses are included in the initial recognized amount.

The subsequent measurement of a financial asset is determined by its category:

*Debt instrument investment measured at amortized cost*

A financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to collect contractual cash flows; and the contractual terms of the financial asset set that the cash flows on specified dates are solely payments of principal and the interest based on the outstanding amount of principal. The interest income from such financial asset is recognized using the effective interest method, and gains or losses arising from its derecognition, revision or impairment is recognized in profit or loss for the current period. Such financial asset mainly includes cash and bank balances, accounts receivable and notes receivable, other receivables, contract assets and long-term receivables, etc. The Group's debt investments maturing within one year after the balance sheet date and long-term receivables are stated as non-current assets maturing within one year, and debt investments originally maturing within one year are stated as other current assets.

*Debt instrument investment at fair value through other comprehensive income*

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held by the Group within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding amount of principal. The interest income from such financial asset is recognized using the effective interest method. The change in fair value of such financial asset shall be recognized in other comprehensive income, except for interest income, impairment losses and exchange differences recognized in profit or loss for the current period. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss for the current period. Such financial asset is stated as other debt investments, other debt investments maturing within one year after the balance sheet date are stated as non-current assets maturing within one year, and other debt investments originally maturing within one year are stated as other current assets.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instrument (continued)

*Classification and measurement of financial assets (continued)*

*Equity instrument investment at fair value through other comprehensive income*

The Group irrevocably opts to assign some of the investments in non-tradable equity instruments to financial assets at fair value through other comprehensive income, and only recognizes relevant dividend incomes (excluding dividend incomes taken back clearly as part of investment cost) in profit or loss for the current period, while subsequent changes in fair value is recognized as other comprehensive income, without needing to withdraw impairment provision. When the financial assets are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to retained earnings. Such financial assets are stated as other equity instrument investments.

A financial asset is classified as held for trading if one of the following conditions is satisfied: it has been acquired principally for the purpose of selling or repurchasing in the near term; it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a derivative that qualifies for financial guarantee contracts.

*Financial assets at fair value through profit or loss*

The financial assets other than those measured at amortized cost and at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. For such financial assets, fair value is used for subsequent measurement, and all changes in fair value are recognized in profit or loss for the current period. Such financial assets are stated as financial assets held for trading, and those maturing more than one year after the balance sheet date and expected to be held for more than one year are stated as other non-current financial assets.

Only when accounting mismatches can be eliminated or significantly reduced can financial assets be classified as financial assets at fair value through profit or loss on initial recognition.

Neither a certain financial asset designated as the financial asset at fair value through profit or loss by an enterprise at the time of initial recognition can be reclassified as other financial assets nor can other financial assets be re-designated as financial assets at fair value through profit or loss after initial recognition.

Only if the Group changes its business model for managing financial assets, all affected financial assets can be reclassified.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instrument (continued)

*Classification and measurement of financial liabilities*

On initial recognition, the Group's financial liabilities are classified as: financial liabilities at fair value through profit or loss, other financial liabilities, derivatives designated as hedging instruments in an effective hedge. For financial liabilities at fair value through profit or loss, related transaction expenses are directly charged to profit or loss for the current period; and transaction expenses relating to other financial liabilities are included in the initial recognized amount.

The subsequent measurement of financial liability is determined by its category:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial liabilities) and financial liabilities designated upon initial recognition as at fair value through profit or loss.

A financial liabilities is classified as held for trading if one of the following conditions is satisfied: it has been acquired principally for the purpose of selling or repurchasing in the near term; it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a derivative that qualifies for financial guarantee contracts. Financial liabilities held for trading (including derivative financial liabilities) are subsequently measured at fair value, all the gains or losses, which are not related to hedging accounting, are recognized in profit or loss.

Financial liabilities can be designated upon initial recognition as at fair value through profit or loss only when one of the following conditions is met.

(1) it can eliminate or significantly reduce accounting mismatch

(2) A formal written document on risk management or investment strategy states that the portfolio of financial instruments is managed, evaluated and reported to key management personnel on a fair value basis.

(3) A hybrid tool that includes one or more embedded derivatives, unless the embedded derivative does not significantly change the cash flow of the hybrid instrument, or the embedded derivative should obviously not be split from the relevant hybrid tool.

(4) A hybrid tool that contains embedded derivatives that need to be split but cannot be measured separately at the time of acquisition or on subsequent balance sheet days.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instrument (continued)

*Classification and measurement of financial liabilities (continued)*

*Financial liabilities at fair value through profit or loss (continued)*

For such financial liabilities, the subsequent measurement is based on fair value. Except for changes in fair value arising from changes in the Group's own credit risk, other changes in fair value are recognized in profit or loss. The Group changes all fair value changes (including the impact of changes in its own credit risk) to the current profit and loss, unless the changes in fair value of the Group's own credit risk are included in other comprehensive income.

Financial liabilities on initial recognition classified as financial liabilities at fair value through profit or loss cannot be reclassified to other financial liabilities; other financial liabilities cannot be reclassified to financial liabilities at fair value through profit or loss.

*Other financial liabilities*

Such financial liabilities are measured at amortized cost by using the effective interest method.

*Impairment of financial instrument*

On the basis of expected credit losses, the Group performs the impairment treatment on financial assets measured at amortized cost, lease receivables, and contract assets and recognizes the loss provision.

Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group that are discounted at the original effective interest rate, that is, the present value of all cash shortfalls. Among them, the Group's purchased or originated credit-impaired financial assets shall be discounted according to the effective interest rate adjusted by the financial assets.

For receivables and contract assets that do not contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the amount of expected credit losses for the entire duration of the life.

For lease receivables, the Group uses a simplified measurement method to measure loss provision based on the amount of expected credit losses for the entire duration of the life.

Expected credit losses of financial instruments are assessed on an individual basis and group basis by the Group. The Group assesses expected credit losses of financial instruments based on ageing and credit risk characteristics of different customers.

The Group considers all reasonable and evidenced information relating to past events, current conditions and future economic forecast when assessing expected credit losses.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 9. Financial instrument (continued)

*Impairment of financial instrument (continued)*

Refer to Note VIII. 1 for disclosures including the Group's criteria for judging the significant increase of credit risk, definition of credit-impaired assets and assumption of expected credit loss measurement.

When the Group no longer reasonably expects to be able to fully or partially recover the contractual cash flows of financial assets, the Group directly writes down the book balance of the financial assets.

### 10. Inventories

Inventories mainly include raw material, goods in inventory and low-value consumables, etc.

Inventories are initially measured at cost. Cost of inventories comprises costs of purchase and other cost. When the inventories are delivered, the actual costs of the delivered inventories are determined by using the method of weighted average. Low-price easily-worn materials are amortized by the one-time writing-off method.

The inventory system is a perpetual inventory system.

On the balance sheet date, the inventories shall be calculated by the lower of cost and net realized value. When the cost is higher than the net realizable value, inventory impairment provision shall be provided and the inventories shall be included in current profit and loss. In case the factors impacting the previous providing of the inventory impairment provision are eliminated, making the net realizable value of the inventory be higher than its book value, the write-down amount should be recovered from the amount of inventory impairment provision previously provided and the corresponding amount shall be reversed to current profit and loss.

The net realizable value represents the amount derived by deducting the potential cost, estimated sale cost and relative taxes to the completion date from the estimated selling price of the inventory in daily activities. When providing the inventory impairment provision, the finished products shall be provided by categories.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 11. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

A long-term equity investment is initially recorded at its initial investment cost on acquisition. For a long-term equity investment acquired under business combination involving entities under common control, the initial investment cost is the share of the book value of the owner's equity of the party being combined on the date of business combination in the consolidated financial statements of the ultimate controller. The difference between the initial investment cost and the book value of the consideration for combination is adjusted to capital reserve (or charged against retained earnings if there is any shortfall). Other comprehensive income held prior to the date of business combination is accounted for on the same basis as where the assets or liabilities are directly disposed of by the investee in disposal of such assets or liabilities. Shareholders' equity recognized as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit appropriation is taken to profit or loss for the current period upon disposal of such investment. In particular, those which remain as long-term equity investments upon disposal are carried forward in proportion, and those which are converted to financial instruments upon disposal are carried forward in full. For a long-term equity investment acquired through a business combination involving entities not under common control, the initial investment cost is the cost of business combination (Business combination involving entities not under common control which is achieved after multiple transactions, the initial investment cost is the sum of book value of equity investments of the acquiree held prior to the date of acquisition and the addition to investment cost on the date of acquisition). Cost of business combination includes the sum of fair values of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer. Other comprehensive income recognized on equity method held prior to the date of acquisition is accounted for on the same basis as where the assets or liabilities are directly disposed of by the investee in disposal of such assets or liabilities. Shareholders' equity recognized as a result of changes in other shareholders' equity of the investee other than net profit or loss, other comprehensive income and profit appropriation is taken to profit or loss for the current period upon the disposal of such investment. In particular, those which remain as long-term equity investments upon disposal are carried forward in proportion, and those which are converted to financial instruments upon disposal are carried forward in full. Accumulated fair value change of equity investments held prior to the date of acquisition being taken to other comprehensive income as other equity instrument investments is taken to retained earnings in full under cost method. For long-term equity investment acquired by means other than business combination, initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the equity securities issued.

# III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

## 11. Long-term equity investments (continued)

For a long-term equity investment where the Company can exercise control over the investee, the Company uses the cost method in the Company's separate financial statements. Control refers to the power over an investee, and exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. For addition or recovery of investments, the cost of long-term equity investments is adjusted accordingly. Cash dividend or profit declared to be distributed by an investee is recognized as profit or loss for the current period.

The equity method is adopted for a long-term equity investment when the Group holds joint control, or exercises significant influence on the investee. Joint control refers to the contractually-agreed shared control over an arrangement and related activities under such arrangement shall be decided on with the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee rather than to control or jointly control with other parties over the formulation of those policies.

Under the equity method, where the initial investment cost of a long-term equity investment is more than the share of the fair value of the investee's identifiable net assets when the investment is made, the cost is included in the initial investment cost of the long-term equity investment. Where the initial investment cost is less than the share of the fair value of the investee's identifiable net assets when the investment is made, the difference is recognized in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share in the net profit or loss and other comprehensive income made by the investee as investment income or losses and other comprehensive income after the acquisition of the long-term equity investment, and adjusts the book value of the long-term equity investment accordingly. When recognizing the Group's share in the net profit or loss of the investee, the Group recognizes the net profit of the investee after making appropriate adjustments based on the fair values of the identifiable assets of the investee when the investment is acquired and in accordance with the Group's accounting policies and periods, after eliminating the portion of the profits or losses, arising from internal transactions with its joint ventures and associates, attributable to the investor according to its share ratio (but losses arising from internal transactions that belong to impairment losses on assets should be recognized in full), save for business formed by assets invested or disposed. The book value of the long-term equity investment is reduced accordingly based on the Group's share of profit or cash dividends declared to be distributed by the investee. The Group's share in net loss of the investee is recognized to the extent that the book value of the long-term equity investment and other long-term equity substantively forming net investments of the investee are written down to zero, except that the Group has incurred obligations to assume additional losses. The Group adjusts the book value of the long-term equity investment for other changes in shareholders' equity of the investee (other than net profit or loss, other comprehensive income and profit appropriation of the investee) and includes the corresponding adjustments in the shareholders' equity.

(All amounts in RMB'000 unless otherwise stated)

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 11. Long-term equity investments (continued)

On disposal of the long-term equity investment, the difference between book value and consideration actually received is recognized in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee. Shareholders' equity recognized as a result of changes in other shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken in full to the profit or loss for the current period. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be accounted for on the same basis as where the relevant assets or liabilities are disposed of directly by the investee and taken to the profit or loss for the current period in proportion. Shareholders' equity recognized as a result of changes in shareholders' equity (other than the net profit or loss, other comprehensive income and profit appropriation of the investee) shall be taken to the profit or loss for the current period on a pro-rata basis.

### 12. Fixed Assets

A fixed asset is recognized only when the economic benefits associated with the asset are probable to flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset when meets the above confirming conditions, finally the carrying amount of the replaced part is derecognized; Otherwise the expenditures are recognized in profit or loss in the period in which they are incurred.

Fixed assets initially measured at cost. The cost of a purchased fixed asset consists of the acquisition price, relevant taxes, and other directly attributable expenditure for bringing the asset to its working condition for its intended use.

A fixed asset is depreciated using the straight-line method. The useful life, net of estimated residual value rate and annual depreciation rate of each category of fixed assets are as follows:

| | **Useful life** | **Net of estimated residual value rate** | **Annual depreciation rate** |
|---|---|---|---|
| Buildings | 10 to 20 years | 0% | 5% to 10% |
| Machinery and equipment | 5 to 10 years | 5% | 9.5% to 19% |
| Motor vehicles | 4 to 5 years | 5% | 19% to 23.75% |
| Office equipment | 3 to 5 years | 5% | 19% to 31.67% |

The Group reviews the useful life and net of estimated residual value of a fixed asset and the depreciation method applied at least once at each year-end, and adjusts when necessary.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 13. Construction in Progress

Construction in progress is recognized at its actual costs. The actual costs include various necessary construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs.

Construction in progress is transferred to a fixed asset when it is ready for intended use.

### 14. Borrowing Costs

Borrowing costs are interests and other related cost arising from Group's borrowing, including borrowing interests, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency lending etc.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized, and other borrowing costs are recognized in profit or loss for the period. Qualifying assets are fixed assets, investment property and inventory that necessarily take a substantial period of time to get ready for its intended use or sale.

Borrowing costs may be capitalized only when:

(1) Expenditures for such asset are incurred;

(2) Borrowing costs are incurred;

(3) The acquisition, construction or production activities which are necessary to prepare the asset for its intended use or sale have started.

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Borrowing costs incurred subsequently are recognized in current profit and loss.

During the period of capitalization, the amount of capitalized interests in each accounting period is determined by the following methods:

(1) For dedicated borrowings, the amount of interest is the interest expenses actually incurred in the current period less the interest income earned on temporary deposits or investment income.

(2) For general borrowings utilized, the amount of interest is the weighted average asset expenditures of the excess of accumulative asset expenditure over the dedicated borrowings multiplying the weighted average interest rate of the general borrowings utilized.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 14. Borrowing Costs (continued)

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 consecutive months, other than those necessary to prepare the asset for its intended use or sale, the capitalization of the borrowing costs shall be suspended. Borrowing costs incurred during the interruption period are recognized as cost in profit or loss for the current period, until those acquisition or construction is resumed.

### 15. Intangible Assets

Intangible assets may be recognized initially measured at cost only when economic benefits relating to it are likely to flow into the Group as well as its cost can be measured reliably. However, for intangible assets acquired from business combination not under common control, if their fair value can be measured reliably, they are recognized separately as intangible assets and measured at fair value.

The useful life of an intangible asset shall be determined based on the term in which it can generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable term in which it can generate economic benefits for the Group.

The useful life of each category of intangible assets is as follows:

| | **Useful life** |
|---|---|
| Land use rights | 50 years |
| Trademark | expected useful lives |
| Purchased software | expected useful lives |
| Brands | expected useful lives |
| Favorable contracts | expected useful lives |

Land use rights that are purchased by the Group are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and relevant land use rights are accounted for as fixed assets and intangible assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; they are accounted for as fixed assets if they cannot be reasonably allocated.

An intangible asset with finite useful life is amortised over its useful life period by using the straight-line method. The useful life and amortization method of an intangible asset with finite useful life shall be reviewed at least once at each year-end, and adjusted when necessary.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 16. Impairment of Assets

The Group determines impairment of assets excluding inventory, deferred income taxes and financial assets on below method:

The Group determines whether there is any indication that assets have suffered an impairment loss at balance sheet date. If an impairment indication exists, the recoverable amount is estimated and impairment test is carrying out. The intangible assets with indefinite useful life and the goodwill arising from business combination should be performed impairment test at least once at the each year-end whether an impairment indication exists. As for intangible assets that have not been ready for intended use, an impairment test should be carried out each year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis unless it is not possible to estimate the recoverable amount of the individual asset, in which case the recoverable amount is determined for the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

If such recoverable amount is less than its carrying amount, book value is reduced to its recoverable amount, the reduction amount is recognized in profit or loss for the current period and a provision for impairment losses of such assets has been prepared.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis, to each of the related asset groups unless it is impossible to allocate to the related asset groups, in which case it is allocated to each of the related sets of asset groups. Each of the related asset groups or sets of asset groups is an asset group or a set of asset groups that is expected to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

When testing an asset group (a set of asset groups) to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group (set of asset groups), excluding the amount of goodwill allocated, for impairment, i.e., the Group determines and compares the recoverable amount with the related carrying amount and recognizes any impairment loss. After that, the Group tests the asset group (set of asset groups), including goodwill, for impairment, the carrying amount of the related asset group (set of asset groups) is compared to its recoverable amount. If the carrying amount of the asset group (set of asset groups) is higher than its recoverable amount, the amount of the impairment loss is firstly used to reduce the carrying amount of the goodwill allocated to the asset group (set of asset groups), and then used to reduce the carrying amount of other assets (other than the goodwill) within the asset group (set of asset groups), on a pro-rata basis of the carrying amount of each asset.

Once the above impairment loss is recognized, it cannot be reversed in subsequent accounting periods.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 17. Long-term Prepaid Expenses

Long-term prepaid expenses are amortized using the straight-line method, the amortized periods are as follow:

| | **Amortized periods** |
|---|---|
| Leasehold improvements of fixed assets | Expected beneficial period ranging from 2 to 5 years |

### 18. Employee Benefits

Employee benefits refer to all forms of consideration or compensation other than share-based payments given by the Group in exchange for services rendered by employees or for termination of employment. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits given by the Group to an employee's spouse, children and dependents, family members of deceased employees and other beneficiaries are also employee benefits.

*Short-term Employee Benefits*

The employee benefits liabilities are recognized in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

*Post-Employment Benefits (Defined Contribution Plans)*

The employees of the Group participate in a pension scheme and unemployment insurance managed by the local government, the corresponding expenses shall be included in the cost of related assets or profit or loss.

### 19. Provisions

An obligation related to a contingency shall be recognized by the Group as a provision when all of the following conditions are satisfied, except for contingent considerations and contingent liabilities assumed in a business combination not involving entities under common control:

(1) The obligation is a present obligation of the Group;

(2) It is probable that an outflow of economic benefits from the Group will be required to settle the obligation;

(3) A reliable estimate can be made of the amount of the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money as a whole. Provisions are reviewed at each balance sheet date. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 20. Share-based payments

A share-based payment is classified as either an equity-settled share-based payment or a cash-settled share-based payment. An equity-settled share-based payment is a transaction in which the Group receives services and uses shares or other equity instruments as consideration for settlement.

An equity-settled share-based payment in exchange for services received from employees is measured at the fair value of the equity instruments granted to the employees. If such equity-settled share-based payment could vest immediately, related costs or expenses at an amount equal to the fair value on the grant date are recognized, with a corresponding increase in capital reserves; if such equity-settled share-based payment could not vest until the completion of services for a vesting period, or until the achievement of a specified performance condition, the Group at each balance sheet date during the vesting period recognizes the services received for the current period as related costs and expenses, with a corresponding increase in capital reserves, at an amount equal to the fair value of the equity instruments at the grant date, based on the best estimate of the number of equity instruments expected to vest, which is made on the basis of the latest available information such as the changes in the number of covered employees. In calculating the fair value of the Group's related equity instruments, the Group used the discounted cash flow method under the income method for the employee awards granted before the listing, and used the share price on the grant date for the employee awards granted after the listing.

The cost of equity-settled transactions is recognized, together with a corresponding increase in capital reserves, over the period in which the service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled share-based award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled share-based award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 21. Revenue

The Group performed the performance obligations in the contract, namely, when the customer obtains control over relevant goods or services. Control over the relevant goods and services refers to the ability to direct the use of, and obtain substantially all of the economic benefits from the provisions of the services.

*(a) Sale of goods – retail*

The Group directly sells products to customers in retail, and recognizes revenue when the products have been sold to customers.

*(b) Sale of goods – wholesale*

The Group sells products to wholesalers in different areas. The Group delivers products to the delivery locations agreed in contracts. Sales are recognized at the point when wholesalers accepts the products and both parties sign on delivery sheets.

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

*Sales return clause*

For sales with a sales return clause, the Group recognizes revenue based on the amount of consideration expected to be received by the customer for the transfer of the goods to the customer, and recognizes the amount that is expected to be refunded as a result of the sales return as an estimated liability. On each balance sheet date, the Group re-estimates the future sales return and re-measures the above liabilities.

*Reward points program*

The Group will award bonus points to customers while selling goods. Customers can use bonus points to redeem free or discounted products for the Group. The bonus points program provides customers with a significant right, and the Group allocates part of the transaction price to the bonus points as a single performance obligation, based on the relative proportion of the individual selling prices for the quality assurance of goods and services. Revenue is recognized when the points are redeemed for control of the goods or when the points expire.

*Primary responsible/agent*

For the Group's retail model of department store counters, the Group is able to control the goods before transferring the goods to the customers. Therefore, the Group is the main responsible person and recognizes the income according to the total amount received or receivable. Otherwise, the Group is an agent and recognizes the income according to the amount of the commission or handling fee that it is expected to receive. The amount shall be deducted from the total amount received or receivable, after deducting the amount payable to other related parties, or the amount or proportion of the established commission is determined.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 22. Contract liabilities

The Group presents contract liabilities in the balance sheet based on the relationship between the Group's fulfilment of performance obligations and customers' payment.

In the event that the enterprises have received relevant accounts before transferring the promised goods, the Group presents the obligations for transfer of goods to customers for considerations received or receivable from customers as contract liabilities.

### 23. Government grants

Government grants are recognized when all attaching conditions will be complied with and the grants will be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods regulated in government documents are recognized as asset-related government grants. Judgments should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic conditions, are recognized as asset-related government grants, whereas the rest as income-related government grants.

Income-related government grants used to recover related costs or losses in the subsequent period are recognized as deferred income, and are taken into the current profit or loss or used to offset related costs of the period in which the related costs or losses are recognized; those used to recover related costs or losses incurred are directly recognized as the current gains/losses or used to offset related costs.

A government grant relating to an asset shall be offset against the carrying amounts of relevant assets, or recognized as deferred income and amortized in profit or loss over the useful life of the related asset by annual instalments in a systematic and rational way (however, a government grant measured at a nominal amount is recognized directly in profit or loss). Where the assets are sold, transferred, retired or damaged before the end of their useful lives, the rest of the remaining deferred income is released to profit or loss for the period in which the relevant assets are disposed of.

### 24. Income tax

Income tax comprises current and deferred tax. Income tax is recognized as income or expense in profit or loss, or recognized directly in equity if it arises from a business combination or relates to a transaction or event which is recognized directly in equity.

Current tax liabilities or assets arising from the current and prior periods at the amount expected to be paid by the Group or returned by the tax authority calculated according to related tax laws.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 24. Income tax (continued)

Deferred tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the tax bases and the carrying amounts of the items, which have a tax base according to related tax laws but are not recognized as assets and liabilities.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) when the taxable temporary difference arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit or loss; and

(2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax losses and any unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and unused tax credits can be utilised, except:

(1) when the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized in the future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, in accordance with the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the liabilities.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the balance sheet date and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 24. Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 25. Right-of-use Assets (applicable starting from 1 January 2019)

The right-of-use assets of the Group are mainly buildings and structures.

On the commencement date of the lease term, the Group recognizes its right to use the leased asset over the lease term as the right-of-use asset, including:

(1) Initial measurement amount of lease liability;

(2) If the lease payment is paid on or before the start date of the lease period, there is a lease incentive, and the amount of the lease incentive that has been enjoyed is deducted.;

(3) Initial direct costs incurred by the lessee;

(4) The cost to which the lessee is expected to dismantle and remove the leased asset, restore the leased asset at the site, or restore the leased asset to the agreed terms of the lease terms.

The Group's adopts averaging method to calculate the depreciation of the right-of-use assets in the subsequent years. If it is reasonable to determine the ownership of the leased asset at the expiration of the lease term, the Group will depreciate the remaining useful life of the leased asset. If it is not reasonable to determine that the leasehold asset can be acquired at the expiration of the lease term, the Group depreciates during the shorter period between the lease term and the remaining useful life of the leased asset.

When the Group re-measures the lease liability based on the present value of the changed lease payments and adjusts the book value of the right-of-use asset accordingly, if the book value of the right-of-use asset has been reduced to zero, the lease liability still needs to be further reduced. The Group accounts for the remaining amount in the current profit and loss.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 26. Lease Liabilities (applicable starting from 1 January 2019)

On the commencement date of the lease term, the Group recognizes the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and low-value asset leases. The Group uses the leased interest rate as the discount rate to calculate the present value of the lease payments. If it is not possible to determine the interest rate of the lease, the lessee's incremental borrowing rate is used as the discount rate. The Group calculates the interest expense of the lease liability for each period of the lease term based on the fixed periodic interest rate and recognizes it in profit or loss for the current period. The variable lease payments that are not included in the measurement of the lease liabilities are recognized in profit or loss when incurred.

After the commencement date of the lease period, the Group re-measures the lease liability based on the present value of the changed lease payments, when: actual fixed payment amount changes; expected amount of the guarantee residual value changes; index or ratio used to determine the lease payment amount changes; and evaluation result or actual exercise situation of purchase option, renewal option or termination option changes.

### 27. Leases (applicable starting from 1 January 2019)

*Lease period assessment*

The lease term is the period during which the Group has the right to use the leased asset and it is irrevocable. The Group has the right to choose to renew the lease, and it is reasonable to determine that the option will be exercised. The lease term also includes the period covered by the option to renew the lease. The Group has the right to choose to terminate the lease of the asset, but it is reasonable to determine that the option will not be exercised. The lease term includes the period covered by the termination of the lease option. In the event of a major event or change within the Group's controllable range, and affecting whether the Group reasonably determines that the option will be exercised, the Group determines whether it will reasonably exercise the option to renew the lease, purchase option or terminate the lease option.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 27. Leases (applicable starting from 1 January 2019) (continued)

*As lessee*

For the general accounting treatment of the Group as a lessee, please refer to Note III – 25 and 26.

*Changes to lease*

The changes to lease is the change of lease scope, lease consideration, and lease term outside the original contract terms, including the addition or termination of one or more lease asset. It also includes the extension or shortening of the lease period stipulated in the contract.

If the lease changes and meets the following conditions, the Group will account for the lease change as a separate lease:

(1) The lease change expands the lease by increasing the right to use one or more leased assets;

(2) The increased consideration and the individual price of the enlarged portion of the lease are equivalent to the amount adjusted for the contract.

If the change of lease is not accounted for as a separate lease, the Group re-determines the lease term on the effective date of the change to lease and discounts the changed lease payments using the revised discount rate to re-measure the lease liability. When calculating the present value of the lease payment after the change, the Group adopts the lease interest rate of the remaining lease period as the discount rate; if the lease interest rate of the remaining lease period cannot be determined, the Group's Incremental borrowing rate on the effective date of the change to lease is used as the discount rate.

The Group distinguishes between the following cases for accounting treatment in view of the above effects of the adjustment of the lease liabilities:

(1) If the change to lease results in a smaller lease area or a shorter lease term, the Group reduces the book value of the right-of-use asset to reflect the partial termination or termination of the lease. The Group recognizes the related gains or losses that partially terminate or completely terminate the leases into the current profits and losses.

(2) The Group adjusts the book value of the right-of-use assets accordingly based on change to lease.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 27. Leases (applicable starting from 1 January 2019) (continued)

*As lessee (continued)*

*Short-term leases and low-value asset leases*

The Group recognize the lease whose lease term is not more than 12 months and the lease that does not include the purchase option at the beginning of the lease term as a short-term lease; the lease with a value of not more than RMB35,000 when it was a new asset is recognized as a low value lease. If the Group subleases or expects to sublease the leased assets, the original lease is not recognized as a low-value asset lease. The Group does not recognize the right-of-use assets and lease liabilities for short-term leases and low-value asset leases. During the period of the lease term, the related asset cost or current profit and loss is included in the straight-line method.

### 28. Leases (applicable to 2018)

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset. An operating lease is a lease other than a finance lease.

*As lessee of an operating lease*

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss. Contingent rents are charged to profit or loss as incurred.

### 29. Fair value measurement

The Group measures its other equity instruments, other non-current financial assets and financial assets held for trading at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the orderly transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstance and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs only under the circumstances where such relevant observable inputs cannot be obtained or practicably obtained.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 29. Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 – based on inputs other than inputs within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 – based on input for the asset or liability that is not based on observable market data.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group re-assess them at each balance sheet date to determine whether transfers have occurred between levels in the hierarchy.

### 30. Significant accounting judgments and estimates

The preparation of the financial statements requires the management to make judgments, estimates and assumptions that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the book value of the assets or liabilities affected in the future.

*Judgments*

In the process of applying the Group's accounting policies, the management has made the following judgments which have significant effect on the amounts recognized in the financial statements.

*Business Model*

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group takes into account the corporate evaluation and ways to report the performance of financial assets to key management personnel, risks affecting the performance of financial assets and their management style, and the manner in which relevant business management personnel are paid. In assessing whether the business model is based on the collection of contractual cash flows, the Group needs to analyse and judge the reasons, timing, frequency and value of the sale of financial assets before the maturity date.

*Contractual cash flow characteristics*

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow, and to judge whether the fair value of financial assets with prepayment characteristics is insignificant.

# III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

## 30. Significant accounting judgments and estimates (continued)

*Judgments (continued)*

*Lease period – Lease contract with renewal option*

The lease term is the period during which the Group has the right to use the leased asset and is irrevocable. If there is an option to renew the lease and it is reasonably determined that the option will be exercised, the lease term also includes the period covered by the option to renew the lease. Some of the Group's lease contracts have the option to renew the lease. In assessing whether it is reasonable to determine whether the option to renew the lease will be exercised, it will consider all relevant facts and circumstances that bring economic benefits to the exercise of the option of renewal of the Group, including the facts from the commencement date of the lease term to the date of exercise of the option. And expected changes in the situation. The Group believes that due to the conditions related to the exercise of the option and the possibility of meeting the relevant conditions, the Group can reasonably determine that the option to renew the lease will be exercised. Therefore, the lease term includes the period covered by the option of renewal.

*Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the book value of assets and liabilities within the future accounting periods, are discussed below.

*Impairment of non-current assets other than financial assets (other than goodwill)*

The Group assesses whether there are any indications of impairment for all non-current assets other than financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such an indication exists. Other non-current assets other than financial assets are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or asset group exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from it. The calculation of the fair value less costs of disposal based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the assets. When the calculations of the present value of the future cash flows expected to be derived from an asset or asset group are undertaken, management must estimate the expected future cash flows from the asset or asset group and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Depreciation of goodwill*

The Group carries out tests for depreciation of goodwill on an annual basis, which entails estimation of the present value of future cash flows of the asset groups or asset portfolios to which goodwill is allocated. When estimating the present value of future cash flows, the Group needs to estimate the cash flows generated by the future asset groups or asset portfolios, and select the appropriate discount rate to determine the present value of future cash flows.

# III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

## 30. Significant accounting judgments and estimates (continued)

*Estimation uncertainty (continued)*

*Sales Return*

The Group uses the sales return policy for sales customers and estimates the sales return amount based on the relevant agreements and historical experience of the sales agreement on the balance sheet date.

*Provision for impairment of inventories*

The Group measures the lowering of cost and net realizable value according to the inventory accounting policy, and makes provision for inventory depreciation for inventories with higher than net realizable value and obsolete and slow-moving inventory. The impairment of inventories to net realizable value is based on the assessment of the sales ability of inventories and their net realizable value. Identification of inventory impairment requires management to make judgments and estimates based on factors such as the purpose of holding inventory and the impact of events after the balance sheet date. The difference between the actual result and the original estimate will affect the book value of the inventory and the provision or reversal of the inventory depreciation reserve during the period in which the estimate is changed.

*Measurement of expected credit losses*

The Group uses exposure of default risk and expected credit loss rates to calculate expected credit losses, and determines expected credit loss rate based on risk of default and loss rate of default. Internal historical credit losses adjusted to reflect current and forward-looking information are used to determine expected credit loss rates. When considering forward-looking information, the data used include the risk of decrease of economics, expected increase of unemployment rates, external market environment, technology environment and the changes of customers' situation. The Group monitors and reviews the assumptions related to expected credit losses. The valuation technique and key assumptions did not change significantly for the 6 months ended 30 June 2019.

*Deferred income tax assets*

Deferred income tax assets shall be recognized for all deductible losses not used to the extent that there is likely sufficient taxable income available for deduction of deductible losses. It requires the management to determine the value of the to-be-recognized deferred income tax assets by using adequate discretion to estimate the time and amount of taxable income to be obtained in the future in combination with tax planning strategies.

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

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

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgments and estimates (continued)

*Estimation uncertainty (continued)*

*Long-term impairment losses*

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

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

### 31. Changes in accounting policies and accounting estimates

*New Lease Standard*

In 2018, the Ministry of Finance issued the revised "Accounting Standard for Business Enterprises No. 21 – Leases" (the "New Lease Standard") which adopts the single model similar to that used for the current accounting treatment for finance lease and requires the lessee to recognize the right-of-use asset and lease liability for all leases other than short-term leases and leases of low-value assets and recognize depreciation and interest expenses, respectively. Since 1 January 2019, the Group has conducted accounting treatment in accordance with the newly revised lease standard and elected not to reassess whether the contracts that have existed before the date of first implementation are or contain leases. According to the transitional requirements, information for the comparable period will not be adjusted and retained earnings of 2019 will be retrospectively adjusted based on the difference between the New Lease Standard and the current lease standard on the date of initial application:

(1) As for the finance lease as at the date of initial application, the Group measures the right-of-use assets and lease liabilities at the original carrying amounts of the assets under finance lease and the finance lease payable, respectively.

(2) The Group made impairment test on the right-of-use assets and perform corresponding accounting treatments in accordance with note III.16.

## III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 31. Changes in accounting policies and accounting estimates (continued)

*New Lease Standard (continued)*

The Group adopted simplified treatment for the operating leases completed within 12 months before the date of initial application and has not recognized the right-of-use assets and lease liabilities. Further, as for operating leases existed before the date of initial application, the Group adopted the following simplified treatments:

(1) when measuring lease liabilities, a single discount rate is applied to a portfolio of leases with reasonably similar characteristics; the measurement of right-of-use assets may exclude initial direct costs;

(2) when the contract contains options to extend/terminate the lease, the Group determines the lease term according to the actual exercise of options and other current conditions;

(3) as for lease changes before the date of initial application, the Group performs accounting treatment according to the final arrangement of the lease changes.

*Change in disclosure of financial statements*

In 2019, the Ministry of Finance promulgated “Notice of Modification of the Financial Statement Format for General Business Enterprises in 2019” (Cai Hui [2019] No. 6). The Group’s unaudited financial statements for the six months ended 30 June 2019 are prepared in accordance with the above notice, and the comparative financial statements are revised accordingly. The impact on the financial statements are as follows: The Group separated “Notes and accounts receivable” into “Notes receivable” and “Accounts receivable”, separated “Notes and accounts payable” into “Notes payable” and “Accounts payable”. The Group adjusted the comparison date accordingly. The changes of the accounting policy has no effect on consolidated and company’s net profit and owners equity.

(All amounts in RMB'000 unless otherwise stated)

## IV. TAXES

| | | |
|---|---|---|
| Value-added tax (VAT) | – | (For general taxpayers) VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value since 1 April 2019 (16% before 1 April 2019). (For small-scale taxpayers) VAT is levied at 3% of the taxable value. |
| Urban maintenance construction tax | – | It is levied at 1-7% on the turnover taxes paid. |
| Corporate income tax | – | It is levied at 16.5%, 25% and 33.3% on the taxable profit. |
| Educational surcharge | – | It is levied at 3% on the turnover taxes paid. |
| Local educational surcharges | – | It is levied at 2% on the turnover taxes paid. |
| Property tax | – | For properties subject to price-based taxation, tax should be paid based on the 70% residual value of the property at a rate of 1.2%; for properties subject to taxation based on rental income, tax should be paid based on the rental income at a rate of 12%. Property tax is declared and paid by the Company and its subsidiaries on their own. |

## V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash at Bank and on Hand

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Cash on hand | **17,295** | 24,642 |
| Bank deposits | **272,914** | 425,221 |
| Other cash and bank | **73,143** | 155,430 |
| | **363,352** | 605,293 |

For restricted cash and bank, please refer to Note V.55.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Financial Assets Held for Trading

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Debt instrument investments | **28,200** | 28,200 |
| Equity instrument investments | **–** | 25,475 |
| | **–** | 53,675 |
| Less: Debt instrument investments listed on other non-current financial assets | **(28,200)** | (28,200) |
| | **–** | 25,475 |

### 3. Accounts Receivable

Accounts receivable credit period is usually 90 days. Accounts receivable are not interest-bearing.

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Accounts receivable | **680,672** | 1,083,470 |
| Less: Provision for bad debts | **(49,340)** | (51,660) |
| | **631,332** | 1,031,810 |

Aging analysis of the Accounts Receivable is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Within 90 days | **609,581** | 976,255 |
| 90 days to 1 year | **18,253** | 72,327 |
| 1 to 2 year | **9,194** | 13,293 |
| 2 to 3 year | **17,511** | 5,155 |
| Over 3 year | **26,133** | 16,440 |
| | **680,672** | 1,083,470 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounts Receivable (continued)

The changes on provision for bad debt in relation to accounts receivable are as follows:

| | Balance for the previous period | Provision for the current period | Business Combination | Reversal for the current period | Disposal subsidiary | Closing Balance |
|---|---|---|---|---|---|---|
| 2019 | 51,660 | 646 | 10,052 | (12,478) | (540) | 49,340 |
| 2018 | 56,779 | 1,349 | – | (6,468) | – | 51,660 |

| | **30 June 2019** | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Book balance** | | **Bad debt provision** | | Book balance | | Bad debt provision | |
| | **Amount** | **(%)** | **Amount** | **(%)** | Amount | (%) | Amount | (%) |
| Individual bad debt provision | **35,187** | **5.17** | **(35,187)** | **100** | 24,635 | 2.27 | (24,635) | 100 |
| Bad debt provided by portfolio of credit risk characteristics | **645,485** | **94.83** | **(14,153)** | **2.2** | 1,058,835 | 97.73 | (27,025) | 2.6 |
| | **680,672** | **100** | **(49,340)** | | 1,083,470 | 100 | (51,660) | |

As at 30 June 2019, accounts receivable with provision of bad debts individually reserved are analysed as follows:

| | **Book balance** | **Bad debt provision** | **Lifetime expected credit loss rate** | **Reason** |
|---|---|---|---|---|
| Amounts due from department stores | **35,187** | **(35,187)** | **100%** | **(i)** |

As at 31 December 2018, accounts receivable with provision of bad debts individually reserved are analysed as follows:

| | Book balance | Bad debt provision | Lifetime expected credit loss rate | Reason |
|---|---|---|---|---|
| Amounts due from department stores | 24,635 | (24,635) | 100% | (i) |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. Accounts Receivable (continued)

(i) As at 30 June 2019 and 31 December 2018, due to the overall poor operation situation and difficulties in cash flow turnover, part of department stores have shut down. The management of the Group is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

Accounts receivable with provision of bad debts based on aging analysis are analysed as follows:

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Estimated book balance for default** | **Expected credit loss rate (%)** | **Expected credit loss for the entire life** | Estimated book balance for default | Expected credit loss rate (%) | Expected credit loss for the entire life |
| Within 90 days | **615,591** | **2** | **(10,698)** | 976,255 | 2 | (19,527) |
| 90 days to 1 year | **19,580** | **4** | **(721)** | 72,327 | 5 | (3,616) |
| 1 to 2 year | **7,078** | **15** | **(1,036)** | 5,984 | 20 | (1,197) |
| 2 to 3 year | **2,808** | **45** | **(1,270)** | 3,169 | 50 | (1,585) |
| Over 3 year | **428** | **100** | **(428)** | 1,100 | 100 | (1,100) |
| | **645,485** | | **(14,153)** | 1,058,835 | | (27,025) |

As at 30 June 2019, top five accounts receivable are analysed as follows:

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Book balance** | **Provision of bad debts** | **% of total accounts receivable balance** | Book balance | Provision of bad debts | % of total accounts receivable balance |
| Total amount of the top five accounts receivable | **107,195** | **(3,248)** | **16%** | 142,001 | (3,694) | 13% |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4. Advances to suppliers

Aging analysis of the Advances to suppliers is as follows:

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Book balance** | **Percentage (%)** | Book balance | Percentage (%) |
| Within one year | **265,970** | **100** | 329,458 | 100 |

As at 30 June 2019, top five advances to suppliers are analysed as follows:

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Book balance** | **% of total advances to suppliers balance** | Book balance | % of total advances to suppliers balance |
| Total amount of the top five advances to suppliers | **99,669** | **37** | 119,336 | 36 |

### 5. Other Receivables

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Interest receivables | **2,862** | 2,560 |
| Other receivables | **561,263** | 379,651 |
| | **564,125** | 382,211 |

*Interest receivables*

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Interests due from related parties | **2,862** | 1,788 |
| Interests receivable of fixed deposits | **–** | 772 |
| | **2,862** | 2,560 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Other Receivables (continued)

*Other receivables*

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Deposits | **353,921** | 369,299 |
| Paid on behalf of related parties | **167,500** | 23,376 |
| Tax return receivable | **46,753** | – |
| Staff advances | **7,266** | 11,413 |
| Store decoration allowances | **6,435** | – |
| Others | **8,205** | 3,022 |
| | **590,080** | 407,110 |
| Less: provision for bad debts | **(28,817)** | (27,459) |
| | **561,263** | 379,651 |

Aging analysis of other receivables is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Within one year | **554,864** | 387,953 |
| 1 to 2 years | **17,337** | 9,257 |
| 2 to 3 years | **2,009** | 8,159 |
| Above 3 years | **15,870** | 1,741 |
| | **590,080** | 407,110 |
| Less: provision for bad debts | **(28,817)** | (27,459) |
| | **561,263** | 379,651 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. Other Receivables (continued)

The movement of bad debt provision for other receivables based on 12-months expected credit loss and lifetime expected credit loss is as follows:

**For the six months ended 30 June 2019**

| | **Stage 1** | **Stage 3** | |
|---|---|---|---|
| | **Expected credit losses in the next 12 months** | **Credit-impaired financial assets (lifetime)** | **Total** |
| Balance on 1 January, 2019 | **26,168** | **1,291** | **27,459** |
| Provision during the period | **1,224** | **4,889** | **6,113** |
| Reversal during the period | **(4,437)** | **–** | **(4,437)** |
| Disposal of subsidiaries | **(318)** | **–** | **(318)** |
| | **22,637** | **6,180** | **28,817** |

For the year ended 31 December 2018

| | Stage 1 | Stage 3 | |
|---|---|---|---|
| | Expected credit losses in the next 12 months | Credit-impaired financial assets (lifetime) | Total |
| Balance on 1 January, 2018 | 23,882 | 2,291 | 26,173 |
| Provision during the year | 2,564 | – | 2,564 |
| Reversal during the year | (278) | (1,000) | (1,278) |
| | 26,168 | 1,291 | 27,459 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. Inventories

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Book balance** | **Impairment provision** | **Book value** | Book balance | Impairment provision | Book value |
| Raw materials | **14,784** | **(711)** | **14,073** | 12,155 | – | 12,155 |
| Finished goods | **2,488,518** | **(354,860)** | **2,133,658** | 2,826,632 | (326,851) | 2,499,781 |
| Low value consumables | **11,882** | **–** | **11,882** | 22,302 | – | 22,302 |
| | **2,515,184** | **(355,571)** | **2,159,613** | 2,861,089 | (326,851) | 2,534,238 |

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

**For the six months ended 30 June 2019**

| | **31 December 2018** | **Accrual in the current period** | **Decrease in the current period Reverse or Resold** | **30 June 2019** |
|---|---|---|---|---|
| Raw materials | **–** | **711** | **–** | **711** |
| Finished goods | **326,851** | **227,674** | **199,665** | **354,860** |
| | **326,851** | **228,385** | **199,665** | **355,571** |

For the year ended 31 December 2018

| | 31 December 2017 | Accrual in the current year | Decrease in the current year Reverse or Resold | 31 December 2018 |
|---|---|---|---|---|
| Raw materials | 588 | – | 588 | – |
| Finished goods | 235,503 | 269,317 | 177,969 | 326,851 |
| | 236,091 | 269,317 | 178,557 | 326,851 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7. Other Current Assets

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Input VAT to be certified | **17,565** | 185,036 |
| Borrowings to related parties | **38,000** | 72,007 |
| Prepaid income tax | **19,264** | 50,491 |
| Input VAT to be deducted | **4,251** | – |
| Entrusted loan | **5,000** | 5,000 |
| Less: provision for bad debts | **(5,000)** | (5,000) |
| | **79,080** | 307,534 |

As at 30 June 2019, the Group provided loan amounted to RMB38,000,000 to its associate, Hongche Industry (Shanghai) Co., Ltd. ("Hongche") with interest rate of 6% (2018: RMB32,500,000).

### 8. Long-term Receivable

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Book balance** | **Impairment provision** | **Book value** | Book balance | Impairment provision | Book value |
| Disposal of subsidiaries | **127,716** | **–** | **127,716** | – | – | – |

As at 30 June 2019, the discount rate used in long-term receivable is 5.46% (2018: Nil).

As at 30 June 2019, there is no expected credit losses of long-term receivables.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Long-term Equity Investments

**For the six months ended 30 June 2019**

| | | Increase/decrease during the period | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December 2018 | Increase in investment | Transfers to subsidiaries | Share of net profit or loss using the equity method | Share of OCI | Disposals of associates | Exchange differences | Cash dividends declared | 30 June 2019 | Balance of provision for impairment |
| Joint Venture: | | | | | | | | | | |
| Lacha Apparel II S.a r.l. | 161,343 | - | (134,743) | (26,600) | - | - | - | - | - | - |
| Associates | | | | | | | | | | |
| Tibet Baoxin Equity Investment Partnership Enterprise | 157,593 | - | - | - | - | - | - | - | 157,593 | - |
| Hong Che Industrial (Shanghai) Co., Ltd. | 45,127 | - | - | (3,082) | - | - | - | - | 42,045 | - |
| Beijing Ao Ni Trading Co., Ltd. | 20,820 | - | - | 639 | - | - | - | - | 21,459 | - |
| Shanghai Youshi Household Science and Technology Co., Ltd. | 300 | - | - | (300) | - | - | - | - | - | - |
| Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) | 236,397 | - | - | 108,122 | - | (332,121) | - | - | - | - |
| Hangzhou KaiHui E-Commerce Co., Ltd. | 3,766 | - | - | - | - | (3,766) | - | - | - | - |
| Fuzhou Badi Fashion Co., Ltd. | 7,681 | - | - | (483) | - | - | - | - | 7,198 | - |
| Zhejiang Yuanrui Information Science and Technology Co., Ltd. | 2,907 | - | - | (422) | - | - | - | - | 2,485 | - |
| | 635,934 | - | (134,743) | 77,874 | - | (335,887) | - | - | 230,780 | - |

The Group acquired 60% equity of the joint venture Lacha Apparel II S.a r.l, on 4 June 2019 since NAF NAF SAS ("NAF") is a wholly-owned subsidiary of Lacha Apparel II S.a r.l, so NAF has become the wholly-owned subsidiary of the Group, disclosed in Note VI.1.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Long-term Equity Investments (continued)

For the year ended 31 December 2018

| | | Increase/decrease during the year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December 2018 | investment | Transfers to subsidiaries | Share of net profit or loss using the equity method | Share of OCI | Disposals of associates | Exchange differences | Cash dividends declared | 31 June 2019 | Balance of provision for impairment |
| Joint Venture: | | | | | | | | | | |
| Lacha Apparel II S.a r.l. | – | 156,497 | – | (7,029) | – | – | 11,875 | – | 161,343 | – |
| Associates: | | | | | | | | | | |
| Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) | 215,523 | – | – | 34,342 | – | – | – | (13,648) | 236,397 | – |
| Tibet Baoxin Equity Investment Partnership Enterprise | 107,712 | 45,000 | – | 4,881 | – | – | – | – | 157,593 | – |
| Hong Che Industrial (Shanghai) Co., Ltd. | 56,241 | – | – | (11,114) | – | – | – | – | 45,127 | – |
| Beijing Ao Ni Trading Co., Ltd. | 20,000 | – | – | 820 | – | – | – | – | 20,820 | – |
| Fuzhou Badi Fashion Co., Ltd. | 8,658 | – | – | (977) | – | – | – | – | 7,681 | – |
| Hangzhou KaiHui E-Commerce Co., Ltd. | 2,582 | – | – | 1,184 | – | – | – | – | 3,766 | – |
| Zhejiang Yuanrui Information Science and Technology Co., Ltd. | – | 3,000 | – | (93) | – | – | – | – | 2,907 | – |
| Shanghai Youshi Household Science and Technology Co., Ltd. | – | 300 | – | – | – | – | – | – | 300 | – |
| Hangzhou Mixin E-commerce Co., Ltd. | 1,235 | – | – | – | – | (1,235) | – | – | – | – |
| Hangzhou Jianing E-Commerce Co., Ltd. | 739 | – | – | (37) | – | (702) | – | – | – | – |
| Shanghai Pincheng Industry Co., Ltd. ("Pingcheng") | 15,775 | – | (15,629) | (146) | | | – | | | |
| | 428,465 | 204,797 | (15,629) | 21,831 | – | (1,937) | 11,875 | (13,468) | 635,934 | – |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Other Equity Instrument Investments

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other equity instrument investments | | |
| Stocks of non-listed companies | | |
| – TNPI (a) | **–** | – |
| – Beijing Mingtongsiji Technology Co., Ltd. (b) | **15,000** | 15,000 |
| – O2bra Co., Ltd. (c) | **13,605** | 13,605 |
| | **28,605** | 28,605 |

As at 30 June 2019 and 31 December 2018, the details of other equity instruments issued by the Group are as follows:

| | Cost | Accumulative changes through other comprehensive losses | Fair value | Reasons for designating at fair value through OCI |
|---|---|---|---|---|
| TNPI | 24,344 | (24,344) | – | (a) |
| Beijing Mingtongsiji Technology Co., Ltd. | 15,000 | – | 15,000 | (b) |
| O2bra Co., Ltd. | 13,605 | – | 13,605 | (c) |

(a) In 2016, the Group invested in TNPI by acquiring 20.75% interests with a total consideration of USD 3,750,000 (equivalent to RMB25,026,000). As at 1 January 2018, the Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through Other Comprehensive Income (OCI) at initial recognition, which are presented in other equity investment. As at 30 June 2019, the fair value of the equity instrument is nil (31 December 2018: Nil).

(b) In 2017, the Group acquired 1,075,000 shares, or 3.75% equity interests in Beijing Mingtongsiji Technology Co., Ltd. through National Equities Exchange and Quotations with a consideration of RMB15,000,000. As at 1 January 2018, the Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 30 June 2019, the fair value of the equity instrument is RMB15,000,000 (31 December 2018: RMB15,000,000).

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. Other Equity Instrument Investments (continued)

(c) In July 2017, Shanghai Yanghe Culture Communication Co., Ltd. entered into an acquisition agreement with the Group whereby it transferred its 9.07% equity interest in O2bra Co. Ltd. to the Group at the consideration of RMB13,605,000. In March 2018, O2bra Co. Ltd. completed the aforementioned transaction. The Group chose to designate the equity investment as financial assets at fair value through OCI, which are presented in other equity instrument investments. As at 30 June 2019, the fair value of the equity instrument is RMB13,605,000 (31 December 2018: RMB13,605,000).

### 11. Other non-current financial assets

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Financial assets at fair value through profit or loss | **83,200** | 28,200 |

### 12. Fixed assets

**30 June 2019**

| | **Properties and plants** | **Machinery and equipment** | **Motor vehicles** | **Office equipment** | **Total** |
|---|---|---|---|---|---|
| Original cost | | | | | |
| 31 December 2018 | **808,867** | **57,928** | **8,386** | **161,473** | **1,036,654** |
| Purchase | **3,632** | **61** | **–** | **7,233** | **10,926** |
| Transferred from CIP | **134,588** | **36** | **–** | **3,953** | **138,577** |
| Acquired from business combination | **–** | **6,538** | **–** | **31,542** | **38,080** |
| Exchange realignment | **–** | **115** | **–** | **9,953** | **10,068** |
| Disposal of subsidiaries | **–** | **(123)** | **(4,592)** | **(10,843)** | **(15,558)** |
| Disposal and retirement | **–** | **(249)** | **(2)** | **(9,152)** | **(9,403)** |
| 30 June 2019 | **947,087** | **64,306** | **3,792** | **194,159** | **1,209,344** |
| Accumulated depreciation | | | | | |
| 31 December 2018 | **52,456** | **17,099** | **4,143** | **97,907** | **171,605** |
| Accrual | **20,520** | **4,250** | **362** | **14,676** | **39,808** |
| Acquired from business combination | **–** | **6,177** | **–** | **–** | **6,177** |
| Exchange realignment | **–** | **106** | **–** | **9,415** | **9,521** |
| Disposal of subsidiaries | **–** | **(86)** | **(3,511)** | **(5,964)** | **(9,561)** |
| Disposal and retirement | **–** | **(126)** | **(1)** | **(7,503)** | **(7,630)** |
| 30 June 2019 | **72,976** | **27,420** | **993** | **108,531** | **209,920** |
| Carrying amount | | | | | |
| 30 June 2019 | **874,111** | **36,886** | **2,799** | **85,628** | **999,424** |
| 31 December 2018 | **756,411** | **40,829** | **4,243** | **63,566** | **865,049** |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. Fixed assets (continued)

31 December 2018

| | Properties and plants | Machinery and equipment | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|---|
| Original cost | | | | | |
| 31 December 2017 | 390,962 | 41,350 | 9,120 | 136,080 | 577,512 |
| Purchase | – | 15,967 | 567 | 34,117 | 50,651 |
| Transferred from CIP | 417,905 | 611 | – | – | 418,516 |
| Acquired from business combination | – | – | – | 585 | 585 |
| Disposal and retirement | – | – | (1,301) | (9,309) | (10,610) |
| 31 December 2018 | 808,867 | 57,928 | 8,386 | 161,473 | 1,036,654 |
| Accumulated depreciation | | | | | |
| 31 December 2017 | 29,962 | 10,297 | 2,944 | 78,827 | 122,030 |
| Accrual | 22,494 | 6,802 | 2,357 | 25,824 | 57,477 |
| Disposal and retirement | – | – | (1,158) | (6,744) | (7,902) |
| 31 December 2018 | 52,456 | 17,099 | 4,143 | 97,907 | 171,605 |
| Carrying amount | | | | | |
| 31 December 2018 | 756,411 | 40,829 | 4,243 | 63,566 | 865,049 |
| 31 December 2017 | 361,000 | 31,053 | 6,176 | 57,253 | 455,482 |

For restricted fixed assets, please refer to Note VI 55.

Management believes that no provision for impairment of fixed assets is required on June 30, 2019. (31 December 2018: Nil).

On June 30, 2019, there were no fixed assets with uncompleted property certificate. (31 December 2018: RMB502,115,000).

On June 30, 2019, the Group has no fixed assets temporarily idle, no fixed assets leased by finance, no fixed assets held for sale, and fixed assets not leased for operation. (31 December 2018: Nil).

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Construction in progress

| | 30 June 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount before provision** | **Provision for impairment** | **Carrying amount** | Carrying amount before provision | Provision for impairment | Carrying amount |
| Wu Jing headquarter project | **557,643** | **–** | **557,643** | 525,861 | – | 525,861 |
| Taicang logistics center project phase II and III | **10,945** | **–** | **10,945** | 40,827 | – | 40,827 |
| Tianjin logistics center project | **147,103** | **–** | **147,103** | 37,942 | – | 37,942 |
| Product lifecycle management project | **10,061** | **–** | **10,061** | 9,465 | – | 9,465 |
| ERP system upgrade | **–** | **–** | **–** | 872 | – | 872 |
| Chengdu logistics center project | **–** | **–** | **–** | – | – | – |
| Others | **15,019** | **–** | **15,019** | 985 | – | 985 |
| | **740,771** | **–** | **740,771** | 615,952 | – | 615,952 |

Movement in significant construction in progress between 1 January 2019 to 30 June 2019:

| | Budget | 31 December 2018 | Increase in the current period | Transferred to intangible assets and long-term prepaid expenses | Transferred to fixed assets | Other decreases | **30 June 2019** | Sources of funds | Investment percentage of budget |
|---|---|---|---|---|---|---|---|---|---|
| Wu Jing headquarter project | 1,099,961 | 525,861 | 104,327 | (8,554) | (63,991) | – | **557,643** | borrowing | 70% |
| Taicang logistics center project phase II and III | 273,922 | 40,827 | 39,827 | (33,056) | (36,653) | – | **10,945** | borrowing | 100% |
| Tianjin logistics center project | 374,382 | 37,942 | 144,496 | (16,952) | (18,341) | (42) | **147,103** | borrowing | 44% |
| Product lifecycle management project | 49,000 | 9,465 | 3,883 | (3,187) | – | (100) | **10,061** | working capital | 27% |
| ERP system upgrade | 5,898 | 872 | – | (872 | – | – | **–** | working capital | 100% |
| Chengdu logistics center project | 113,310 | – | 29,125 | (9,533) | (19,592) | – | **–** | borrowing and working capital | 100% |
| Others | – | 985 | 21,896 | (7,862) | – | – | **15,019** | working capital | |
| | 1,916,473 | 615,952 | 343,554 | (80,016) | (138,577) | (142) | **740,771** | | |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. Construction in progress (continued)

Movement in significant construction in progress during 2018:

| | Budget | 31 December 2017 | Increase in the current year | Transferred to intangible assets and long-term prepaid expenses | Transferred to fixed assets | **31 December 2018** | Sources of funds | Investment percentage of budget |
|---|---|---|---|---|---|---|---|---|
| Wu Jing headquarter project | 1,099,961 | 380,343 | 355,058 | – | (209,540) | **525,861** | borrowing and working capital | 61% |
| Taicang logistics center project phase II and III | 273,922 | – | 41,370 | (543) | – | **40,827** | borrowing and working capital | 90% |
| Tianjin logistics center project | 296,286 | 114,263 | 39,684 | – | (116,005) | **37,942** | borrowing and working capital | 48% |
| Product lifecycle management project | 49,000 | – | 9,465 | – | – | **9,465** | working capital | 19% |
| ERP system upgrade | 5,898 | 4,867 | – | (3,995) | – | **872** | working capital | 83% |
| Chengdu logistics center project | 113,310 | 77,625 | 15,346 | – | (92,971) | **–** | borrowing and working capital | 100% |
| Others | – | 577 | 1,986 | (1,578) | – | **985** | working capital | |
| | 1,838,377 | 577,675 | 462,909 | (6,016) | (418,516) | **615,952** | | |

Restricted construction in progress refers to Note V 55.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. Right-of-use assets

**30 June 2019**

| | **Properties and plants** |
|---|---|
| Original cost | |
| 31 December 2018 | 2,239,750 |
| Increases from business combination | 578,765 |
| Increases | 260,009 |
| Disposal | (441,385) |
| Exchange realignment | 8,913 |
| 30 June 2019 | 2,646,052 |
| Accumulated depreciation | |
| 31 December 2018 | |
| Accrual | 360,131 |
| Disposal and retirement | (31,942) |
| Exchange realignment | 68 |
| 30 June 2019 | 328,257 |
| Carrying amount | |
| 30 June 2019 | 2,317,795 |
| 31 December 2018 | 2,239,750 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. Intangible assets

**30 June 2019**

| | Trademark | Purchased software | Land use rights | Brands | Favorable contracts | Total |
|---|---|---|---|---|---|---|
| Original cost | | | | | | |
| 31 December 2018 | 4,086 | 77,599 | 162,818 | 60,815 | 1,550 | 306,868 |
| Purchase | – | 1,408 | – | – | – | 1,408 |
| Acquired from business combination | – | 39,063 | – | 116,802 | – | 155,865 |
| Exchange realignment | – | 691 | – | 161 | – | 852 |
| Transferred to right of use assets | – | – | – | – | (1,550) | (1,550) |
| Disposal of subsidiaries | – | (460) | – | (34,110) | – | (34,570) |
| 30 June 2019 | 4,086 | 118,301 | 162,818 | 143,668 | – | 428,873 |
| Accumulated amortization | | | | | | |
| 31 December 2018 | 1,917 | 63,404 | 13,361 | 21,837 | 697 | 101,216 |
| Accrual | 216 | 2,804 | 1,637 | 2,479 | 853 | 7,989 |
| Acquired from business combination | – | 13,770 | – | 5,395 | – | 19,165 |
| Exchange realignment | – | 505 | – | 93 | – | 598 |
| Transferred to right of use assets | – | – | – | – | (1,550) | (1,550) |
| Disposal of subsidiaries | – | (326) | – | (15,989) | – | (16,315) |
| 30 June 2019 | 2,133 | 80,157 | 14,998 | 13,815 | – | 111,103 |
| Carrying amount | | | | | | |
| 30 June 2019 | 1,953 | 38,144 | 147,820 | 129,853 | – | 317,770 |
| 31 December 2018 | 2,169 | 14,195 | 149,457 | 38,978 | 853 | 205,652 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 15. Intangible assets (continued)

31 December 2018

| | Trademark | Purchased software | Land use rights | Brands | Favorable contracts | Total |
|---|---|---|---|---|---|---|
| Original cost | | | | | | |
| 31 December 2017 | 4,086 | 69,424 | 162,818 | 48,130 | 1,550 | 286,008 |
| Purchase | – | 2,219 | – | – | – | 2,219 |
| Transferred from construction in progress | – | 6,016 | – | – | – | 6,016 |
| Acquired from business combination | – | – | – | 12,685 | – | 12,685 |
| Disposal and retirement | – | (60) | – | – | – | (60) |
| 31 December 2018 | 4,086 | 77,599 | 162,818 | 60,815 | 1,550 | 306,868 |
| Accumulated amortization | | | | | | |
| 31 December 2017 | 1,485 | 56,313 | 10,086 | 15,114 | 493 | 83,491 |
| Accrual | 432 | 7,104 | 3,275 | 6,723 | 204 | 17,738 |
| Disposal and retirement | – | (13) | – | – | – | (13) |
| 31 December 2018 | 1,917 | 63,404 | 13,361 | 21,837 | 697 | 101,216 |
| Carrying amount | | | | | | |
| 31 December 2018 | 2,169 | 14,195 | 149,457 | 38,978 | 853 | 205,652 |
| 31 December 2017 | 2,601 | 13,111 | 152,732 | 33,016 | 1,057 | 202,517 |

Restricted intangible assets refer to Note V 55.

On 30 June 2019, there is no intangible asset formed through internal research and development (31 December 2018: Nil).

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Goodwill

**30 June 2019**

| | | **Increases** | **Decreases** | |
|---|---|---|---|---|
| | **31 December 2018** | **Business combination** | **Disposal** | **30 June 2019** |
| Acquire NAF NAF SAS | **–** | **109,870** | **–** | **109,870** |
| Acquire Hangzhou Anshe E–Commerce Company Limited ("Hangzhou Anshe") | **92,339** | **–** | **(14,108)** | **78,231** |
| Acquire Jack Walk (Shanghai) Fashion Limited ("Jack Walk") | **13,383** | **–** | **–** | **13,383** |
| Acquire Pincheng | **7,992** | **–** | **–** | **7,992** |
| | **113,714** | **109,870** | **(14,108)** | **209,476** |
| Less: provision for impairment | | | | |
| Acquire Hangzhou Anshe | **(5,179)** | **–** | **5,179** | **–** |
| | **108,535** | **109,870** | **(8,929)** | **209,476** |

31 December 2018

| | | Increases | Decreases | |
|---|---|---|---|---|
| | 31 December 2017 | Business combination | Disposal | 31 December 2018 |
| Acquire Hangzhou Anshe | 92,339 | – | – | 92,339 |
| Acquire Jack Walk | 13,383 | – | – | 13,383 |
| Acquire Jiuwo | 7,833 | | (7,833) | – |
| Acquire Pincheng | – | 7,992 | – | 7,992 |
| | 113,555 | 7,992 | (7,833) | 113,714 |
| Less: provision for impairment | | | | |
| Acquire Hangzhou Anshe | – | (5,179) | – | (5,179) |
| | 113,555 | 2,813 | (7,833) | 108,535 |

Hangzhou Anshe has been disposed, the remaining goodwill belongs to the original brand of the Group.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Goodwill (continued)

Movement of provision for impairment is as follow:

**30 June 2019**

| | 31 December 2018 | Increase in the current period<br>Accrual | Decrease in the current period<br>Disposal | 30 June 2019 |
|---|---|---|---|---|
| Acquire Hangzhou Anshe | **(5,179)** | **–** | **5,179** | **–** |

31 December 2018

| | 31 December 2017 | Increase in the current year<br>Accrual | Decrease in the current year<br>Disposal | 31 December 2018 |
|---|---|---|---|---|
| Acquire Hangzhou Anshe | – | (5,179) | – | (5,179) |

Goodwill increased by RMB109,870,000 arising from purchase subsidiaries (Note VI.1). Goodwill decreased by RMB 5,179,000 arising from disposal of subsidiaries (Note VI.2).

As the main cash flows generated by the above subsidiaries are independent of other subsidiaries of the group and the group manages these subsidiaries separately, each subsidiary is seemed as a cash-generating unit. Goodwill arising from business combination is allocated to each of the Group's cash-generating units to conduct impairment tests.

The recoverable amount of the cash-generating unit is determined based on the present value of the expected future cash flows of the cash-generating unit, and its estimated future cash flows are determined based on the 5-year financial budget approved by the management.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 17. Long-term prepaid expenses

**30 June 2019**

| | 31 December 2018 | Additions | Amortization | Other decreases | 30 June 2019 |
|---|---|---|---|---|---|
| Leasehold improvement | **570,867** | **154,532** | **(244,671)** | **(4,341)** | **476,387** |

31 December 2018

| | 31 December 2017 | Additions | Amortization | Other decreases | 31 December 2018 |
|---|---|---|---|---|---|
| Leasehold improvement | 711,780 | 378,095 | (516,188) | (2,820) | 570,867 |

### 18. Debt investments

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Book balance** | **Impairment provision** | **Book value** | Book balance | Impairment provision | Book value |
| Jiuwo debt investment | **7,110** | **–** | **7,110** | 6,934 | – | 6,934 |

As at 30 June 2019 and 31 December 2018, the Group is in the opinion that the credit loss has not significantly increased since initial recognition, and regards it as financial instruments with low risk. The expected loss rate is zero based on the 12-month expected credit loss.

### 19. Other non-current assets

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Prepaid decoration expenses of department stores | **111,687** | 144,962 |
| Prepayments for long-term equity investment | **15,002** | 15,002 |
| | **126,689** | 159,964 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 20. Deferred tax assets and liabilities

Deferred tax assets before offsetting:

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Deductible temporary differences** | **Deferred tax assets** | Deductible temporary differences | Deferred tax assets |
| Deferred tax assets | | | | |
| Tax losses carried forward | **1,400,840** | **350,210** | 440,323 | 110,081 |
| Provision for inventories impairments | **344,076** | **86,019** | 326,851 | 81,713 |
| Elimination of intra-group unrealized profit | **88,280** | **22,070** | 112,311 | 28,078 |
| Difference in rental expense and right of use assets between tax and accounting | **144,382** | **36,088** | 102,054 | 25,514 |
| Provision for bad debts | **73,784** | **18,446** | 84,119 | 20,921 |
| Fair value changes of other equity instrument investments | **–** | **–** | 24,344 | 4,017 |
| Differences in amortization of long-term prepaid expense between tax and accounting | **39,857** | **9,966** | 10,982 | 2,746 |
| Employee benefits payable | **9,262** | **2,315** | 8,714 | 2,178 |
| | **2,100,481** | **525,114** | 1,109,698 | 275,248 |

Deferred tax liabilities before offsetting:

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Taxable temporary differences** | **Deferred tax liabilities** | Taxable temporary differences | Deferred tax liabilities |
| Deferred tax liabilities | | | | |
| Capitalized borrowing costs | **91,043** | **22,761** | 80,243 | 20,061 |
| Business combination involving enterprises not under common control | **171,708** | **42,927** | 39,831 | 9,958 |
| Other fair value changes | **7,592** | **1,898** | 103,465 | 25,866 |
| | **270,343** | **67,586** | 223,539 | 55,885 |

(All amounts in RMB'000 unless otherwise stated)

# V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 20. Deferred tax assets and liabilities (continued)

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

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Offsetting amount** | **Net amount** | Offsetting amount | Net amount |
| Deferred tax assets | **(24,165)** | **500,949** | (27,461) | 247,787 |
| Deferred tax liabilities | **24,165** | **43,421** | 27,461 | 28,424 |

Tax losses carried forward not recognized as deferred tax assets are as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Tax losses | **414,886** | 300,665 |

Tax losses carried forward not recognized as deferred tax assets will expire in the following year

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Expired within 1 year | **24,760** | 8,134 |
| Expired within 1-2 year | **52,010** | 72,882 |
| Expired within 2-3 year | **66,875** | 81,484 |
| Expired within 3-4 year | **154,158** | 138,165 |
| Expired within 4-5 year | **117,083** | – |
| | **414,886** | 300,665 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 21. Provision for asset impairment

**30 June 2019**

| | 31 December 2018 | Accrual | Business combination | Decrease in the current period: Reversal | Resold | Disposal of subsidiaries | 30 June 2019 |
|---|---|---|---|---|---|---|---|
| Provision for bad debts of accounts receivable | 51,660 | 646 | 10,052 | 12,478 | – | 540 | 49,340 |
| Provision for bad debts of other receivables | 27,459 | 6,113 | – | 4,437 | – | 318 | 28,817 |
| Provision for bad debts of other current assets | 5,000 | – | – | – | – | | 5,000 |
| Inventory provision | 326,851 | 206,613 | 21,772 | – | 189,899 | 9,766 | 355,571 |
| Goodwill impairment provision | 5,179 | – | – | – | – | 5,179 | – |
| | 416,149 | 213,372 | 31,824 | 16,915 | 189,899 | 15,803 | 438,728 |

31 December 2018

| | 31 December 2017 | Accrual | Decrease in the current year: Reversal | Resold | 31 December 2018 |
|---|---|---|---|---|---|
| Provision for bad debts of accounts receivable | 56,779 | 1,349 | 6,468 | – | 51,660 |
| Provision for bad debts of other receivables | 26,173 | 2,564 | 1,278 | – | 27,459 |
| Provision for bad debts of other current assets | – | 5,000 | – | – | 5,000 |
| Inventory provision | 236,091 | 269,317 | – | 178,557 | 326,851 |
| Goodwill impairment provision | – | 5,179 | – | – | 5,179 |
| | 319,043 | 283,409 | 7,746 | 178,557 | 416,149 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 22. Short–term borrowings

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Pledged loan(a) | **292,356** | – |
| Mortgaged loan(b) | **200,000** | – |
| Secured borrowing(c) | **1,856** | 1,856 |
| Unsecured loan | **1,162,894** | 1,909,789 |
| | **1,657,106** | 1,911,645 |

(a) As at 30 June 2019, a pledged loan borrowed by a subsidiary amounted to RMB292,356,000 from financial institution, which is pledged with 100% equity of LaCha Fashion I Limited equity, LaCha Apparel II Sarl and NAF NAF SAS (31 December 2018: Nil).

(b) As at June 30 2019, the bank's mortgage loan of RMB 200,000,000 (of which RMB4,000,000 is deposit) was mortgaged by the property and building of RMB364,546,000 (original cost of RMB421,804,000) and the land use right of RMB33,615,000 (original cost of RMB37,627,000). Interest is paid quarterly. (31 December 2018: Nil).

(c) As at 30 June 2019, a secured borrowing amounted to RMB1,856,000 is guaranteed by Mr. Tian Wei, a minority shareholder of a subsidiary (31 December 2018: RMB1,856,000).

As at 30 June 2019, the interest rate of short-term borrowings ranges from 4.35% to 8.00% (31 December 2018: 4.35% to 5.66%).

### 23. Notes payable

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Trade acceptance notes | **571,004** | 634,723 |
| Bank acceptance notes | **57,027** | 77,833 |
| | **628,031** | 712,556 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24. Accounts payable

Accounts payable are non-interest bearing and are usually settled within 3 months.

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Payable for purchase | **1,362,046** | 1,120,987 |

As at 30 June 2019, the aging of accounts payable over 1 year showed as below:

| | **Amount** | **Reason for non-payment** |
|---|---|---|
| Payable for purchase | 10,921 | Invoice not yet received |

### 25. Contract liabilities

**30 June 2019**

| | **31 December 2018** | **Increase of this period** | **Recognized Revenue** | **Exchange realignment** | **30 June 2019** |
|---|---|---|---|---|---|
| Advances from customers | **2,399** | **25,591** | **(18,187)** | **7** | **9,810** |
| Others | **–** | **3,898** | **–** | **–** | **3,898** |
| | **2,399** | **29,489** | **(18,187)** | **7** | **13,708** |

31 December 2018

| | 31 December 2017 | Increase of this year | Recognized Revenue | Other movement | 31 December 2018 |
|---|---|---|---|---|---|
| Advances from customers | – | 2,399 | – | – | 2,399 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. Payroll Payable

**30 June 2019**

| | Opening balance | Increase in the Period | Decrease in the Period | Exchange realignment | Closing balance |
|---|---|---|---|---|---|
| Short-term compensation | **199,754** | **1,011,410** | **(1,012,638)** | **288** | **198,814** |
| Retirement benefits (defined contribution) plans | **23,608** | **113,745** | **(114,113)** | **34** | **23,274** |
| | **223,362** | **1,125,155** | **(1,126,751)** | **322** | **222,088** |

31 December 2018

| | Opening balance | Increase in the Year | Decrease in the Year | Closing balance |
|---|---|---|---|---|
| Short-term compensation | 197,566 | 2,137,643 | (2,135,455) | 199,754 |
| Retirement benefits (defined contribution) plans | 23,276 | 252,947 | (252,615) | 23,608 |
| | 220,842 | 2,390,590 | (2,388,070) | 223,362 |

Details of short-term compensation are as follows:

**30 June 2019**

| | Opening balance | Increase in the Period | Decrease in the Period | Exchange realignment | Closing balance |
|---|---|---|---|---|---|
| Wages or salaries, bonuses, allowances and subsidies | **180,447** | **912,145** | **(913,116)** | **260** | **179,736** |
| Staff welfare | **2,229** | **1,211** | **(1,200)** | **3** | **2,243** |
| Social insurance | **10,315** | **62,573** | **(62,731)** | **15** | **10,172** |
| Including: Medical insurance | **6,507** | **51,312** | **(51,410)** | **9** | **6,418** |
| Others | **3,808** | **11,261** | **(11,321)** | **6** | **3,754** |
| Housing fund | **6,763** | **35,454** | **(35,564)** | **10** | **6,663** |
| Labor union and staff education fund | **–** | **27** | **(27)** | **–** | **–** |
| | **199,754** | **1,011,410** | **(1,012,638)** | **288** | **198,814** |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 26. Payroll Payable (continued)

31 December 2018

| | Opening balance | Increase in the Year | Decrease in the Year | Closing balance |
|---|---|---|---|---|
| Wages or salaries, bonuses, allowances and subsidies | 178,534 | 1,931,887 | (1,929,974) | 180,447 |
| Staff welfare | 2,202 | 21,855 | (21,828) | 2,229 |
| Social insurance | 10,173 | 110,738 | (110,596) | 10,315 |
| Including: Medical insurance | 6,421 | 69,813 | (69,727) | 6,507 |
| Others | 3,752 | 40,925 | (40,869) | 3,808 |
| Housing fund | 6,657 | 72,685 | (72,579) | 6,763 |
| Labor union and staff education fund | – | 478 | (478) | – |
| | 197,566 | 2,137,643 | (2,135,455) | 199,754 |

Defined contribution plans as follows:

**30 June 2019**

| | **Opening balance** | **Increase in the Period** | **Decrease in the Period** | **Exchange realignment** | **Closing balance** |
|---|---|---|---|---|---|
| Basic pension insurance premium | **21,572** | **109,212** | **(109,560)** | **31** | **21,255** |
| Unemployment insurance premium | **2,036** | **4,533** | **(4,553)** | **3** | **2,019** |
| | **23,608** | **113,745** | **(114,113)** | **34** | **23,274** |

31 December 2018

| | Opening balance | Increase in the Year | Decrease in the Year | Closing balance |
|---|---|---|---|---|
| Basic pension insurance premium | 21,263 | 231,206 | (230,897) | 21,572 |
| Unemployment insurance premium | 2,013 | 21,741 | (21,718) | 2,036 |
| | 23,276 | 252,947 | (252,615) | 23,608 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. Taxes Payable

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Corporate income tax payable | **56,030** | 69,058 |
| Unpaid VAT | **304** | 77,865 |
| City maintenance and construction tax payable | **3,733** | 7,122 |
| Educational surcharge payable | **3,595** | 5,204 |
| Withholding income tax | **1,098** | 3,060 |
| Others | **308** | 4,159 |
| | **65,068** | 166,468 |

### 28. Other payables

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other payables | **584,477** | 541,857 |
| Payables for construction and decoration of department stores | **257,100** | 264,911 |
| Payables for rental fees | **130,057** | 102,248 |
| Suppliers' deposits | **80,642** | 86,326 |
| Vendors' deposits | **66,408** | 37,880 |
| Payables for logistic expense | **30,563** | 19,786 |
| Payable for posts props and store promotion | **10,526** | 13,904 |
| Payable for consideration of Pincheng | **–** | 4,000 |
| Payables for software purchase | **–** | 710 |
| Others | **9,181** | 12,092 |
| Interests payable | **6,409** | 7,680 |
| Short-term borrowing interests payable | **6,409** | 7,680 |
| Dividend payable | **2,842** | 8,616 |
| Common stock dividends payable | **2,842** | 8,616 |
| | **593,728** | 558,153 |

As at 30 June 2019, the aging of other payable over 1 year showed as below:

| | **Amount** | **Reason for non-payment** |
|---|---|---|
| 1-2 year | **119,081** | Deposit payable |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. Non-current liabilities due within one year

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Mortgage due within one year | **27,699** | 17,416 |
| Lease subsidies due within one year | **7,964** | 6,803 |
| Lease liabilities due within one year | **54,427** | – |
| | **90,090** | 24,219 |

### 30. Lease liabilities

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Lease liabilities | **2,354,618** | – |
| Less: lease liabilities due within one year | **(54,427)** | – |
| | **2,300,191** | – |

### 31. Other non-current liabilities

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Incentive to compensate the costs for leasehold improvements | **47,709** | 48,637 |
| Less: due within one year | **(7,964)** | (6,803) |
| Government grants | **6,000** | 6,583 |
| | **45,745** | 48,417 |

### 32. Long-term borrowing

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Secured borrowing | **371,110** | 348,327 |
| Less: current portion of long-term borrowing | **(27,699)** | (17,416) |
| | **343,411** | 330,911 |

As at 30 June 2019, the interest rate of the long-term borrowings is 5.46% (31 December 2018: 5.46%).

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. Share capital

**30 June 2019**

| | **Opening balance** | **Closing balance** |
|---|---|---|
| RMB-denominated ordinary shares/A Shares | **332,882** | **332,882** |
| H Shares | **214,790** | **214,790** |
| | **547,672** | **547,672** |

31 December 2018

| | Opening balance | Closing balance |
|---|---|---|
| RMB-denominated ordinary shares/A Shares | 332,882 | 332,882 |
| H Shares | 214,790 | 214,790 |
| | 547,672 | 547,672 |

### 34. Capital surplus

**30 June 2019**

| | **31 December 2018** | **Increase in the current period** | **Decrease in the current period** | **30 June 2019** |
|---|---|---|---|---|
| Share premium | **1,850,708** | **–** | **–** | **1,850,708** |
| Other capital surplus(a)(b) | **44,634** | **14,617** | **–** | **59,251** |
| | **1,895,342** | **14,617** | **–** | **1,909,959** |

31 December 2018

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

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. Capital surplus (continued)

*(a) Other capital surplus*

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

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

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

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. Capital surplus (continued)

*(a) Other capital surplus (continued)*

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

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

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees | **6.21%** | 6.21% |

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

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

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. Capital surplus (continued)

*(a) Other capital surplus (continued)*

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

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

*(b) Other capital surplus*

In the current period, the Group disposed of part of the shares of a subsidiary, without losing control, for details please refer to Notes VII.2.

### 35. Other comprehensive income/loss

Accumulated other comprehensive income/(loss) attributable to shareholders of the parent company in the consolidated balance sheet:

**30 June 2019**

| | **1 January 2019** | **Increase/decrease** | **30 June 2019** |
|---|---|---|---|
| Fair value change gains of other equity instrument investments | **(20,327)** | **–** | **(20,327)** |
| Exchange realignment | **7,140** | **15,308** | **22,448** |
| | **(13,187)** | **15,308** | **2,121** |

31 December 2018

| | 1 January 2018 | Increase/decrease | 31 December 2018 |
|---|---|---|---|
| Fair value change gains of other equity instrument investments | – | (20,327) | (20,327) |
| Exchange realignment | (723) | 7,863 | 7,140 |
| | (723) | (12,464) | (13,187) |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. Other comprehensive income/loss (continued)

OCI/(losses) in the consolidated balance sheet:

**30 June 2019**

| | **The pre-tax amount in the current period** | **Less: transferred out from which was recognized in OCI in the previous period** | **Less: income tax expenses** | **Attributable to shareholders of the Company, net of tax** | **Attributable to minority interests, net of tax** |
|---|---|---|---|---|---|
| Exchange realignment | **15,308** | **–** | **–** | **15,308** | **–** |

31 December 2018

| | The pre-tax amount in the current year | Less: transferred out from which was recognized in OCI in the previous year | Less: income tax expenses | Attributable to shareholders of the Company, net of tax | Attributable to minority interests, net of tax |
|---|---|---|---|---|---|
| Fair value change gains of other equity instrument investments | 210 | – | – | 210 | – |
| Exchange realignment | 5,482 | – | – | 5,482 | – |
| | 5,692 | – | – | 5,692 | – |

(All amounts in RMB'000 unless otherwise stated)

## 36. Surplus reserve

**30 June 2019**

| | 31 December 2018 | Increase the current period | Decrease in the current period | 30 June 2019 |
|---|---|---|---|---|
| Statutory surplus reserve | **246,885** | **–** | **–** | **246,885** |

2018

| | 31 December 2017 | Changes of accounting policies (a) | Increase in the current year | Decrease in the current year | 31 December 2018 |
|---|---|---|---|---|---|
| Statutory surplus reserve | 219,154 | (2,124) | 29,855 | – | 246,885 |

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

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. For the six months ended 30 June 2019, the Company didn't appropriate the statutory surplus reserve. (2018: appropriated RMB29,855,000).

Discretionary surplus reserves' plan should be suggested by the board of directors and approved by the shareholders' meeting. Discretionary surplus reserves can be used to make up for losses or to increase the share capital after approval from the appropriate authorities. For six months ended 30 June 2019 and the year ended 31 December 2018, the Company did not appropriate the discretionary surplus reserve.

(All amounts in RMB'000 unless otherwise stated)

# V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 37. Undistributed profits

| | **For six months ended 30 June 2019** | For the year ended 31 December 2018 |
|---|---|---|
| Undistributed profits at the beginning of year (before adjustments) | **770,706** | 1,215,356 |
| Changes of accounting policies | **–** | 2,124 |
| Undistributed profits at the beginning of year (after adjustments) | **770,706** | 1,217,480 |
| Net (loss)/profit attributable to shareholders of the Company | **(498,134)** | (159,513) |
| Less: appropriation to statutory surplus reserve | **–** | (29,855) |
| dividend declared (a) | **–** | (257,406) |
| Undistributed profits at the end of the period | **272,572** | 770,706 |

(a) No payment of cash dividends or stock dividends and no transfer from capital surplus to share capital for the year ended 31 December 2018, and the accumulated profit is rolled over to the next year were approved at the 2018 annual general meeting of the Company held on 28 May 2019.

The interim dividend for the six months ended 30 June 2018 of RMB0.25 per share (tax inclusive), amounting to a total dividend of RMB136,918 thousand (tax inclusive) based on the total issued shares of 547,672 thousand, was approved at the 2018 third extraordinary general meeting of the Company held on 19 October 2018.

The final dividend for the year ended 31 December 2017 of RMB0.22 per share (tax inclusive), amounting to a total dividend of RMB120,488 thousand (tax inclusive) based on the total issued shares of 547,672 thousand, was approved at the 2017 annual general meeting of the Company held on 15 May 2018.

## 38. Revenue and cost of sales

| | **Six months ended 30 June 2019** | | Six months ended 30 June 2018 | |
|---|---|---|---|---|
| | **Revenue from main operation** | **Cost of main operation** | Revenue from main operation | Cost of main operation |
| Revenue from main operation | **3,950,645** | **1,545,564** | 5,141,407 | 1,621,749 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38. Revenue and cost of sales (continued)

Revenue showed as below:

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Retail | **3,926,187** | 5,136,143 |
| Rendering services | **6,050** | 5,264 |
| Wholesale | **18,408** | – |
| | **3,950,645** | 5,141,407 |

Revenue is generated from sales of retail points and online platforms. The retail points are operated in the form of counters and standalone retail outlets. The counters are located within department stores.

### 39. Taxes and surcharges

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| City maintenance and construction tax | **6,279** | 19,130 |
| Educational surcharge | **2,593** | 14,055 |
| Others | **6,453** | 2,186 |
| | **15,325** | 35,371 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 40. Selling and distribution expenses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Employee benefits expenses | **984,276** | 1,067,926 |
| Concessionaire fees | **521,615** | 762,590 |
| Depreciation of right of use assets | **358,722** | – |
| Rental fees | **166,119** | 435,872 |
| Amortization of long-term prepaid expenses | **242,867** | 200,196 |
| Department store expenses | **149,335** | 128,571 |
| Online platform expenses | **64,438** | 71,330 |
| Utilities and electricity fees | **69,961** | 53,672 |
| Logistic expenses | **56,896** | 58,633 |
| Depreciation of fixed assets | **22,928** | 19,185 |
| Marketing expenses | **19,806** | 21,891 |
| Consulting expenses | **16,319** | 7,981 |
| Office supplies | **15,707** | 20,628 |
| Costs of low value consumables | **13,634** | 25,637 |
| Travelling and communication expenses | **8,936** | 12,337 |
| Quality inspection fee | **4,559** | 9,169 |
| Repair and maintenance expenses | **7,056** | 5,292 |
| Amortization of intangible assets | **3,418** | 4,678 |
| Others | **1,661** | 78 |
| | **2,728,253** | 2,905,666 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 41. General and administrative expenses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Employee benefits expenses | **140,879** | 138,204 |
| Rental fees | **17,782** | 22,755 |
| Depreciation of fixed assets | **16,880** | 6,273 |
| Sample purchase fee | **12,189** | 11,116 |
| Consulting expenses | **9,330** | 8,998 |
| Office supplies | **6,448** | 9,749 |
| Travelling and communication expenses | **7,871** | 9,495 |
| Costs of low value consumables | **6,617** | 4,804 |
| Amortization of intangible assets | **4,571** | 2,836 |
| Amortization of long-term prepaid expenses | **1,804** | 4,314 |
| Utilities and electricity fees | **1,700** | 2,394 |
| Logistic expenses | **1,595** | 1,876 |
| Repair and maintenance expenses | **1,662** | 1,583 |
| Depreciation of right of use assets | **1,409** | – |
| Others | **770** | 2,099 |
| | **231,507** | 226,496 |

### 42. Financial expenses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Interest expenses | **136,954** | 31,623 |
| Including: Lease liability interest expenses | **67,203** | – |
| Less: interest income | **13,323** | 5,753 |
| Less: capitalized interests | **10,443** | 17,396 |
| Exchange gains | **2,757** | (3,378) |
| Bank charges | **2,616** | 8,903 |
| | **118,561** | 13,999 |

Capitalized amount of borrowing costs has been included in construction in progress.

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 42. Financial expenses (continued)

Details of interest income are as follows:

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Cash at bank and on hand | **13,323** | 5,753 |

### 43. Other income

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Government grants | **84,291** | 85,137 |

### 44. Investment income

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Share of net profit of associates and a joint venture accounted for using the equity method | **77,874** | 63,658 |
| Investment loss of disposal of long-term equity investment (Note 1) | **(58,257)** | (10,089) |
| Losses of re-measurement of equity of Pincheng | **–** | (2,043) |
| Gains on step acquisition of long-term equity investment re-assessed at fair value | **48,188** | – |
| | **67,805** | 51,526 |

Note 1:Investment gain of disposal of subsidiaries is RMB 5,064,000 and investment loss of disposal of associated company is RMB 63,321,000.

### 45. Credit impairment losses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Bad debt loss of accounts receivables | **(11,832)** | (2,811) |
| Bad debt loss of other receivables | **1,677** | – |
| | **(10,155)** | (2,811) |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 46. Asset impairment losses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Inventory provision | **206,613** | 154,238 |

### 47. Gains/(losses) on disposals of assets

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Losses on disposal of fixed assets | **(937)** | 122 |
| Gains on disposal of right of use assets | **15,745** | – |
| | **14,808** | 122 |

### 48. Non-operating income

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Recorded in non-recurring profit or loss six months ended 30 June 2019 |
|---|---|---|---|
| Quality compensation income | **5,561** | 3,232 | 5,561 |
| Others | **156** | 259 | 156 |
| | **5,717** | 3,491 | 5,717 |

### 49. Non-operating expenses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 | Recorded in non-recurring profit or loss six months ended 30 June 2019 |
|---|---|---|---|
| Compensation | **326** | – | 326 |
| Donations | **110** | 3,997 | 110 |
| Others | **5,413** | 1,970 | 5,413 |
| | **5,849** | 5,967 | 5,849 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50. Expenses by nature

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

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Costs of inventories | **1,545,564** | 1,620,060 |
| Employee benefits expenses | **1,125,155** | 1,206,130 |
| Concessionaire fees | **512,477** | – |
| Depreciation of right of use assets | **360,131** | – |
| Amortization of long-term prepaid expenses | **244,671** | 204,510 |
| Rental fees | **178,308** | 446,988 |
| Store expenses | **149,335** | 128,571 |
| Online platform expenses | **64,438** | 71,330 |
| Utilities and electricity expenses | **71,661** | 56,066 |
| Logistic expenses | **58,491** | 60,509 |
| Consulting expenses | **43,239** | 30,736 |
| Depreciation of fixed assets | **39,808** | 25,458 |
| Office supplies | **22,155** | 30,377 |
| Costs of low value consumables | **20,251** | 30,441 |
| Marketing and promotion expenses | **19,806** | 21,891 |
| Travelling and communication expenses | **16,807** | 21,832 |
| Sample expenses | **9,330** | 8,998 |
| Repair and maintenance expenses | **8,718** | 6,875 |
| Amortization of intangible assets | **7,989** | 7,514 |
| Quality inspection fee | **4,559** | 9,169 |
| Others | **2,431** | 2,177 |
| | **4,505,324** | 3,989,632 |

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51. Income tax expenses

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Current income tax calculated according to the tax law | **25,754** | 84,766 |
| Deferred income tax | **(179,318)** | (5,471) |
| | **(153,564)** | 79,295 |

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

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| (Loss)/profit before tax | **(718,251)** | 320,764 |
| Income tax expenses calculated at applicable tax rates | **(177,285)** | 80,191 |
| Impact of different tax rates applicable to subsidiaries | **(145)** | – |
| Non-taxable income | **(18,214)** | (1,097) |
| Tax impact of deductible temporary difference and deductible loss previously not recognized | **42,045** | – |
| Expenses not deductible for tax purposes | **35** | 201 |
| Income tax expense calculated based on the effective tax rate of the Group | **(153,564)** | 79,295 |

### 52. Earnings per share

| | **Six months ended 30 June 2019 RMB/Share** | Six months ended 30 June 2018 RMB/Share |
|---|---|---|
| (Loss)/profit attributable to shareholders of the Company | **(498,134)** | 235,827 |
| Weighted average number of ordinary shares outstanding (thousands of shares) | **547,672** | 547,672 |
| Basic (losses)/earnings per share (RMB per share) | **(0.91)** | 0.43 |

(All amounts in RMB'000 unless otherwise stated)

# V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 52. Earnings per share (continued)

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding. The number of newly issued ordinary shares shall be determined from the date of the consideration receivable (generally the date of issue of the shares) according to the specific terms of the issuance contract.

There were no dilutive potential ordinary shares for six months ended 30 June 2019.

As at 30 June 2019, the Company has not distributed stock dividends.

## 53. Notes to the consolidated cash flow statement

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Cash received relating to other operating activities | | |
| Customers' deposits and suppliers' deposits | **17,170** | 7,262 |
| Interest income | **13,323** | 4,645 |
| Non-operating income | **5,716** | – |
| Government grants | **84,875** | 81,387 |
| Others | **–** | 3,491 |
| | **121,084** | 96,785 |
| Cash paid relating to other operating activities | | |
| Utilities and electricity fees | **69,961** | 56,066 |
| Marketing, Online platform expenses, and department store expenses | **233,579** | 199,901 |
| Increase in deposits | **15,376** | 45,409 |
| Bank charges | **2,616** | 8,903 |
| Consulting fee and technical service fee | **25,457** | 30,736 |
| Net increase in staff advances | **–** | 11,485 |
| Repayment of customers' deposits | **20,843** | – |
| Others | **–** | 2,177 |
| | **367,832** | 354,677 |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 53. Notes to the consolidated cash flow statement (continued)

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Cash received relating to other investing activities | | |
| Interest income generated from other cash balances | **–** | 2,735 |
| Cash inflow on disposal of subsidiaries | **–** | 1,937 |
| Cash inflow on business combination | **–** | 309 |
| Net decrease in other cash balances | **82,287** | – |
| | **82,287** | 4,981 |
| Cash paid relating to other investing activities | | |
| Prepayments for other equity instrument investments | **–** | 15,002 |
| Cash paid for disposal of subsidiaries | **–** | 214 |
| Net increase in entrusted loan | **5,500** | 26,044 |
| Net increase in other cash balances | **–** | 3,358 |
| | **5,500** | 44,618 |
| Cash received relating to other financial assets | | |
| Collection of prepaid dividend deposit | **–** | 2,310 |
| Cash paid relating to other financing activities | | |
| Cash paid for rental expenses | **261,247** | – |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 54. Notes to the consolidated cash flow statement (continued)

*(1) Supplementary information of cash flow statement*

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

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Net (loss)/profit | **(564,687)** | 241,469 |
| Add: Credit impairment loss | **(10,155)** | – |
| Asset impairment losses | **206,613** | 151,427 |
| Depreciation of fixed assets | **39,808** | 25,458 |
| Depreciation of right of use assets | **360,131** | – |
| Amortization of intangible assets | **7,989** | 7,514 |
| Amortization of long-term prepaid expenses | **244,671** | 204,510 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | **(14,808)** | 122 |
| Financial expenses | **114,756** | 9,741 |
| Investment income | **(67,805)** | (51,526) |
| Amortization of share-based payments | **1,082** | – |
| Decrease in deferred tax assets | **(179,318)** | (19,831) |
| Increase in deferred tax liabilities | **–** | 14,360 |
| Decrease in inventories | **320,088** | 166,013 |
| Decrease in operating receivables | **621,645** | 54,766 |
| Increase/(decrease) in operating payables | **77,441** | (1,060,321) |
| Net cash flows from/(used in) operating activities | **1,157,451** | (256,298) |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 54. Notes to the consolidated cash flow statement (continued)

*(2) Information for acquisition or disposal of subsidiaries and other business units*

Information for acquisition of a subsidiary and other business units

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Price for acquisition of subsidiaries and other business units | **515,421** | – |
| Cash and cash equivalents paid for acquisition of subsidiaries and other business units | **331,253** | – |
| Less: Cash and cash equivalents held for acquisition of subsidiaries and other business units | **26,583** | 309 |
| Net cash paid for acquisition of a subsidiary and other business units | **304,670** | 309 |

Information for disposal of subsidiaries and other business units

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Price for disposal of subsidiaries and other business units | **500,476** | – |
| Cash and cash equivalents received from disposal of subsidiaries and other business units | **242,976** | – |
| Less: Cash and cash equivalents held for acquisition of subsidiaries and other business units | **229,366** | 213 |
| Net cash received from disposal of subsidiaries and other business units | **13,610** | 213 |

*(2A) Cash flow information related to lease*

| | **Six months ended 30 June 2019** |
|---|---|
| Cash outflow related to lease | **261,247** |

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 54. Notes to the consolidated cash flow statement (continued)

*(3) Cash and cash equivalents*

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| Cash and cash equivalents | **363,352** | 605,293 |
| Including: Cash on hand | **17,295** | 24,642 |
| Cash at bank that can be readily drawn on demand | **272,914** | 425,221 |
| Cash and cash equivalents at end of the period | **363,352** | 605,293 |
| Including: Restricted cash and cash equivalents | **73,143** | 155,430 |

### 55. Assets with restricted ownership or use right

| | 30 June 2019 | 31 December 2018 | |
|---|---|---|---|
| Cash at bank and on hand | **73,143** | 155,430 | (a) |
| Fixed assets | **612,983** | 551,666 | (b) |
| Construction in progress | **507,958** | 566,688 | (c) |
| Intangible assets | **87,322** | 88,291 | (d) |
| | **1,281,406** | 1,362,075 | |

(a) As at June 30, 2019, the monetary funds with a book value of RMB73,143,000 (31 December 2018: RMB155,430,000) were bank guarantees.

(b) As at June 30, 2019, properties and plants with a book value of RMB248,437,000 were mortgaged for long-term borrowings of RMB343,411,000 and long-term borrowings due within one year of RMB27,699,000. (31 December 2018: properties and plants with a book value of RMB206,567,000 were mortgaged for long-term borrowings of RMB330,911,000 and long-term borrowings due within one year of RMB17,416,000). Properties and plants with a book value of RMB364,546,000 were mortgaged for short-term borrowings of RMB200,000,000 (31 December 2018: properties and plants with a book value of RMB345,099,000 were mortgaged as bank credit facilities).

(c) As at June 30, 2019, Wu Jing headquarter project with a book value of RMB507,958,000 was mortgaged for long-term borrowings of RMB343,411,000 and long-term borrowings due within one year of RMB27,699,000. (31 December 2018: Wu Jing headquarter project with a book value of RMB525,861,000 was mortgaged for long-term borrowings of RMB330,911,000 and long-term borrowings due within one year of RMB17,416,000, Taicang logistics center project phase II and III with a book value of RMB345,099,000 was mortgaged as bank credit facilities).

(All amounts in RMB'000 unless otherwise stated)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 55. Assets with restricted ownership or use right (continued)

(d) As at June 30, 2019, the land use right with a book value of RMB53,707,000 was mortgaged for a long-term borrowings of RMB343,411,000 and a long-term borrowings due within one year of RMB27,699,000(31 December 2018: The land use right with a book value of RMB54,297,000 was mortgaged for a long-term borrowings of RMB330,911,000 and a long-term borrowings due within one year of RMB17,416,000). The land use right with a book value of RMB33,615,000 was mortgaged for a short-term borrowings of RMB200,000,000 (31 December 2018: The land use right with a book value of RMB33,994,000 was mortgaged as bank credit facilities).

### 56. Monetary Items Denominated in Foreign Currency

| | **30 June 2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Foreign currency balance** | **Exchange rate** | **RMB balance** | Foreign currency balance | Exchange rate | RMB balance |
| Cash at bank and on hand | | | | | | |
| USD | **268** | **6.8747** | **1,842** | 2 | 6.8632 | 14 |
| EUR | **6,268** | **7.8170** | **48,997** | 5,265 | 7.8473 | 41,316 |
| HKD | **15** | **0.8797** | **13** | 27 | 0.8762 | 24 |
| Short-term borrowings | | | | | | |
| EUR | **42,400** | **7.8170** | **331,441** | – | 7.8473 | – |
| Account receivables | | | | | | |
| EUR | **14,101** | **7.8170** | **110,228** | – | 7.8473 | – |
| Other receivables | | | | | | |
| EUR | **6,229** | **7.8170** | **48,692** | – | 7.8473 | – |
| Accounts payable | | | | | | |
| EUR | **33,817** | **7.8170** | **264,347** | – | 7.8473 | – |
| Other payables | | | | | | |
| EUR | **223** | **7.8170** | **1,743** | – | 7.8473 | – |

(All amounts in RMB'000 unless otherwise stated)

## VI. CHANGES IN CONSOLIDATION SCOPE

### 1. Business Combinations Not Involving Enterprises Under Common Control

On 29 June 2018, the Group acquired a 40% equity interest in Lacha Apparel II S.a.r.l ("Apparel II") from an independent three party at a consideration of EUR20,800,000.

In this year, the Group acquired the remaining 60% equity interest in "Apparel II" at a consideration of EUR35,340,000 (RMB276,253,000). The acquisition was completed on 4 June 2019 when the Group obtained control of the operating and financial policies of Apparel II and its wholly-owned subsidiary NAF NAF SAS ("NAF").

The fair value and book value of identifiable assets and liabilities of Apparel II and its wholly-owned subsidiary NAF NAF SAS on acquisition date are as follows:

| | **Acquisition date Fair value** | **Acquisition date Book value** |
|---|---|---|
| Cash at bank and on hand | 26,583 | 26,583 |
| Notes receivable and accounts receivable | 95,999 | 95,999 |
| Other receivables | 42,691 | 42,691 |
| Advances to suppliers | 43,871 | 43,871 |
| Inventories | 230,869 | 230,869 |
| Fixed assets | 31,902 | 31,902 |
| Construction in progress | 6,352 | 6,352 |
| Intangible assets | 136,700 | 29,134 |
| Long-term receivables | 48,051 | 48,051 |
| Right-of-use assets | 570,047 | 545,562 |
| Deferred tax assets | 118,934 | 118,934 |
| Short-term borrowings | 111,634 | 111,634 |
| Accounts payable | 238,993 | 238,993 |
| Advances from customers | 822 | 822 |
| Employee benefits payable | 41,825 | 41,825 |
| Interests payable | 5,179 | 5,179 |
| Taxes payable | 32,202 | 32,202 |
| Other payables | 3,446 | 3,446 |
| Deferred income | 279 | 279 |
| Contract liabilities | 12,976 | 12,976 |
| Lease liabilities | 486,668 | 486,668 |
| Other non-current liabilities | 6,023 | 6,023 |
| Deferred income tax liabilities | 61,401 | 24,391 |
| | 350,551 | 255,510 |
| Goodwill | 109,870 | |
| | 460,421 | Note1 |

(All amounts in RMB'000 unless otherwise stated)

## VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

### 1. Business Combinations Not Involving Enterprises Under Common Control (continued)

Note 1: This amount includes the consideration of RMB276,253,000 paid by the group for the further acquisition of the 60% equity interest in Apparel II and the fair value of RMB184,168,000 of the 40% equity interest originally held by the Group at the acquisition date. Since management's assessment of the fair value of Apparel II at the acquisition date is still in progress, results disclosed in this report are only the preliminary assessment.

The operating results and cash flows of Apparel II and its wholly-owned subsidiary NAF NAF SAS from the acquisition date to the end of the period are presented as follows:

| | From the acquisition date to 30 June 2019 |
|---|---|
| Operating revenue | **139,318** |
| Net losses | **(14,552)** |
| Net cash flow | **15,001** |

### 2. Disposal of Subsidiaries

| | Place of incorporate | Nature of Business | Share proportion (%) | Voting right proportion (%) | Reason for change |
|---|---|---|---|---|---|
| Hangzhou Anshe | Hangzhou | Sales of apparel products | 54.05% | 54.05% | Note2 |

Note 2: On 7 May, 2019, Shanghai La Chapelle Fashion Co.,Ltd; a subsidiary of the group, entered into an equity interest transfer agreement with Hangzhou Yaner Enterprise Management Consulting Co., Ltd to dispose of a 54.05% equity interest in Hangzhou Anshe at a consideration of RMB200,000,000. The Group has been receiving cash consideration in phases from 2019 to 2022. The disposal was completed on 30 May 2019, and Hangzhou Anshe was not included in the consolidated financial statements of the Group hereafter. The relevant financial information of Hangzhou Anshe is as follows:

| | Disposal date Book value | 31 December 2018 Book value |
|---|---|---|
| Current assets | 439,460 | 367,135 |
| Non-current assets | 29,406 | 34,057 |
| Current liabilities | (141,578) | (71,447) |
| Non-current liabilities | (5,244) | (1,894) |
| | 322,044 | 327,851 |
| Non-controlling interests | 147,949 | 150,648 |
| Income from disposal | 5,064 | |
| Consideration received from disposal | 200,000 | |
| Present value of disposal consideration | 188,258 | |

(All amounts in RMB'000 unless otherwise stated)

## VII. INTERESTS IN OTHER ENTITIES

### 1. Interests in Major Subsidiaries

Information of the Company's subsidiaries is as follows:

| Subsidiary Name | Main business site | Place of incorporation | Nature of business | Registered capital | | Shareholding ratio(%) | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 000' | Direct | Indirect | |
| Shanghai La Chapelle Casual Fashion Co., Ltd. ("LaCha Xiuxian") | Shanghai | Shanghai | Design and sales of apparel products | CNY | 5,000 | 100% | – | Wholly owned subsidiary |
| Candie's Shanghai Fashion Co., Ltd. ("Shanghai Le'ou") | Shanghai | Shanghai | Design and sales of apparel products | CNY | 16,000 | 65% | – | Holding subsidiaries |
| Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei') | Chongqing | Chongqing | Design and sales of apparel products | CNY | 500 | 100% | – | Wholly owned subsidiary |
| Beijing La Chapelle Lewei Fashion Co.,Ltd. ("Beijing LaCha") | Beijing | Beijing | Design and sales of apparel products | CNY | 500 | 100% | – | Wholly owned subsidiary |
| Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha") | Chengdu | Chengdu | Sales of apparel products | CNY | 500 | 100% | – | Wholly owned subsidiary |
| Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile") | Shanghai | Shanghai | Sales of apparel products | CNY | 50,000 | 100% | – | Wholly owned subsidiary |
| Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe") | Shanghai | Shanghai | Sales of apparel products | CNY | 5,000 | 100% | – | Wholly owned subsidiary |
| Shanghai Xiawei Fashion Co., Ltd ("Shanghai Xiawei") | Shanghai | Shanghai | Sales of apparel products | CNY | 5,000 | 100% | – | Wholly owned subsidiary |
| La Chapelle Fashion (Taicang) Co., Ltd ("Taicang LaCha") | Taicang | Taicang | Sales of apparel products | CNY | 100,000 | 95% | – | Wholly owned subsidiary |
| La Chapelle (Tianjin) Co., Ltd. ("Tianjin LaCha") | Tianjing | Tianjing | Sales of apparel products | CNY | 10,000 | 100% | – | Wholly owned subsidiary |
| Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei") | Chengdu | Chengdu | Sales of apparel products | CNY | 10,000 | 100% | – | Wholly owned subsidiary |
| Shanghai Chongan Fashion Co., Ltd. ("Shanghai Chongan") | Shanghai | Shanghai | Sales of apparel products | CNY | 15,000 | 85% | – | Holding subsidiaries |
| Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi") | Shanghai | Shanghai | Sales of apparel products | CNY | 20,000 | 100% | – | Wholly owned subsidiary |
| Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei") | Pucheng | Pucheng | Sales of apparel products | CNY | 10,000 | 100% | – | Wholly owned subsidiary |
| Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management") | Shanghai | Shanghai | Investment | CNY | 800,000 | 100% | – | Wholly owned subsidiary |
| Shanghai Nuoxing Fashion Co., Ltd. ("Shanghai Nuoxing") | Shanghai | Shanghai | Sales of apparel products | CNY | 10,000 | 100% | – | Wholly owned subsidiary |
| Shanghai Jiatuo Information Technology Co., Ltd. ("Shanghai Jiatuo") | Shanghai | Shanghai | IT technology | CNY | 1,000 | 100% | – | Wholly owned subsidiary |

(All amounts in RMB'000 unless otherwise stated)

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 1. Interests in Major Subsidiaries (continued)

| Subsidiary Name | Main business site | Place of incorporation | Nature of business | Registered capital | | Shareholding ratio(%) | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 000' | Direct | Indirect | |
| Jack Walk Fashion Co., Ltd. ("Jack Walk") | Shanghai | Shanghai | Sales of apparel products | CNY | 16,194 | 69% | – | Holding subsidiaries |
| Shanghai Xingji Industry Co., Ltd. ("Xingji") | Shanghai | Shanghai | Home furnishing | CNY | 12,000 | – | 60% | Holding sub-subsidiaries |
| Dongguan Dianlan Xinlong Fashion Co. Ltd. ("Dianlan Xinlong") | Dongguan | Dongguan | Design and sales of apparel products | CNY | 1,000 | – | 59% | Holding sub-subsidiaries |
| Guangzhou Xichen Fashion Co., Ltd ("Guangzhou Xichen") | Guangzhou | Guangzhou | Sales of apparel products | CNY | 20,000 | 60% | – | Holding sub-subsidiaries |
| Shanghai Pincheng Industry Co., Ltd. ("pinching") | Shanghai | Shanghai | Design and sales of apparel products | CNY | 25,656 | 63% | – | Holding sub-subsidiaries |
| Taicang Jiashang Storage Co., Ltd. | Taicang | Taicang | Storage and logistics | CNY | 1,000 | – | 100% | Wholly owned sub-subsidiary |
| Taicang Chong'an Fashion Co., Ltd | Taicang | Taicang | Sales of apparel products | CNY | 5,000 | 100% | 0% | Wholly owned subsidiary |
| Taicang Xiawei Fashion Co., Ltd. | Taicang | Taicang | Sales of apparel products | CNY | 5,000 | 100% | 0% | Wholly owned subsidiary |
| Tianjin Xiawei Warehouse Co., Ltd. | Tianjing | Tianjing | Storage and logistics | CNY | 10,000 | – | 100% | Wholly owned sub-subsidiary |
| Shanghai Pinxi Technology Co., Ltd. ("Pinxi") | Shanghai | Shanghai | Clothing technology | CNY | 20,000 | – | 100% | Wholly owned sub-subsidiary |
| Shanghai La Chapelle Naf Fashion Co., Ltd. | Shanghai | Shanghai | Sales of apparel products | CNY | 20,000 | 65% | – | Holding subsidiaries |
| La Chapelle E-commerce (Shanghai) Co., Ltd. | Shanghai | Shanghai | E-commerce | CNY | 2,000 | – | 63% | Holding sub-subsidiaries |
| LaChaApparelISàrl | Luxembourg | Luxembourg | Investment | EUR | 12 | – | 100% | Wholly owned sub-subsidiary |
| NAFNAFSAS | French | French | Sales of apparel products | EUR | 76,102 | – | 100% | Wholly owned sub-subsidiary |
| LaChaApparelILtd. | BVI | BVI | Investment | – | – | – | 100% | Wholly owned sub-subsidiary |
| LaChaFashionILimited | Hongkong | Hongkong | Investment | CNY | 25,685 | – | 100% | Wholly owned sub-subsidiary |

There are no subsidiaries with significant minority interests in this period.

(All amounts in RMB'000 unless otherwise stated)

## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 2. A transaction in which the shareholder's equity interest of the subsidiary changes and does not affect control

In 2019, Enterprise Management, a subsidiary of the Group, entered into an equity interest transfer agreement with a third party to dispose of a 20% equity interest in Guangzhou Xichen at a consideration of nil. After the completion of the disposal, the Group still holds the control of Guangzhou Xichen. This transaction results in an increase of RMB 13,535,000 in capital surplus and the decrease of RMB13,535,000 in minority interest in the consolidated financial statements.

### 3. Equity in Joint Venture and Associates

| | Main business site | Place of incorporation | Nature of Business | Registered Capital | Shareholding ratio (%) Direct | Indirect | Accounting Treatment |
|---|---|---|---|---|---|---|---|
| Tibet Baoxin Equity Investment Partnership | Tibet | Tibet | Leasing and commercial services | 251,620 | 59% | – | Associates |
| Hongche Industry (Shanghai) Co., Ltd. | Shanghai | Shanghai | Leasing and commercial services | 47,100 | 36% | – | Associates |
| Beijing Ao Ni Trading Co., Ltd. | Beijing | Beijing | Wholesale and retail | 3,571 | 16% | – | Associates |
| Shanghai Youshi Home Technology Co., Ltd. | Shanghai | Shanghai | Wholesale and retail | 1,000 | 30% | – | Associates |
| Fuzhou Batty Clothing Co., Ltd. | Fujian | Fujian | Wholesale and retail | 8,065 | 38% | – | Associates |
| Zhejiang Yuanrui Information Technology Co., Ltd. | Zhejiang | Zhejiang | Science research and technology services | 20,000 | 30% | – | Associates |

Summarized financial information of non-significant joint ventures:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Total book value of the investments | **230,837** | 479,591 |
| Net (loss)/profit | **(14,603)** | 33,860 |
| Total comprehensive (loss)/income | **(14,603)** | 33,860 |

There were no contingent liabilities related to joint venture investment in the period.

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

### 1. Financial Risks

The Group faces various risks of financial instruments during daily activities, mainly including credit risks, liquidity risks and market risks (including foreign exchange risk, interest rate risk and price risk). Major financial instruments of the Group include cash at bank and on hand, equity investments, debt investments, notes receivable and accounts receivable, short-term loans and long-term loans. The following will show the risks relating to these financial instruments and the risk management policies the Group adopted to reduce the relative risks.

The Board is responsible for planning and establishing the risk management structure of the Group, working out the risk management policies and relevant guidelines of the Group and supervising the implementation of the risk management measures. The Group has worked out risk management policies to identify and analyse the risks it faced. These risk management policies have clearly defined specific risks, covering market risk, credit risk and liquidity risk management. The Group regularly assesses changes in the market environment and its operating activities to decide whether or not to update the risk management policies and systems. The Group's risk management is conducted by the risk management committee according to the policies approved by the Board. The risk management committee identifies, assesses and avoids relevant risks via close cooperation with other business departments of the Group. The internal audit department of the Group conducts regular review on the risk management control and procedures and reports the review results to the audit committee of the Group.

The Group diversifies risks of financial instruments through appropriate diversified investments and business portfolios and works out relevant risk management policies to reduce the risks concentrated in any single industry, specific region or specific counterparty.

*Credit Risk*

The Group does not require any guarantees from a third party since the Group only deals with the recognized third party with good reputation. The Group manages risks by client/counterparty, geographic region and industry. The Group does not have significant risk concentration. The Group does not have any guarantees on balance of accounts receivables or other credit enhancement.

The Group sells products and provides services to customers as per standard credit terms. The maximum credit risk exposure relating to accounts receivable on every balance sheet day should be the book value of accounts receivables minus the impairment.

*Forward-looking Information*

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various types of businesses.

The impact of these economic indicators on probability of default (PD) and loss given default (LGD) varies in different types of businesses. The Group forecasts these economic indicators regularly and determine their effects on PD and LGD.

(All amounts in RMB'000 unless otherwise stated)

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 1. Financial Risks (continued)

*Liquidity risk*

The Group manages its risk to deficiency of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and the projected flows from the Group's operations.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank borrowings and other financing methods.

The table below summarizes the maturity profile of financial liabilities based on the undiscounted contractual cash flows:

| | **30 June 2019** | | | | |
|---|---|---|---|---|---|
| | **Within one year** | **1-2 years** | **2-5 years** | **Over 5 years** | **Total** |
| Short-term borrowings | **1,697,627** | **–** | **–** | **–** | **1,697,627** |
| Notes Payable | **628,031** | **–** | **–** | **–** | **628,031** |
| Accounts Payable | **1,351,125** | **10,921** | **–** | **–** | **1,362,046** |
| Other Payables | **593,728** | **–** | **–** | **–** | **593,728** |
| Long-term Loans | **–** | **58,424** | **332,113** | **–** | **390,537** |
| Non-current Borrowings within one year | **28,479** | **–** | **–** | **–** | **28,479** |
| Lease Liability | **55,020** | **405,938** | **1,415,691** | **914,966** | **2,791,615** |
| | **4,354,010** | **475,283** | **1,747,804** | **914,966** | **7,492,063** |

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Within one year | 1-2 years | 2-5 years | Over 5 years | Total |
| Short-term Loans | 1,958,994 | – | – | – | 1,958,994 |
| Notes Payable | 712,556 | – | – | – | 712,556 |
| Accounts Payable | 1,120,987 | – | – | – | 1,120,987 |
| Other Payables | 558,153 | – | – | – | 558,153 |
| Long-term loans | 36,170 | 52,133 | 322,545 | – | 410,848 |
| | 4,386,860 | 52,133 | 322,545 | – | 4,761,538 |

(All amounts in RMB'000 unless otherwise stated)

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 1. Financial Risks (continued)

*Liquidity risk (continued)*

**Market Risk**

*Interest Rate Risk*

The Group has no significant interest rate risk for the six months ended 30 June 2019 and the year ended 2018.

*Exchange Rate Risk*

The Group's exposure to transactional foreign currency risk mainly relates to its sales and purchase valued and settled in foreign currency. About 3% (2018: 0%) of the amount of the Group's sales is valued in foreign currency, while about 97% (2018: 100%) of the amount of the Group's cost is valued in functional currency.

The financial department of the Group's head office is responsible for monitoring the amount of assets and liabilities and transactions denominated in foreign currencies to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. The Group did not enter into any forward exchange contracts or currency swap contracts for the six months ended 30 June 2019 and the year ended 2018.

The table below is sensitivity analysis of exchange rate risk, which reflects the impact on net profit or loss after tax and other comprehensive income, when there are reasonable and potential changes in foreign exchange rates, under the presumption that all other variables remain unchanged.

**For the six months ended 30 June 2019**

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in net profit or loss | Increase/ (decrease) in net other comprehensive income | Increase/ (decrease) in total shareholders' equity |
|---|---|---|---|---|
| Depreciation of RMB against HKD | 10 | – | 922 | 922 |
| Appreciation of RMB against HKD | 10 | – | (1,146) | (1,146) |

| | Increase/ (decrease) in exchange rate % | Increase /(decrease) in net profit or loss | Increase/ (decrease) in net other comprehensive income | Increase/ (decrease) in total shareholders' equity |
|---|---|---|---|---|
| Depreciation of RMB against USD | 10 | – | (1,651) | (1,651) |
| Appreciation of RMB against USD | 10 | – | 1,655 | 1,655 |

(All amounts in RMB'000 unless otherwise stated)

## VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

### 1. Financial Risks (continued)

*Liquidity risk (continued)*

**Market Risk (continued)**

*Exchange Rate Risk (continued)*

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in net profit or loss | Increase/ (decrease) in net other comprehensive income | Increase/ (decrease) in total shareholders' equity |
|---|---|---|---|---|
| Depreciation of RMB against EUR | 10 | (21,251) | – | (21,251) |
| Appreciation of RMB against EUR | 10 | 21,251 | – | 21,251 |

The Group had no significant exchange rate risk in 2018.

### 2. Capital management

The key objective of the Group's capital management is to ensure the Group's ability to operate on a going concern basis and maintain healthy capital ratios so as to support business growth and maximize shareholder value.

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. There was no change in the Group's capital management objectives, policies or procedures for the six months ended 30 June 2019 and the year ended 2018.

(All amounts in RMB'000 unless otherwise stated)

## IX. DISCLOUSURE OF FAIR VALUE

### 1. Assets measured at fair value

**30 June 2019**

| | **Inputs used in the measurement of fair value** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| Other non-current financial assets | **–** | **–** | **83,200** | **83,200** |
| Other equity instrument | **–** | **–** | **28,605** | **28,605** |
| | **–** | **–** | **111,805** | **111,805** |

31 December 2018

| | Inputs used in the measurement of fair value | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Persistent fair value measurement | | | | |
| Financial assets held for trading | – | – | 25,475 | 25,475 |
| Other equity instrument | – | – | 28,605 | 28,605 |
| Other non-current financial assets | – | – | 28,200 | 28,200 |
| | – | – | 82,280 | 82,280 |

The following is an overview of the significant unobservable inputs of the third level of fair value measurement:

For financial instruments that are not traded in an active market, the Group uses valuation techniques to determine its fair value. The valuation model used is a market comparable company model. The input values of valuation techniques mainly include risk-free interest rates, benchmark interest rates, exchange rates, credit spreads, liquidity premiums, EBITDA multipliers, and lack of liquidity discounts, etc.

## IX. DISCLOUSURE OF FAIR VALUE (CONTINUED)

### 2. Assets and liabilities disclosed at fair value

For cash and cash equivalents, notes receivable and trade receivables, other receivables and short-term loans, notes payable, accounts payable, other payables, etc., since the remaining periods of them are not long, the fair value is the same as the book value.

The fair values of long-term receivables is determined by discounting the future cash flows using market yields currently available for other financial instruments with similar contractual terms, credit risk and remaining term as the discount rate.

## X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### 1. The ultimate controlling party

(a) General information of the ultimate controlling party

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

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

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Share holding (%)** | **Voting rights (%)** | Share holding (%) | Voting rights (%) |
| Mr. Xing Jiaxing | **26%** | **34%** | 26% | 34% |

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

### 2. Subsidiaries

The general information of the subsidiaries are set out in Note VII. 1.

### 3. Joint Ventures and Associates

The general information of the Joint Ventures and Associates are set out in Note VII. 3.

(All amounts in RMB'000 unless otherwise stated)

## X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 4. Other Related Parties

| | Relationship with the Group |
|---|---|
| Hangzhou Kaihui E-Commerce Co., Ltd. | Associate of the Group |
| Hangzhou Mixin E-Commerce Co., Ltd. | Associate of the Group |
| Naf Naf SAS (a) | 2018: Associate of the Group;<br>2019: 100% owned subsidiary |
| Hongche Industry (Shanghai) Co., Ltd. | Associate of the Group |

(a) On June 4, 2019, the Group acquired 60% equity interest in Apparel II. After the completion of acquisition, the group obtained control of the operating and financial policies of Apparel II and NAF. Please refer to Notes VI.1.

### 5. Major Transactions between the Group and Related Parties

(1) Purchase and sale of goods, provision and receipt of services from related parties

Purchase of goods and receipt of services from related parties

| | For the six months ended 30 June 2019 | 31 December 2018 |
|---|---|---|
| Hongche Industry (Shanghai) Co., Ltd. | **65** | – |
| NAF NAF SAS | **–** | 3,797 |
| | **65** | 3,797 |

*Sales of goods and rendering of services to related parties*

| | For the six months ended 30 June 2019 | 31 December 2018 |
|---|---|---|
| Hongche Industry (Shanghai) Co., Ltd. | **3,453** | – |
| Hangzhou Kaihui E-Commerce Co., Ltd. | **3,722** | 13,430 |
| Naf Naf SAS | **807** | 651 |
| Hangzhou Mixin E-Commerce Co., Ltd. | **–** | 301 |
| | **8,507** | 14,382 |

(All amounts in RMB'000 unless otherwise stated)

## X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 5. Major Transactions between the Group and Related Parties (continued)

(2) Leases with related party

As lessors

| | Type of leased assets | **For the six months ended 30 June 2019** | 31 December 2018 |
|---|---|---|---|
| Hongche Industry (Shanghai) Co., Ltd. | Property and plant | **256** | – |

(3) Guarantees from Related Parties

Lending

**30 June 2019**

| | **Amount** | **Inception date** | **Expiration date** |
|---|---|---|---|
| Hongche Industry (Shanghai) Co., Ltd. | **5,500** | **11 January 2019** | **12 June 2020** |

2018

| | Amount | Inception date | Expiration date |
|---|---|---|---|
| NAF NAF SAS | 39,507 | 20 August 2018 | 20 August 2019 |
| Hongche Industry (Shanghai) Co., Ltd. | 32,500 | 22 March 2018 | 27 December 2019 |

As at 30 June 2019, the Group provided loan amounted to RMB5,500,000 to its associate, Hongche Industry (Shanghai) Co., Ltd. ("Hongche") with interest rate of 6%.

In 2018, the Group provided loan amounted to RMB32,500,000 to its associate, Hongche with interest rate of 6%.

(4) Interest income

| | **For the 6 months ended 30 June 2019** | 31 December 2018 |
|---|---|---|
| Hongche Industry (Shanghai) Co., Ltd. | **2,174** | 1,086 |
| NAF NAF SAS | **–** | 702 |
| | **2,174** | 1,788 |

(All amounts in RMB'000 unless otherwise stated)

## X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 6. Accounts receivable

| | **30 June 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Ending balance** | **Provision** | Ending balance | Provision |
| Accounts receivable | | | | |
| Hongche Industry (Shanghai) Co., Ltd. | **3,978** | **–** | – | – |
| Hangzhou Kaihui E-Commerce Co., Ltd. | **–** | **–** | 3,498 | – |
| Naf Naf SAS | **–** | **–** | 552 | – |
| | **3,978** | **–** | 4,050 | – |

### 7. Advances to suppliers

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Advances to suppliers | | |
| Hongche Industry (Shanghai) Co., Ltd. | **95** | – |

All receivables and payables of related parties are non-interested, unsecured, and have no fixed repayment terms.

### 8. Other payables

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other payables | | |
| Hangzhou Kaihui E-Commerce Co., Ltd. | **–** | 2,844 |

### 9. Other receivables

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other receivables | | |
| Hongche Industry (Shanghai) Co., Ltd. | **2,174** | 1,086 |
| NAF NAF SAS | **–** | 22,084 |
| Hangzhou Kaihui E-Commerce Co., Ltd. | **–** | 1,292 |
| | **2,174** | 24,462 |

(All amounts in RMB'000 unless otherwise stated)

## X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

### 10. Other current assets

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other current assets | | |
| Hongche Industry (Shanghai) Co., Ltd. | **38,000** | 32,500 |
| NAF NAF SAS | **–** | 39,507 |
| | **38,000** | 72,007 |

## XI. COMMITMENTS

### 1. Significant Commitments

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Contracted but not provisioned | | |
| Capital commitments | **268,646** | 515,049 |
| Investment commitments | **29,205** | 1,835,397 |
| | **297,851** | 2,350,446 |

Unconfirmed commitments related to investments in joint ventures refers to note VII. 3.

As of the date of approval of the financial statements, the Company has no significant contingencies that should be disclosed.

## XII. EVENTS AFTER THE BALANCE SHEET DATE

As at 30 June 2019, the Company had no events after the balance sheet date.

## XIII. OTHER SIGNIFICANT EVENTS

### 1. Segment reporting

*Operating segment*

In 2019, for management purposes, the Group is organized into business units based on their internal organizational structure, management requirements and internal reporting system, and has 2 reporting segments as follows:

(1) Segment of NAF Brand, mainly for the overseas operation and management of the NAF brand;

(2) Segment of other Brands, mainly for the domestic operations and management of brands other than the NAF brand.

(All amounts in RMB'000 unless otherwise stated)

## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 1. Segment reporting (continued)

*Operating segment (continued)*

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance are evaluated based on the segment profits reported. The indicator is consistent with the Group's total profit of continuing operation.

The transfer pricing between operating segments is determined by reference to the fair price used for transactions with third parties.

**For the six months ended 30 June 2019**

| | NAF | Other Brands | Adjustment and offset | Combination |
|---|---|---|---|---|
| External revenue | **139,318** | **3,827,336** | **(16,009)** | **3,950,645** |
| Investment income | **–** | **3,592** | **–** | **3,592** |
| Asset impairment loss | **15,719** | **190,894** | **–** | **206,613** |
| Depreciation and amortization fees | **1,650** | **290,818** | **–** | **292,468** |
| Total loss | **(19,403)** | **(682,839)** | **(16,009)** | **(718,251)** |
| Income tax expenses | **(4,851)** | **(148,713)** | **–** | **(153,564)** |
| Total assets | **1,264,669** | **8,965,475** | **–** | **10,230,144** |
| Total liabilities | **1,019,899** | **6,360,298** | **(15,564)** | **7,364,633** |
| Amortization of Right-of-use assets | **8,357** | **351,774** | **–** | **360,131** |
| Long-term equity investments | **–** | **230,780** | **–** | **230,780** |

2018

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

(All amounts in RMB'000 unless otherwise stated)

## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 1. Segment reporting (continued)

*Other information*

*Product and labor information*

*External transaction income*

| | For the six months ended 30 June 2019 | 31 December 2018 |
|---|---|---|
| Retail | **3,926,187** | 4,373,553 |
| Providing services | **6,050** | 5,264 |
| Wholesale | **18,408** | – |
| | **3,950,645** | 4,378,817 |

*Information of main customers*

For the six months ended 2019 and 2018, the Group's revenue from any single external customer did not exceed 10% of the Group's revenue.

(All amounts in RMB'000 unless otherwise stated)

## XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

### 2. Leases

*As a lessor*

There were no operating leases of fixed assets during the period.

*As a lessee*

Significant operating lease: According to the lease contract signed with the lessor, minimum lease payment under irrevocable lease is as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Within 1 year (including 1 years) | **29,205** | 575,823 |
| 1 to 2 years (including 2 years) | **–** | 493,499 |
| 2 to 3 years (including 3 years) | **–** | 287,986 |
| 3 to 4 years (including 4 years) | **–** | 225,594 |
| 4 to 5 years (including 5 years) | **–** | 162,851 |
| Over 5 years | **–** | 89,644 |
| | **29,205** | 1,835,397 |

### 3. Comparative Data

As mentioned in note III. 32, the accounting treatment and presentation of certain items in the financial statements and the amount in the financial statements have been revised to meet the new requirements. Accordingly, some previous annual data have been adjusted and some comparative data have been reclassified and restated to meet the reporting and accounting treatment requirements for the current period.

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT

### 1. Accounts Receivable

The credit period of accounts receivable is usually 90 days. Accounts receivable do not accrue interest.

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Accounts Receivable | **1,411,769** | 934,280 |
| Less: provision for bad debts | **(19,308)** | (21,763) |
| | **1,392,461** | 912,517 |

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

Accounts receivable with aging since invoice date are analyzed as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Current (90 days) | **1,398,021** | 912,697 |
| Overdue(over 90 days) to one year | **3,191** | 10,703 |
| One year to two years | **1,070** | 3,863 |
| Two years to three years | **4,611** | 2,587 |
| Above three years | **4,876** | 4,430 |
| | **1,411,769** | 934,280 |

Movement of provision of bad debts:

| | 31 December 2018 | Increase in the current year | Decrease in the current year | **30 June 2019** |
|---|---|---|---|---|
| Year 2019 | (21,763) | (159) | 2,614 | **(19,308)** |
| Year 2018 | (17,283) | (4,480) | – | **(21,763)** |

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 1. Accounts Receivable (continued)

| | **30 June 2019** | | | | 31 December 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Book balance** | | **Bad debt provision** | | Book balance | | Bad debt provision | |
| | **Amount** | **(%)** | **Amount** | **(%)** | Amount | (%) | Amount | (%) |
| Individual bad debt provision | **9,214** | **0.66** | **(9,214)** | **100** | 9,214 | 0.99 | (9,214) | 100 |

As at 30 June 2019, accounts receivable with provision of bad debts individually reserved are analysed as follows:

| | **Book balance** | **Bad debt provision** | **Lifetime expected credit loss rate** | **Reason** |
|---|---|---|---|---|
| Amounts due from department stores | 9,214 | (9,214) | 100% | (i) |

(i) As at 30 June 2019 and 31 December 2018, due to the overall poor operation situation and difficulties in cash flow turnover, part of department stores have shut down. The management of the Group is of the view that it is difficult to collect the receivable amount therefore full bad debt provision has been made accordingly.

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 1. Accounts Receivable (continued)

The Company's accounts receivable with provision for bad debts using the ageing analysis method are as follows:

| | 30 June 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount before provision** | **Lifetime expected credit loss rating** | **Lifetime expected credit loss** | Carrying amount before provision | Lifetime expected credit loss rating | Lifetime expected credit loss |
| Third Parties | | | | | | |
| Within credit period (90 days) | **126,989** | **2** | **(2,687)** | 241,436 | 2 | (4,538) |
| Overdue (over 90 days) to one year | **3,191** | **5** | **(160)** | 10,703 | 5 | (535) |
| One year to two years | **691** | **20** | **(138)** | 231 | 20 | (46) |
| Two years to three years | **514** | **50** | **(257)** | 1,435 | 50 | (717) |
| Above three years | **139** | **100** | **(139)** | – | 100 | – |
| Group of receivables due from subsidiaries | | | | | | |
| Current (90 days) | **1,271,031** | **0.53** | **(6,713)** | 671,261 | 1 | (6,713) |
| | **1,402,555** | | **(10,094)** | 925,066 | | (12,549) |

### 2. Other receivables

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Other receivables | **1,293,470** | 2,289,664 |

Other receivables with aging since invoice date are analysed as follows:

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Within 90 days | **1,317,504** | 2,312,552 |
| 90 days to one year | **1,215** | 2,736 |
| One year to two years | **573** | 714 |
| Two years to three years | **840** | 1,172 |
| Less: provision for bad debts | **(26,662)** | (27,510) |
| | **1,293,470** | 2,289,664 |

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 2. Other receivables (continued)

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| Amounts due from subsidiaries | **1,209,559** | 2,254,847 |
| Deposits | **74,578** | 650,407 |
| Subsidiary equity transfer fund | **30,000** | – |
| Staff advances | **365** | 524 |
| Others | **5,630** | 1,396 |
| | **1,320,132** | 2,317,174 |
| Less: provision for bad debts | **(26,662)** | (27,510) |
| | **1,293,470** | 2,289,664 |

Movement of loss allowance and carrying value:

**For the six months ended 30 June 2019**

| | **Stage 1 12-month expected credit losses** | **Stage 3 Lifetime expected credit losses (credit impairment incurred)** | **Total** |
|---|---|---|---|
| Beginning balance on 1 January 2019 | **(26,994)** | **(516)** | **(27,510)** |
| Reversals | **848** | **–** | **848** |
| | **(26,146)** | **(516)** | **(26,662)** |

For the year ended 31 December 2018

| | Stage 1 12-month expected credit losses | Stage 3 Lifetime expected credit losses (credit impairment incurred) | Total |
|---|---|---|---|
| Beginning balance on 1 January 2018 | (18,541) | (516) | (19,057) |
| Reversals | (8,453) | – | (8,453) |
| | (26,994) | (516) | (27,510) |

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 3. Inventories

| | **30 June 2019** | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount before provision** | **Provision** | **Carrying amount** | Carrying amount before provision | Provision | Carrying amount |
| Raw materials | **451** | **–** | **451** | 433 | – | 433 |
| Finished goods | **2,000,568** | **(272,712)** | **1,727,856** | 2,408,905 | (259,219) | 2,149,686 |
| Low value consumables | **11,075** | **–** | **11,075** | 15,397 | – | 15,397 |
| | **2,012,094** | **(272,712)** | **1,739,382** | 2,424,735 | (259,219) | 2,165,516 |

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

**For the period ended 30 June 2019**

| | **31 December 2018** | **Increase in the current period** | **Decrease in the current period** | **30 June 2019** |
|---|---|---|---|---|
| Finished goods | (259,219) | (161,319) | 147,826 | **(272,712)** |

For the year ended 31 December 2018

| | **31 December 2017** | **Increase in the current year** | **Decrease in the current year** | **31 December 2018** |
|---|---|---|---|---|
| Finished goods | (178,841) | (221,443) | 141,065 | **(259,219)** |

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 4. Long-term equity investments

**For the 6 months ended 30 June 2019**

| | 31 December 2018 | Movement in the current period: Additional investment | Movement in the current period: Return on investment under equity method | Disinvestment | 30 June 2019 |
|---|---|---|---|---|---|
| Subsidiaries: | | | | | |
| Enterprise Management | 800,000 | – | – | – | 800,000 |
| Hangzhou Anshe | 208,000 | – | – | (208,000) | – |
| Taicang LaCha | 95,000 | – | – | – | 95,000 |
| Jack Walk | 75,000 | – | – | – | 75,000 |
| Shanghai Weile | 50,000 | – | – | – | 50,000 |
| Pincheng | 39,629 | – | – | – | 39,629 |
| Shanghai Youshi | 20,000 | – | – | – | 20,000 |
| Shanghai Chongan | 12,750 | – | – | – | 12,750 |
| Shanghai Le'ou | 10,400 | – | – | – | 10,400 |
| Nuoxin | 10,000 | – | – | – | 10,000 |
| Tianjin LaCha | 10,000 | – | – | – | 10,000 |
| Chengdu Lewei | 10,000 | – | – | – | 10,000 |
| Fujian Lewei | 10,000 | – | – | – | 10,000 |
| Shanghai Xiawei | 5,000 | – | – | – | 5,000 |
| Shanghai Langhe | 5,000 | – | – | – | 5,000 |
| Lacha Xiuxian | 5,000 | – | – | – | 5,000 |
| Shanghai Jiatuo | 1,000 | – | – | – | 1,000 |
| Chengdu Lacha | 500 | – | – | – | 500 |
| Chongqing LeWei | 500 | – | – | – | 500 |
| Beijing Lacha | 500 | – | – | – | 500 |
| Shanghai Naf | – | 3,000 | – | – | 3,000 |
| Associates: | | | | | |
| Fuzhou Badi Fashion Co., Ltd. | 7,681 | – | (482) | – | 7,199 |
| Zhejiang Yuanrui Information Science and Technology Co., Ltd. | 2,907 | – | (421) | – | 2,486 |
| | 1,378,867 | 3,000 | (903) | (208,000) | 1,172,964 |

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 4. Long-term equity investments (continued)

For the year ended 31 December 2018

| | 31 December 2017 | Movement in the current year: Additional investment | Conversion to subsidiary | Return on investment under equity method | Disinvestment | Declare payment of cash dividends or profits | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| Subsidiaries: | | | | | | | |
| Enterprise Management | 300,000 | 500,000 | – | – | – | – | 800,000 |
| Hangzhou Anshe | 208,000 | – | – | – | – | 72,968 | 208,000 |
| Taicang LaCha | 95,000 | – | – | – | – | 28,500 | 95,000 |
| Jack Walk | 75,000 | – | – | – | – | – | 75,000 |
| Shanghai Weile | 50,000 | – | – | – | – | – | 50,000 |
| Pincheng | – | 24,000 | 15,629 | – | – | – | 39,629 |
| Shanghai Youshi | 20,000 | – | – | – | – | – | 20,000 |
| Shanghai Chongan | 12,750 | – | – | – | – | – | 12,750 |
| Shanghai Le'ou | 10,400 | – | – | – | – | – | 10,400 |
| Nuoxin | – | 10,000 | – | – | – | 150,000 | 10,000 |
| Tianjin LaCha | 10,000 | – | – | – | – | 72,000 | 10,000 |
| Chengdu Lewei | 10,000 | – | – | – | – | – | 10,000 |
| Fujian Lewei | 10,000 | – | – | – | – | 32,000 | 10,000 |
| Shanghai Xiawei | 5,000 | – | – | – | – | – | 5,000 |
| Shanghai Langhe | 5,000 | – | – | – | – | – | 5,000 |
| Lacha Xiuxian | 5,000 | – | – | – | – | – | 5,000 |
| Shanghai Jiatuo | 1,000 | – | – | – | – | – | 1,000 |
| Chengdu Lacha | 500 | – | – | – | – | – | 500 |
| Chongqing LeWei | 500 | – | – | – | – | 4,000 | 500 |
| Beijing Lacha | 500 | – | – | – | – | 2,000 | 500 |
| Jiuwo | 20,000 | – | – | – | (20,000) | – | – |
| Associates: | | | | | | | |
| Pincheng | 15,775 | – | (15,629) | (146) | – | – | – |
| Fuzhou Badi Fashion Co., Ltd. | 8,658 | – | – | (977) | – | – | 7,681 |
| Zhejiang Yuanrui Information Science and Technology Co., Ltd. | – | 3,000 | – | (93) | – | – | 2,907 |
| | 863,083 | 537,000 | (15,629) | (1,216) | (20,000) | 361,468 | 1,378,867 |

As at 30 June 2019, there is no impairment provision for long-term equity investments.

(All amounts in RMB'000 unless otherwise stated)

## XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

### 5. Revenue and cost of sales

| | **Six months ended 30 June 2019** | | Six months ended 30 June 2018 | |
|---|---|---|---|---|
| | **Revenue** | **Cost** | Revenue | Cost |
| Main operation | **1,963,388** | **1,285,115** | 2,456,129 | 1,482,649 |

Details of revenue are listed below:

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Retail | **1,896,993** | 2,456,129 |
| Wholesale | **16,064** | – |
| Providing services | **50,331** | – |
| | **1,963,388** | 2,456,129 |

### 6. Investment (loss)/income

| | **Six months ended 30 June 2019** | Six months ended 30 June 2018 |
|---|---|---|
| Long-term equity investment dividend distribution | **–** | 361,467 |
| Investment income from long-term equity investments under equity method | **–** | (651) |
| Investment loss in associates | **(903)** | – |
| Investment loss on disposal of subsidiaries | **(19,744)** | (20,000) |
| | **(20,647)** | 340,816 |

(All amounts in RMB'000 unless otherwise stated)

## SUMMARY OF NON-RECURRING PROFIT OR LOSS

| | For the period ended 30 June 2019 |
|---|---|
| Gains from disposal of non-current assets | **14,808** |
| Government grants | **84,291** |
| Investment income from acquisition of subsidiaries | **48,188** |
| Investment income from disposal of subsidiaries | **5,064** |
| Investment income from disposal of associates | **(63,321)** |
| Other non-operating income and expenses | **(133)** |
| Subtotal of non-recurring profit before tax | **88,897** |
| Less: Impact of income tax expense | **(15,792)** |
| Less: Impact on the minority interests, net of tax | **211** |
| Non-recurring profit attributed to parent company | **73,316** |
| Net loss attributed to parent company | **(498,134)** |
| Net loss attributed to parent company, net of non-recurring profit | **(571,450)** |

## RETURN ON NET ASSETS AND (LOSSES)/EARNINGS PER SHARE

**For the six months ended 30 June 2019**

| | Weighted average return on net assets (%) | losses per share (RMB Yuan) | |
|---|---|---|---|
| | | Basic | Dilutive |
| Net loss attributable to ordinary shareholders of the Company | **(15.50)** | **(0.91)** | **(0.91)** |
| Net loss attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss | **(17.78)** | **(1.04)** | **(1.04)** |

## RETURN ON NET ASSETS AND (LOSSES)/EARNINGS PER SHARE (CONTINUED)

For the six months ended 30 June 2018

| | Weighted average return on net assets (%) | earnings per share (RMB Yuan) | |
|---|---|---|---|
| | | Basic | Dilutive |
| Net profit attributable to ordinary shareholders of the Company | 5.93 | 0.43 | 0.43 |
| Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss | 4.66 | 0.34 | 0.34 |

The Group has no dilutive potential ordinary shares.