



Cosmo Lady (China) Holdings Company Limited
都市麗人(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 2298

INTERIM REPORT 2019





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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Yaonan (*Chairman*)
Mr. Zhang Shengfeng (*Deputy Chairman*)
Ms. Wu Xiaoli

Non-executive Directors

Mr. Lin Zonghong
Mr. Cheng Zuming
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Zhao Yingming

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Loo Hong Shing Vincent *FCCA, AHKSA*

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Risk Management Committee

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKERS

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS

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

AUTHORIZED REPRESENTATIVES

Mr. Zheng Yaonan
Mr. Loo Hong Shing Vincent

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Guangdong Province
People's Republic of China

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Unit 909, 9/F.
China Merchants Tower
Shun Tak Centre
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Hong Kong

SHARE REGISTRAR IN HONG KONG

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Wanchai
Hong Kong

LEGAL ADVISORS

Hong Kong
ReedSmith Richards Butler
Cleary Gottlieb Steen & Hamilton

Financial Highlights

| | | Six months ended 30 June | | |
|--|---------------------------------------|--------------------------|-------------------|--------|
| | | Unaudited 2019 | Unaudited 2018 | Change |
| Revenue | <i>RMB'000</i> | 2,210,207 | 2,338,682 | -5.5% |
| Operating profit | <i>RMB'000</i> | 43,005 | 233,201 | -81.6% |
| Profit attributable to owners of the Company | <i>RMB'000</i> | 35,466 | 175,121 | -79.7% |
| Gross profit margin | % | 41.1% | 43.7% | |
| Operating profit margin | % | 1.9% | 10.0% | |
| Margin of profit attributable to owners of the Company | % | 1.6% | 7.5% | |
| Earnings per share | | | | |
| – Basic | <i>RMB cents</i> | 1.57 | 8.11 | |
| – Diluted | <i>RMB cents</i> | 1.57 | 8.07 | |
| Interim dividend per share | <i>HK cents</i> <i>(RMB cents)</i> | – | 2.73 (2.40) | |

Management Discussion and Analysis

BUSINESS REVIEW

Due to economic, trade frictions and other factors, the stability of the world economy has been significantly weakened since the second half of 2018. In the first half of 2019, various economic indicators were losing momentum. The Purchasing Managers' index ("PMI") of the manufacturing sector in both the developed and developing economies were disappointing. In U.S., the Manufacturing PMI number dropped to 50.1 in June 2019, the worst reading since September 2009. In China, the Manufacturing PMI dipped to 49.4 in June 2019. China's exports fell by 1.3% in June from a year earlier, according to data released by the General Administration of Customs while imports fell by 7.3% in June. The softened external demand added to the headwinds facing the Chinese economy.

Against this backdrop of a weakening economy, China's domestic demand was also under downward pressure. According to the National Bureau of Statistics of China, the growth rate of the industrial value added in the apparel industry for the first half of 2019 was 3.0%, a drop of 1.5% when compared with same period of last year while the cumulative finished cloth volume of apparel enterprises above designated size for the period fell by 1.09%.

The intimate wear industry of mainland China remains highly fragmented. The structural adjustments in respect of sales channel diversification, product quality and mix of products continue to add to the formidable challenges the industry is facing both internally and externally.



FINANCIAL REVIEW

Revenue

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

During the period, apart from the impact of weak retail industry and the sluggish performance of apparel industry in mainland China, some of the strategies adopted by the Group were found not suitable during the implementation stage, and the execution capabilities of management were also not satisfactory. As such, the revenue of the Group declined accordingly.

Revenue by sales channel

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

| | Six months ended 30 June | | | |
|--------------------------|--------------------------|--------------|------------------|--------------|
| | 2019 | | 2018 | |
| | RMB'000 | % | RMB'000 | % |
| Sales to franchisees | 1,081,587 | 48.9 | 1,261,661 | 54.0 |
| Retail sales | 711,623 | 32.2 | 774,354 | 33.1 |
| E-commerce | 323,629 | 14.7 | 302,667 | 12.9 |
| Trading of raw materials | 93,368 | 4.2 | – | – |
| Total revenue | 2,210,207 | 100.0 | 2,338,682 | 100.0 |

E-commerce sales increased by about 6.9% mainly because the Group continued to invest resources in the development of e-commerce channels.

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



Revenue by type of product

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

| | Six months ended 30 June | | | |
|--------------------------|--------------------------|--------------|------------------|--------------|
| | 2019 | | 2018 | |
| | RMB'000 | % | RMB'000 | % |
| Bras | 1,105,182 | 50.0 | 1,284,842 | 54.9 |
| Underpants | 383,861 | 17.4 | 407,865 | 17.4 |
| Sleepwear and loungewear | 302,435 | 13.7 | 302,276 | 12.9 |
| Thermal clothes | 93,235 | 4.2 | 108,529 | 4.7 |
| Trading of raw materials | 93,368 | 4.2 | – | – |
| Others (Note) | 232,126 | 10.5 | 235,170 | 10.1 |
| Total revenue | 2,210,207 | 100.0 | 2,338,682 | 100.0 |

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

Gross profit margin

During the period under review, the gross profit margin of the Group dropped to around 41.1% (first half of 2018: 43.7%). This was primarily due to the (a) higher raw material costs; and (b) decline in revenue of higher gross-profit-margin bra and thermal cloth products as a percentage of total revenue, and higher discount being offered to customers as a result of keen competition during the period.

Selling and marketing expenses

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

The rise of selling and marketing expenses by about 5.5% for the six months ended 30 June 2019 to approximately RMB733,311,000 (first half of 2018: RMB695,404,000) was primarily driven by (a) the increase in expenses as a result of the opening of larger self-managed retail stores in shopping malls; and (b) the increase in advertising and promotion activities.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, consulting service expenses, travelling expenses, depreciation and amortisation and others.

The rise of general and administrative expenses by about 8.3% for the six months ended 30 June 2019 to approximately RMB144,134,000 (first half of 2018: RMB133,050,000) was mainly attributable to the increase in number of senior management officers who were mainly recruited in second half of 2018.

Other income

Other income consists of government grants, logistic warehousing and delivery income, software usage fee income, franchise fee income and others. During the period, other income decreased by approximately 12.9% to approximately RMB30,758,000 (first half of 2018: RMB35,315,000), mainly due to the decline in government grants awarded by local governments.

Finance (expenses)/income – net

Finance (expenses)/income – net represents financial expenses on bank borrowings less interest income on short-term bank deposits and financial assets at fair value through other comprehensive income.

The finance income of approximately RMB6,737,000 (first half of 2018: RMB11,995,000) decreased mainly resulted from the drop in interest income on financial assets at fair value through other comprehensive income.

The increase in finance expense to approximately RMB12,269,000 (first half of 2018: RMB5,517,000) was in line with the increase in bank borrowings.



Income tax credit/(expenses)

Income tax credit/(expenses) primarily represents income tax payable by the Group under relevant income tax rules and regulations of the People’s Republic of China (the “PRC”).

A PRC subsidiary of the Company submitted an application to relevant government authorities for being designated as a High and New Technology Enterprises (“HNTE”) for the year ended 31 December 2018, and the years ending 31 December 2019 and 2020. This subsidiary obtained approval from relevant government authorities as HNTE in April 2019 and is entitled to a preferential income tax rate of 15% instead of the normal standard tax rate of 25%. Therefore, overprovision made in the year ended 31 December 2018 was written back in the period resulting in an income tax credit.

As at 30 June 2019, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

| | Six months ended 30 June 2019 | Year ended 31 December 2018 |
|---|----------------------------------|--------------------------------|
| Average inventory turnover days | 169.9 days | 139.8 days |
| Average trade receivables turnover days | 65.5 days | 49.4 days |
| Average trade payables turnover days | 93.5 days | 79.5 days |

The increase in inventory balance to approximately RMB1,294,720,000 (31 December 2018: RMB1,164,933,000), and the increase in the average inventory turnover days to 169.9 days (31 December 2018: 139.8 days) were mainly attributable to the unsatisfactory sales performance during the period and the purchase of more new products designed by new designers before the end of June 2019.

The average trade receivables turnover days increased to about 65.5 days (31 December 2018: 49.4 days) as a result of granting one-off credit periods to selected large franchisees for encouraging them to open large size stores and shopping mall stores. Up to 15 August 2019, around 44% of the trade receivables balance has been received.



Average trade payables turnover days increased from about 79.5 days for the year ended 31 December 2018 to about 93.5 days for the six months ended 30 June 2019 because of increased bargaining power against the OEM suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 30 June 2019, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB896,216,000 (31 December 2018: RMB1,506,018,000) and bank borrowings amounted to approximately RMB307,412,000 (31 December 2018: RMB183,960,000). As at 30 June 2019, the current ratio was about 3.6 times (31 December 2018: 3.2 times).

As at 30 June 2019, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 7.9% (31 December 2018: 4.5%). The gross gearing ratio increased as a result of increase in bank borrowings. The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less term deposits, restricted bank deposits and cash and cash equivalents as a percentage of the total shareholders' equity, was approximately negative 15.1% (31 December 2018: negative 32.5%) as the Group was at a net cash position.

On 15 August 2019, the amount of bank balances was over RMB1 billion upon settlement of certain trade receivables and other receivables.

FOREIGN CURRENCY RISK

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

APPOINTMENT OF PROFESSIONAL CONSULTANTS

There were shortcomings when implementing the strategies adopted by the Group in the last two years. As such, the Group has:

- (a) Engaged Boston Consulting Group, a global leading consulting firm, in August 2019 on a long-term basis to assist the Group to fix the issues on overall operation strategies, major brand operation models, implementation of strategies and prioritization of various measures, inventory management, optimization of management hierarchy and determining short, medium and long-term strategies; and
- (b) Engaged Shanghai oIBP SCM Co., Ltd., a reputable China consulting firm, in July 2019 to make scientific, systematic and data-based reforms in product merchandising management, including establishing a blueprint for the product merchandising management system, establishing a platform to collect, process and analyse data, designing product merchandising business plan, and predicting and monitoring performance for quick response.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK\$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 30 June 2019, utilized approximately RMB682,972,000 (equivalent to approximately HK\$777,935,000) to expand and maintain retail network of its self-managed retail stores, approximately RMB198,199,000 (equivalent to approximately HK\$225,757,000) and RMB120,308,000 (equivalent to approximately HK\$137,037,000) to construct and operate the logistics centres in Tianjin and Dongguan respectively and approximately RMB38,411,000 (equivalent to approximately HK\$43,752,000) to upgrade information technology infrastructure. As at 30 June 2019, net proceeds not yet utilized were deposited with certain licensed banks.

USE OF PROCEEDS FOR FUNDS RAISED

Fosun Subscription

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

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

Up to 30 June 2019, no suitable mergers, acquisitions or cooperation opportunities have been identified. The Company has utilized part of the net proceeds in the following manner: (a) as to approximately RMB308,692,000 (equivalent to approximately HK\$360,351,000) for the payment of dividends; (b) as to approximately RMB42,625,000 (equivalent to approximately HK\$49,681,000) for financing on-market share repurchases by the Company; (c) as to approximately RMB24,683,000 (equivalent to approximately HK\$28,875,000) for business development in Hong Kong and overseas business; and (d) as to approximately RMB12,723,000 (equivalent to approximately HK\$15,020,000) for administrative costs incurred in Hong Kong. The Company considers that the intended and actual uses of proceeds from the Fosun Subscription are in line with each other, given that the actual uses of proceeds are all in the nature of working capital expenditure.

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

Windcreek Subscription

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

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

Up to 30 June 2019, no suitable mergers, acquisitions or cooperation opportunities have been identified. The net proceeds from the Windcreek Subscription of approximately RMB415,119,000 (equivalent to approximately HK\$509,000,000) has been deposited with certain licensed banks. The Company will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the period, capital expenditure on property, plant and equipment and intangibles assets amounted to approximately RMB40,677,000 (first half of 2018: RMB27,907,000), which was mainly used for construction of the new office of the Group.



PLEDGE OF ASSETS

At 30 June 2019, certain property, plant and equipment, and land use rights were pledged as securities for obtaining banking borrowings of approximately RMB157,100,000 (31 December 2018: nil).

CONTINGENT LIABILITIES

At 30 June 2019, the Group did not have any significant contingent liabilities.

DISTRIBUTION NETWORK ACROSS CHINA

As the leader of the China's intimate wear industry, the Group has an extensive distribution network across China. As at 30 June 2019, the Group's distribution network comprised 6,562 retail stores (31 December 2018: 7,305), out of which 1,269 (31 December 2018: 1,406) were self-managed retail stores and 5,293 (31 December 2018: 5,899) were franchised retail stores. During the period, the Group has renovated 113 self-managed retail stores and 246 franchised retail stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 4,760 full-time employees as at 30 June 2019 (31 December 2018: 4,540). The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's operating result as well as individual performance.

ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieving environmental sustainability through its daily operations and is in compliance with regulations including the "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of local governments. The Group has also attained ISO14001 Environment Management Systems. A corporate social responsibility report for the Group has been issued in accordance with the Environmental, Social and Governance reporting guide of the Stock Exchange and included in the 2018 annual report. A similar report will be included in the 2019 annual report which will be issued in next year.



OUTLOOK AND STRATEGY

Looking ahead to the second half of 2019, in the face of the challenging business environment, the Group has taken or will take the following actions:

1. Optimizing management team
 - (a) Appointment of a new chief executive officer with extensive experience in apparel retail industry, leading the Group to reform, improve operation and internal management; and
 - (b) Appointment of a new sales head and going to appoint a new marketing head and a new brand management head in the near future helping the Group to promote its brands and new products.
2. Engaging Boston Consulting Group and Shanghai oIBP SCM Co., Ltd. to assist in the reforms and transformation of the Group.
3. Enhancing product design and quality of products, and reforming supply chain management
 - (a) Increasing input on research and development of new raw materials and products;
 - (b) Entering into strategic investment agreements with 16 quality intimate wear product and material suppliers to strengthen supply chain management, shorten development and manufacturing cycle of new products and improve the Group's quick response capability. Together with the strategic agreements entered into in 2018, the Group has strategic corporation with 27 suppliers;
 - (c) Launching the new products designed by French designers, Nathalie Sokierka and Emeline Duval, and reputable China designer Fan Yan Yan to the market in the second half of this year;
 - (d) Apart from the new designers' products, rolling out 4F style products ("Flirt", "Free", "Function" and "Fun") in order to enhance product competitiveness and speed up product iteration; and
 - (e) Investing fund in enhancing product quality controls, with the standards of certain testings (e.g. poisonous chemicals and cancer-causing materials) even higher than those set by China government.





4. Promoting brand image

- (a) Engaging Ms. Guan Xiaotong as new celebrity endorser in view of her young, energetic, sexy and positive image which matches the style of the Group's new products; and
- (b) Stepping up investments in advertising and promotion activities.

5. Improving retail and distribution channels

- (a) Entering into shopping malls by using new image proactively;
- (b) Developing business in 4th and 5th tier areas;
- (c) Using the Tencent mini App for breaking down the boundaries between online and offline marketing, strengthening interaction with members and realizing omni-channel marketing; and
- (d) Investing in e-commerce channel continuously.

The Group still needs time to undergo reforms and transformation. Management believes that on adoption of the above measures and changing our strategies appropriately, the operating results of the Group will be improved in the future.

Report on Review of Interim Financial Information



羅兵咸永道

TO THE BOARD OF DIRECTORS OF COSMO LADY (CHINA) HOLDINGS COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 47, which comprises the interim condensed consolidated balance sheet of Cosmo Lady (China) Holdings Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2019 and the interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | Note | Six months ended 30 June | |
|--|------|------------------------------|------------------------------|
| | | 2019 Unaudited RMB'000 | 2018 Unaudited RMB'000 |
| Revenue | 6 | 2,210,207 | 2,338,682 |
| Cost of sales | 8 | (1,302,689) | (1,316,840) |
| Gross profit | | 907,518 | 1,021,842 |
| Selling and marketing expenses | 8 | (733,311) | (695,404) |
| General and administrative expenses | 8 | (144,134) | (133,050) |
| Net impairment losses on financial assets | | (7,011) | (315) |
| Other income | 7 | 30,758 | 35,315 |
| Other (losses)/gains – net | 7 | (10,815) | 4,813 |
| Operating profit | | 43,005 | 233,201 |
| Finance income | 9 | 6,737 | 11,995 |
| Finance expenses | 9 | (12,269) | (5,517) |
| Finance (expenses)/income – net | | (5,532) | 6,478 |
| Share of loss of equity investments | 14 | (5,443) | (1,623) |
| Profit before income tax | | 32,030 | 238,056 |
| Income tax credit/(expense) | 10 | 7,680 | (63,227) |
| Profit for the period | | 39,710 | 174,829 |
| Other comprehensive income for the period <i>(Item that may be reclassified subsequently to profit or loss)</i> | | | |
| Exchange differences | | (776) | 15,657 |
| Total comprehensive income for the period | | 38,934 | 190,486 |
| Profit attributable to: | | | |
| Owners of the Company | | 35,466 | 175,121 |
| Non-controlling interests | | 4,244 | (292) |
| | | 39,710 | 174,829 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 34,690 | 190,778 |
| Non-controlling interests | | 4,244 | (292) |
| | | 38,934 | 190,486 |
| Earnings per share attributable to owners of the Company during the period | 11 | RMB cents | RMB cents |
| Basic earnings per share | | 1.57 | 8.11 |
| Diluted earnings per share | | 1.57 | 8.07 |

The notes on pages 21 to 47 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet

| | <i>Note</i> | As at 30 June 2019 Unaudited RMB'000 | As at 31 December 2018 Audited RMB'000 |
|---|-------------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 556,974 | 564,357 |
| Land use rights | 13 | – | 85,231 |
| Right-of-use assets | 13 | 200,127 | – |
| Intangible assets | 13 | 44,017 | 44,972 |
| Investment in joint ventures | 14 | 275,347 | 165,405 |
| Investment in an associate | 14 | – | 385 |
| Financial assets at fair value through profit or loss | 15 | 95,996 | 106,000 |
| Financial assets at fair value through other comprehensive income | 16 | 63,860 | 60,494 |
| Deposits, prepayments and other receivables | 17 | 65,247 | 14,417 |
| Deferred income tax assets | 18 | 87,259 | 79,983 |
| | | 1,388,827 | 1,121,244 |
| Current assets | | | |
| Inventories | | 1,294,720 | 1,164,933 |
| Trade receivables | 19 | 783,653 | 825,627 |
| Deposits, prepayments and other receivables | 17 | 931,462 | 790,493 |
| Financial assets at fair value through profit or loss | 15 | 6,887 | 7,885 |
| Term deposits and restricted bank deposits | 20 | 420 | 9,855 |
| Cash and cash equivalents | 20 | 895,796 | 1,496,163 |
| | | 3,912,938 | 4,294,956 |
| Total assets | | 5,301,765 | 5,416,200 |

| | <i>Note</i> | As at 30 June 2019 Unaudited RMB'000 | As at 31 December 2018 Audited RMB'000 |
|---|-------------|--|--|
| EQUITY | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 21 | 140,312 | 140,755 |
| Share premium | 21 | 1,656,669 | 1,866,386 |
| Other reserves | 22 | 415,695 | 416,471 |
| Retained earnings | | 1,659,403 | 1,623,937 |
| | | 3,872,079 | 4,047,549 |
| Non-controlling interests | | 20,585 | 15,056 |
| Total equity | | 3,892,664 | 4,062,605 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables | 24 | 642,709 | 711,105 |
| Accruals and other payables | | 225,333 | 283,790 |
| Contract liabilities | 6 | 77,597 | 85,763 |
| Current income tax liabilities | | 22,230 | 72,285 |
| Borrowings | 25 | 55,632 | 183,960 |
| Lease liabilities | | 68,069 | – |
| Deferred income | | 2,598 | 2,958 |
| | | 1,094,168 | 1,339,861 |
| Non-current liabilities | | | |
| Borrowings | 25 | 251,780 | – |
| Lease liabilities | | 50,628 | – |
| Deferred income tax liabilities | 18 | 1,156 | 1,247 |
| Deferred income | | 11,369 | 12,487 |
| | | 314,933 | 13,734 |
| Total liabilities | | 1,409,101 | 1,353,595 |
| Total equity and liabilities | | 5,301,765 | 5,416,200 |

The notes on pages 21 to 47 form an integral part of this condensed consolidated interim financial information.

Zheng Yaonan
Director

Zhang Shengfeng
Director

Condensed Consolidated Statement of Changes in Equity

| | | Unaudited | | | | | | |
|------|--|---------------------------------------|----------------|-------------------|-----------|-----------|---------------------------|--------------|
| | | Attributable to owners of the Company | | | | | Non-controlling interests | Total equity |
| Note | Share capital | Share premium | Other reserves | Retained earnings | Total | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| | As at 1 January 2019 | 140,755 | 1,866,386 | 416,471 | 1,623,937 | 4,047,549 | 15,056 | 4,062,605 |
| | Comprehensive income | | | | | | | |
| | Profit for the period | - | - | - | 35,466 | 35,466 | 4,244 | 39,710 |
| | Other comprehensive income | | | | | | | |
| | Exchange differences | 22 | - | - | (776) | - | (776) | - |
| | Total comprehensive income for the period | | | | | | | |
| | | - | - | (776) | 35,466 | 34,690 | 4,244 | 38,934 |
| | Transactions with owners | | | | | | | |
| | Dividends relating to 2018 paid in June 2019 | 21 | - | (196,706) | - | - | (196,706) | - |
| | Shares bought back on-market and cancelled | 21 | (443) | (13,011) | - | - | (13,454) | - |
| | Contribution from non-controlling interests | | - | - | - | - | 1,285 | 1,285 |
| | Total transactions with owners | | | | | | | |
| | | (443) | (209,717) | - | - | (210,160) | 1,285 | (208,875) |
| | As at 30 June 2019 | 140,312 | 1,656,669 | 415,695 | 1,659,403 | 3,872,079 | 20,585 | 3,892,664 |

The notes on pages 21 to 47 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

| | Unaudited | | | | | | | |
|---|---------------------------------------|---------------|---------------|----------------|-------------------|---------------------------|--------------|-----------|
| | Attributable to owners of the Company | | | | | Non-controlling interests | Total equity | |
| | Note | Share capital | Share premium | Other reserves | Retained earnings | | | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| As at 1 January 2018 | | 133,792 | 1,603,035 | 275,445 | 1,343,841 | 3,356,113 | – | 3,356,113 |
| Comprehensive income | | | | | | | | |
| Profit for the period | | – | – | – | 175,121 | 175,121 | (292) | 174,829 |
| Other comprehensive income | | | | | | | | |
| Exchange differences | | – | – | 15,657 | – | 15,657 | – | 15,657 |
| Total comprehensive income for the period | | – | – | 15,657 | 175,121 | 190,778 | (292) | 190,486 |
| Transactions with owners | | | | | | | | |
| Proceeds from shares issued | 21 | 7,756 | 407,363 | – | – | 415,119 | – | 415,119 |
| Dividends relating to 2017 paid in June 2018 | 21 | – | (61,783) | – | – | (61,783) | – | (61,783) |
| Shares bought back on-market and cancelled | 21 | (354) | (11,586) | – | – | (11,940) | – | (11,940) |
| Equity-settled share-based compensation | 23(d) | – | – | 11,348 | – | 11,348 | – | 11,348 |
| Shares purchased for share award scheme | 22 | – | – | (1,121) | – | (1,121) | – | (1,121) |
| Non-controlling interests on setting up of subsidiaries | | – | – | – | – | – | 9,000 | 9,000 |
| Total transactions with owners | | 7,402 | 333,994 | 10,227 | – | 351,623 | 9,000 | 360,623 |
| As at 30 June 2018 | | 141,194 | 1,937,029 | 301,329 | 1,518,962 | 3,898,514 | 8,708 | 3,907,222 |

The notes on pages 21 to 47 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Cash Flows

| | Note | Six months ended 30 June | |
|---|------|------------------------------|------------------------------|
| | | 2019 Unaudited RMB'000 | 2018 Unaudited RMB'000 |
| Cash flows from operating activities | | | |
| Cash (used in)/generated from operations | 26 | (211,828) | 80,868 |
| Income tax paid | | (49,742) | (65,770) |
| Net cash (used in)/generated from operating activities | | (261,570) | 15,098 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 271 | 352 |
| Interest received | | 6,844 | 13,880 |
| Purchases of property, plant and equipment | | (101,168) | (42,498) |
| Purchases of intangible assets | | (3,535) | (2,871) |
| Term deposits with initial term of over three months | | 210 | 100,210 |
| Capital contribution to joint ventures | | (115,000) | (3,000) |
| Repayment from a related party | | – | 2,700 |
| Net cash (used in)/generated from investing activities | | (212,378) | 68,773 |
| Cash flows from financing activities | | | |
| Proceeds from shares issued | 21 | – | 415,119 |
| Capital injections from non-controlling interests | | 1,285 | 9,000 |
| Proceeds from borrowings | | 309,812 | – |
| Repayment of borrowings | | (186,360) | (34,110) |
| Dividends paid | | (196,706) | (61,783) |
| Interest paid for borrowings | | (8,953) | (5,517) |
| Purchase of the Company's shares for share award scheme | | – | (1,121) |
| Release of restricted bank deposits | | 9,225 | – |
| Principal elements of lease payments | | (36,752) | – |
| Payment for repurchase of the Company's shares | | (13,454) | (11,940) |
| Net cash (used in)/generated from financing activities | | (121,903) | 309,648 |
| Net (decrease)/increase in cash and cash equivalents | | (595,851) | 393,519 |
| Cash and cash equivalents at beginning of the period | | 1,496,163 | 1,405,285 |
| Effect of foreign exchange rate changes | | (4,516) | 15,834 |
| Cash and cash equivalents at end of the period | 20 | 895,796 | 1,814,638 |

The notes on pages 21 to 47 form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2019

1 GENERAL INFORMATION

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2019 ("Interim Financial Information") is presented in Renminbi ("RMB"), unless otherwise stated. The Interim Financial Information is unaudited but has been reviewed by the audit committee of the Company and approved for issue by the Company's board of directors on 29 August 2019.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting" and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2018. Refer to Note 3.1 for new accounting standards and accounting changes.

The accounting policies used in the preparation of the Interim Financial Information are consistent with those adopted in the consolidated financial statements of the Group for the year ended 31 December 2018, except as mentioned below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standard:

| | |
|---------|--------|
| IFRS 16 | Leases |
|---------|--------|

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 NEW ACCOUNTING STANDARD AND ACCOUNTING CHANGES

This note explains the impact of the adoption of IFRS 16 “Leases” (“IFRS 16”) on the Group’s financial statements and also discloses the new accounting policies that have been applied from 1 January 2019 in Note 3.2 below.

The Group has adopted IFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

3.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

| | 2019 RMB'000 |
|---|-----------------|
| Operating lease commitments disclosed as at 31 December 2018 | 168,155 |
| Discounted using the lessee’s incremental borrowing rate at the date of initial application | 153,269 |
| (Less): short-term leases recognised on a straight-line basis as expense | (1,046) |
| (Less): low-value leases recognised on a straight-line basis as expense | (91) |
| Lease liability recognised as at 1 January 2019 | 152,132 |
| Of which are: | |
| Current lease liabilities | 69,656 |
| Non-current lease liabilities | 82,476 |
| | 152,132 |

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The land use rights are reclassified to right-of-use assets as of 30 June 2019.

3 NEW ACCOUNTING STANDARD AND ACCOUNTING CHANGES (Continued)

3.1 Adjustments recognised on adoption of IFRS 16 (Continued)

The recognised right-of-use assets relate to the following types of assets:

| | 30 June 2019 RMB'000 | 1 January 2019 RMB'000 |
|----------------------------------|-------------------------|---------------------------|
| Properties | 115,936 | 154,606 |
| Land use rights | 84,191 | 85,231 |
| Total right-of-use assets | 200,127 | 239,837 |

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

| | 31 December 2018 As originally presented RMB'000 | IFRS 16 RMB'000 | 1 January 2019 Restated RMB'000 |
|---------------------|--|--------------------|---------------------------------------|
| Right-of-use assets | – | 239,837 | 239,837 |
| Prepayments | 2,474 | (2,474) | – |
| Lease liabilities | – | 152,132 | 152,132 |
| Land use right | 85,231 | (85,231) | – |

3.1.1 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

3 NEW ACCOUNTING STANDARD AND ACCOUNTING CHANGES (Continued)

3.2 The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets consist of properties and land use rights.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

The Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2018.

There have been no changes in any risk management policies since 31 December 2018.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on basis of the net gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and cash equivalents, term deposits and restricted bank deposits. The amount of total equity has been disclosed in the condensed consolidated balance sheet.

As at 30 June 2019 and 31 December 2018, the Group has a net cash position and the aggregate balances of bank deposits, cash and cash equivalents and liquid investment exceeded the balance of bank loans by approximately RMB595,691,000 (2018: RMB1,329,943,000).

(c) Fair value estimation

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)**(c) Fair value estimation (Continued)**

As at 30 June 2019, except for the financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which were measured at level 3 and level 1 fair value as follows, the Group's financial instruments recognised in the condensed consolidated balance sheet are mainly receivables and financial liabilities carried at amortised cost. Analysis of level 1 and level 3 financial instruments for the six months ended 30 June 2019 are as follows:

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 (Note) | Total RMB'000 |
|---|--------------------|--------------------|------------------------------|------------------|
| Financial assets at fair value through profit or loss | 6,887 | – | 95,996 | 102,883 |
| Financial assets at fair value through other comprehensive income | – | – | 63,860 | 63,860 |
| At 30 June 2019 | 6,887 | – | 159,856 | 166,743 |
| At 31 December 2018 | 7,885 | – | 166,494 | 174,379 |

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

| | Unlisted equity securities RMB'000 |
|----------------------------------|--|
| Closing balance 31 December 2018 | 166,494 |
| Additions | 3,366 |
| Devaluation | (10,004) |
| Closing balance 30 June 2019 | 159,856 |

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (Continued)

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

5 SEGMENT INFORMATION

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

The Group is principally engaged in the designing, marketing and selling of intimate wear products. Substantially all of its revenue are derived in the PRC for the six months ended 30 June 2019 and 30 June 2018.

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue for the six months ended 30 June 2019 (2018: None).

6 REVENUE

| | Six months ended 30 June | |
|--|-------------------------------------|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Sales to franchisees | 1,081,587 | 1,261,661 |
| Retail sales | 711,623 | 774,354 |
| E-commerce | 323,629 | 302,667 |
| Trading of raw materials | 93,368 | – |
| | 2,210,207 | 2,338,682 |
| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
| Contract liabilities related to sales to franchisees | 66,801 | 77,621 |
| Contract liabilities related to trading of raw materials | 10,796 | 8,142 |
| | 77,597 | 85,763 |

7 OTHER INCOME AND OTHER (LOSSES)/GAINS – NET

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Other income | | |
| Government grants <i>(Note)</i> | 13,461 | 21,827 |
| Logistic warehousing and delivery income | 9,672 | 5,663 |
| Software usage fee income | 549 | 1,419 |
| Franchise fee income | 469 | 773 |
| Others | 6,607 | 5,633 |
| | 30,758 | 35,315 |
| Other (losses)/gains – net | | |
| Fair value (loss)/gain of financial assets at fair value through profit or loss | (11,013) | 5,464 |
| Net foreign exchange gains | 310 | 177 |
| Loss on disposal of property, plant and equipment – net | (112) | (828) |
| | (10,815) | 4,813 |

Note:

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

8 EXPENSES BY NATURE

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Costs of inventories recognised in cost of sales | 1,268,479 | 1,269,123 |
| Operating expenses in respect of stores under cooperative arrangements (Notes (a) and (b)) | 313,798 | 232,845 |
| Employee benefit expenses (including directors' emoluments) (Note (a)) | 183,386 | 283,687 |
| Depreciation and amortisation (Note 13) | 88,342 | 41,015 |
| Marketing and promotion expenses | 74,669 | 57,486 |
| E-commerce platforms commission expenses | 41,411 | 41,534 |
| Logistic warehousing and delivery expenses | 34,149 | 20,267 |
| Travelling expenses | 25,615 | 16,892 |
| Other operating rental expenses | 22,812 | 13,858 |
| Utilities expenses | 14,879 | 15,621 |
| Consumables recognised in expenses | 12,676 | 14,989 |
| Government charges and levies | 11,934 | 19,779 |
| Write-down of inventories | 11,066 | 22,331 |
| Consulting service expenses | 7,346 | 14,752 |
| Auditor's remuneration | 1,690 | 1,690 |
| Miscellaneous | 67,882 | 79,425 |
| Total cost of sales, selling and marketing expenses and general and administrative expenses | 2,180,134 | 2,145,294 |

Notes:

- (a) For certain self-managed stores, the Group has entered into new cooperative arrangements with third party business partners since September 2018, such that these business partners bear the operating lease rentals and the staff costs of the stores (for the six months ended 30 June 2018: only bore lease rentals) while the Group pays each of them an amount of money based on the revenue of the respective store.
- (b) Revenue in respect of the retail outlets under cooperative arrangements with minimum commitment amounted to RMB682,559,000 for the six months ended 30 June 2019 (2018: RMB742,907,000).

9 FINANCE INCOME AND EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Finance income | | |
| Interest income on financial assets at fair value through other comprehensive income | – | 3,480 |
| Interest income on loan to third parties | 770 | 2,182 |
| Interest income on short-term bank deposits | 5,967 | 6,333 |
| | 6,737 | 11,995 |
| Finance expenses | | |
| Interest expense on bank borrowings | (8,953) | (5,517) |
| Interest expense on lease liabilities | (3,316) | – |
| | (12,269) | (5,517) |
| | (5,532) | 6,478 |

10 INCOME TAX (CREDIT)/EXPENSE

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current income tax | | |
| – Hong Kong profits tax (<i>Note (a)</i>) | – | – |
| – PRC corporate income tax (<i>Note (b)</i>) | 24,885 | 72,666 |
| – Over provision in prior year (<i>Note (d)</i>) | (25,198) | – |
| | (313) | 72,666 |
| Deferred income tax (<i>Note 18</i>) | | |
| – Deferred income tax current period | (9,978) | (9,439) |
| – Over provision in prior year (<i>Note (d)</i>) | 2,611 | – |
| | (7,367) | (9,439) |
| Income tax (credit)/expense | (7,680) | 63,227 |

10 INCOME TAX (CREDIT)/EXPENSE (Continued)

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% for the period (2018: 16.5%).

(b) PRC corporate income tax

The Company's subsidiary, Cosmo Lady Guangdong Holdings Limited ("Cosmo Lady Guangdong") was given the preferential corporate income tax at 15% under the High and New Technology Enterprises in April 2019, which is effective for 3 years from 2018 to 2020. The Group's other subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the six months ended 30 June 2019 (2018: 25%) on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

(c) Overseas income tax

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

(d) Over provision in prior year

Pursuant to the PRC Corporate Income Tax Law (the "CIT Law"), the CIT rate is 25%. In addition, the CIT Law provides, among others, a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTE"). During the year ended 31 December 2018, Cosmo Lady Guangdong submitted an application to the relevant government authorities for being designated as a HNTE for financial year from 2018 to 2020. In April 2019, Cosmo Lady Guangdong obtained the approval from the relevant government authorities as HNTE and was given the preferential CIT rate at 15% for financial year from 2018 to 2020. The over-provision represents the difference between 15% and 25% which was the then corporate tax rate used in 2018.

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

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Profit before income tax | 32,030 | 238,056 |
| Tax calculated at statutory tax rates applicable to each group entity (<i>Note (d)</i>) | 7,814 | 58,177 |
| Tax losses for which no deferred income tax asset was recognised | 40 | 103 |
| Income not subject to taxation | (222) | (3,019) |
| Expenses not deductible for tax purposes | 7,106 | 6,176 |
| Withholding tax | 169 | 1,790 |
| Over provision in prior year (<i>Note (d)</i>) | (22,587) | – |
| Income tax expense | (7,680) | 63,227 |

11 EARNINGS PER SHARE**Basic**

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

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2019 | 2018 |
| Profit for the period attributable to owners of the Company (<i>RMB '000</i>) | 35,466 | 175,121 |
| Weighted average number of ordinary shares for purposes of basic earnings per share (<i>thousands of shares</i>) | 2,252,467 | 2,158,304 |
| Basic earnings per share (<i>RMB cents per share</i>) | 1.57 | 8.11 |

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2019 has been adjusted for the repurchase and cancellation of ordinary shares of the Company during the period ended 30 June 2019.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on an assumption of conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company are share options. As the share price was lower than the exercise price of share option, there is no diluted earnings per share during the period ended 30 June 2019.

| | Six months ended 30 June | |
|---|--------------------------|-----------|
| | 2019 | 2018 |
| Profit for the period attributable to owners of the Company (<i>RMB '000</i>) | 35,466 | 175,121 |
| Weighted average number of ordinary shares for purposes of basic earnings per share (<i>thousands of shares</i>) | 2,252,467 | 2,158,304 |
| Adjustment for share options (<i>thousands of shares</i>) | – | 10,400 |
| Weighted average number of ordinary shares for purposes of diluted earnings per share (<i>thousands of shares</i>) | 2,252,467 | 2,168,704 |
| Diluted earnings per share (<i>RMB cents per share</i>) | 1.57 | 8.07 |

12 INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2019 (2018: HK\$61,763,000 (equivalent to approximately RMB54,297,000)).

13 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

| | Property, plant and equipment RMB'000 | Right-of-use assets – land use rights and properties RMB'000 | Intangible assets RMB'000 |
|--------------------------------------|---|---|------------------------------|
| Six months ended 30 June 2019 | | | |
| As at 1 January 2019 | 564,357 | 85,231 | 44,972 |
| Adoption of IFRS 16 | – | 154,606 | – |
| Additions | 38,003 | – | 2,674 |
| Disposals | (383) | – | – |
| Depreciation and amortisation | (45,003) | (39,710) | (3,629) |
| As at 30 June 2019 | 556,974 | 200,127 | 44,017 |
| Six months ended 30 June 2018 | | | |
| As at 1 January 2018 | 565,009 | 87,311 | 45,390 |
| Additions | 24,352 | – | 3,555 |
| Disposals | (1,180) | – | – |
| Depreciation and amortisation | (36,660) | (1,040) | (3,315) |
| As at 30 June 2018 | 551,521 | 86,271 | 45,630 |

14 INVESTMENT IN JOINT VENTURES AND AN ASSOCIATE

The carrying amount of equity-accounted investments has changed as follows for the six months ended 30 June 2019:

| | Six months ended 30 June | |
|------------------------------|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Beginning of the period | 165,790 | 22,407 |
| Additions | 115,000 | 3,000 |
| Share of loss for the period | (5,443) | (1,623) |
| End of the period | 275,347 | 23,784 |

14 INVESTMENT IN JOINT VENTURES AND AN ASSOCIATE (Continued)

| Name of entity | Place of business/ country of incorporation | % of ownership interest | | Nature of relationship | Measurement method | Carrying amount | |
|---|--|-----------------------------------|-----------------------------------|--------------------------|--------------------|-------------------------------------|---|
| | | As at 30 June 2019 % | As at 31 December 2018 % | | | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
| | | Guangdong Dongdu Holdings Limited | PRC | | | 19.9 | 19.9 |
| Zhong Rui Run He (Ningbo) Investment Management Company Limited | PRC | 40 | 40 | Associate (Note (b)) | Equity method | – | 385 |
| Jinghedu (Dongguan) Equity Investment Management Company Limited | PRC | 60 | 60 | Joint venture (Note (c)) | Equity method | 12,049 | 15,056 |
| Jinghedu(Dongguan) Equity Investment Fund Partnership (Limited Partnership) | PRC | 69 | 69 | Joint venture (Note (c)) | Equity method | 242,000 | 132,002 |
| Jinghedu(Dongguan) Equity Investment Management Partnership (Limited Partnership) | PRC | 30 | 30 | Joint venture (Note (c)) | Equity method | 3,000 | – |

Notes:

- (a) Guangdong Dongdu Holdings Limited is primarily engaged in developing an industrial centre in Shaoguan, Guangdong Province.
- (b) Zhong Rui Run He (Ningbo) Investment Management Company Limited is primarily engaged in investments and assets management.
- (c) Jinghedu (Dongguan) Equity Investment Management Company Limited, Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) and Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership) are primarily engaged in assets management and equity investment fund. According to the investment agreement of Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership), total investment of the Group is RMB242,000,000. As at 30 June 2019, total amount of RMB242,000,000 has been paid by the Group.

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|---|-------------------------------------|---|
| Current asset | | |
| Japan listed equity security (<i>Note (a)</i>) | 6,887 | 7,885 |
| Non-current asset | | |
| Entrusted investment (<i>Notes (a) and (b)</i>) | 95,996 | 106,000 |
| | 102,883 | 113,885 |

Notes:

(a) Amount recognised in profit or loss

Changes in fair value of financial assets at fair value through profit or loss are recorded in other (losses)/gains in profit or loss (2019: losses of RMB11,013,000; 2018: gains of RMB5,464,000).

(b) The Group invested in an unlisted company through a third party investment management company.**(c) Risk exposure and fair value measurements**

For information about the methods and assumptions used in determining fair value, please refer to Note 4(c).

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments at fair value through other comprehensive income include the following:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-----------------------------|-------------------------------------|---|
| Unlisted equity investments | 63,860 | 60,494 |

17 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--|-------------------------------------|---|
| Prepayments for acquisition of property, plant and equipment and intangible assets | 56,456 | 5,043 |
| Value added tax recoverable | 172,887 | 157,705 |
| Prepayments and deposits | 22,234 | 11,715 |
| Prepaid expenses in respect of stores under cooperative arrangements | 293,031 | 302,576 |
| Prepayments for purchase of goods | 182,325 | 142,056 |
| Prepayments for purchase of raw materials | 90,371 | 67,766 |
| Other receivables from agents | 104,456 | 58,292 |
| Other receivables from staffs | 17,196 | 19,404 |
| Others | 57,753 | 40,353 |
| | 996,709 | 804,910 |
| Less: non-current portion | (65,247) | (14,417) |
| Current portion | 931,462 | 790,493 |

As at 30 June 2019, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

18 DEFERRED INCOME TAX

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

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

| | Write-down of inventories RMB'000 | Provision for trade receivables RMB'000 | Provision for sales return RMB'000 | Deferred income RMB'000 | Amortization of right- of-use assets RMB'000 | Tax losses carried forward RMB'000 | Accrued interest RMB'000 | Total RMB'000 |
|--|---|--|--|-------------------------------|---|---|--------------------------------|------------------|
| At 1 January 2019 | 15,957 | 1,114 | 775 | 3,861 | - | 36,553 | 21,723 | 79,983 |
| Credited/(charged) to the profit or loss (Note 10) | (5,812) | 2,029 | (775) | (741) | 1,309 | 17,269 | (6,003) | 7,276 |
| At 30 June 2019 | 10,145 | 3,143 | - | 3,120 | 1,309 | 53,822 | 15,720 | 87,259 |
| At 1 January 2018 | 16,025 | 611 | 605 | 4,601 | - | 20,690 | 12,698 | 55,230 |
| Credited/(charged) to the profit or loss (Note 10) | 925 | 69 | (605) | (370) | - | 4,856 | 4,475 | 9,350 |
| At 30 June 2018 | 16,950 | 680 | - | 4,231 | - | 25,546 | 17,173 | 64,580 |

18 DEFERRED INCOME TAX (Continued)

As at 30 June 2019, majority of the Group's deferred income tax assets are expected to be recovered within 12 months.

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

| | Fair value of intangible assets | |
|---|---------------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| At 1 January | 1,247 | 1,424 |
| Credited to the profit or loss (<i>Note 10</i>) | (91) | (89) |
| At 30 June | 1,156 | 1,335 |

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

As at 30 June 2019, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,677,359,000 (31 December 2018: RMB1,649,577,000). Deferred tax liabilities of RMB167,736,000 (31 December 2018: RMB164,958,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

19 TRADE RECEIVABLES

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--------------------------------|-------------------------------------|---|
| Due from third parties | 795,438 | 830,401 |
| Less: provision for impairment | (11,785) | (4,774) |
| Trade receivables – net | 783,653 | 825,627 |

- (a) As at 30 June 2019, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.
- (b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days and 180 to 360 days from the invoice date for seasonal products and first order of products for new outlets, respectively. In addition, the Group also gives an additional credit period of 180 to 360 days to certain franchise customers.

19 TRADE RECEIVABLES (Continued)

(c) The aging analysis of trade receivables based on invoice date, as at 30 June 2019, and 31 December 2018 is as follows:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-------------------------------------|-------------------------------------|---|
| Trade receivables, gross | | |
| – Within 30 days | 289,070 | 401,470 |
| – Over 30 days and within 60 days | 74,823 | 113,493 |
| – Over 60 days and within 90 days | 96,393 | 155,705 |
| – Over 90 days and within 180 days | 115,963 | 107,243 |
| – Over 180 days and within 360 days | 189,827 | 33,291 |
| – Over 360 days | 29,362 | 19,199 |
| | 795,438 | 830,401 |

20 BANK BALANCES AND CASH

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--|-------------------------------------|---|
| Cash and cash equivalents | 895,796 | 1,496,163 |
| Term deposits with initial term of over three months (<i>Note (a)</i>) | 420 | 630 |
| Restricted bank deposits (<i>Note (b)</i>) | – | 9,225 |
| | 896,216 | 1,506,018 |
| Total bank balances and cash | 896,216 | 1,506,018 |
| Denominated in: | | |
| RMB | 566,226 | 856,911 |
| HK\$ | 173,575 | 496,136 |
| Other currencies | 156,415 | 152,971 |
| | 896,216 | 1,506,018 |

Notes:

- (a) As at 30 June 2019, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 2.80% (2018: 2.80%) per annum.
- (b) As at 30 June 2019, restricted bank deposits has been released as the final payment has been paid off by 30 June 2019 for certain property, plant and equipment.
- (c) The conversion of the RMB denominated balances maintained in the PRC into foreign currencies and remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21 SHARE CAPITAL AND SHARE PREMIUM

| | Number of ordinary shares | Share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|--|---------------------------------|-----------------------------|-----------------------------|------------------|
| As at 1 January 2019 | 2,256,234,213 | 140,755 | 1,866,386 | 2,007,141 |
| Shares bought back on-market and cancelled (<i>Note (a)</i>) | (6,777,000) | (443) | (13,011) | (13,454) |
| Dividends | – | – | (196,706) | (196,706) |
| As at 30 June 2019 | 2,249,457,213 | 140,312 | 1,656,669 | 1,796,981 |
| As at 1 January 2018 | 2,146,457,000 | 133,792 | 1,603,035 | 1,736,827 |
| Proceeds from shares issued (<i>Note (b)</i>) | 121,443,213 | 7,756 | 407,363 | 415,119 |
| Shares bought back on-market and cancelled | (5,505,000) | (354) | (11,586) | (11,940) |
| Dividends | – | – | (61,783) | (61,783) |
| As at 30 June 2018 | 2,262,395,213 | 141,194 | 1,937,029 | 2,078,223 |

Notes:

- (a) 210,000 shares were purchased in late 2018 and cancelled in early 2019.
- (b) Pursuant to an agreement dated 26 April 2018 entered into among the Company, Windcreek Limited, Image Frame Investment (HK) Limited, Vipshop International Holdings Limited and Quick Returns Global Limited, the Company allotted and issued 121,443,213 shares at the price of HK\$4.2 per share on 25 May 2018.

22 OTHER RESERVES

| | Merger reserve | Shares held for share award scheme | Statutory reserve | Capital reserve | Contribution reserve | Equity-settled share-based compensation reserve | Exchange reserve | Total other reserves |
|---|-------------------|--|----------------------|--------------------|-------------------------|--|---------------------|-------------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note (a)) | (Note (d)) | (Note (b)) | (Note (c)) | | (Note 23) | | |
| At 1 January 2019 | (8,938) | (20,658) | 196,356 | 196,764 | 23,377 | 10,248 | 19,322 | 416,471 |
| Currency translation differences | - | - | - | - | - | - | (776) | (776) |
| At 30 June 2019 | (8,938) | (20,658) | 196,356 | 196,764 | 23,377 | 10,248 | 18,546 | 415,695 |
| At 1 January 2018 | (8,938) | (19,537) | 98,223 | 192,790 | 23,377 | 4,641 | (15,111) | 275,445 |
| Equity-settled share-based compensation | | | | | | | | |
| – Value of employee services | - | - | - | - | - | 11,348 | - | 11,348 |
| Shares purchased for share award scheme | - | (1,121) | - | - | - | - | - | (1,121) |
| Currency translation differences | - | - | - | - | - | - | 15,657 | 15,657 |
| At 30 June 2018 | (8,938) | (20,658) | 98,223 | 192,790 | 23,377 | 15,989 | 546 | 301,329 |

Notes:

(a) Merger reserve

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

(b) Statutory reserve

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

(c) Capital reserve

Capital reserve represented the excess of the cash consideration over the paid-in capital arising from capital contributions to Cosmo Lady Guangdong by investors.

On 29 July 2013, Cosmo Lady Guangdong was converted into a joint stock company with limited liability by converting the total equity as at 31 December 2012 into 420,000,000 ordinary shares of nominal value of RMB1.00 each. The excess of total equity of Cosmo Lady Guangdong over the nominal value of total issued share capital of RMB196,764,000 had been recognised as capital reserve in the consolidated balance sheet.

22 OTHER RESERVES (Continued)

Notes: (Continued)

(d) Shares held for share award scheme

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

During the period ended 30 June 2018, the Share Scheme Trustee acquired and withheld 500,000 ordinary shares of the Company from the open market with funds provided by the Company by way of contributions, for an aggregate consideration of approximately HK\$1,356,000 (equivalent to approximately RMB1,121,000), which had been deducted from shareholders' equity.

23 EQUITY-SETTLED SHARE-BASED COMPENSATION

(a) Pre-IPO Share Award Scheme

Great Ray Investment Holdings Limited ("Great Ray"), a company incorporated in the BVI and set up by the shareholders of the Company for the benefits of the Group's employees, holds certain ordinary shares of the Company, and operates a Pre-IPO Share Award Scheme (the "Pre-IPO Share Award Scheme") in exchange for employee services to the Group.

There is no ordinary shares of the Company granted under the Pre-IPO Share Award Scheme during the six months ended 30 June 2019 and 2018.

As the Company received the benefits associated with the services of the eligible employees, the fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the fair value of the equity instruments granted less the subscription cost of the instruments, and amortised over the different vesting periods of each grant with a credit recognised in equity as the equity-settled share-based compensation reserve.

(b) 2016 Share Award Scheme

The Board of Directors approved the adoption of the 2016 Share Award Scheme on 17 August 2016. The purpose of the 2016 Share Award Scheme is to recognize and motivate the contribution of certain members of management of the Group and to provide incentives and help the Group in retaining its existing members of management and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. The vesting period of the awarded shares is determined by the Board. No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 30 June 2019.

(c) 2019 Share Award Scheme

The Board of Directors approved the adoption of the 2019 Share Award Scheme on 28 June 2019. The purpose of the 2019 Share Award Scheme is to motivate certain members of management of the Group and to help the Group in retaining its existing members of management and attracting new talents to join the Group. The vesting period of the awarded shares is determined by the Board. The 2019 Share Award Scheme serves to replace the employee option plan as mentioned in Note 23(d). No awards have been granted under the 2019 Share Award Scheme by the Group since its adoption and up to 30 June 2019.

23 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)**(d) Employee Option Plan**

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

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

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

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

| | 2019 | | 2018 | |
|-----------------------------------|---|-------------------|---|-------------------|
| | Average exercise price per share option | Number of options | Average exercise price per share option | Number of options |
| As at 1 January | – | 55,300,000 | – | 75,000,000 |
| Forfeited | HK\$3.288 | (6,800,000) | HK\$3.288 | (12,700,000) |
| As at 30 June | HK\$3.288 | 48,500,000 | HK\$3.288 | 62,300,000 |
| Vested and exercisable at 30 June | – | – | – | – |

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

| Grant Date | Expiry date | Exercise price | Share options 2019 | Share options 2018 |
|-----------------|-----------------|----------------|--------------------|--------------------|
| 31 October 2017 | 30 October 2027 | HK\$3.288 | 48,500,000 | 62,300,000 |

23 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)**(e) Expenses arising from share-based payment transactions**

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

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| General and administrative expenses: | | |
| Options issued under employee option plan | – | 6,878 |
| Pre-IPO Share Award Scheme | – | – |
| Selling and marketing expenses: | | |
| Options issued under employee option plan | – | 4,470 |
| Pre-IPO Share Award Scheme | – | – |
| | – | 11,348 |

24 TRADE PAYABLES

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--|-------------------------------------|---|
| | Due to third parties | 640,694 |
| Due to related parties (<i>Note 28(c)</i>) | 2,015 | 7,417 |
| | 642,709 | 711,105 |

As at 30 June 2019, trade payables of the Group are denominated in RMB, non-interest bearing, and the carrying amounts approximate their fair values.

24 TRADE PAYABLES (Continued)

At 30 June 2019, the aging analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-------------------------------------|-------------------------------------|---|
| Trade payables | | |
| – Within 30 days | 92,813 | 128,260 |
| – Over 30 days and within 60 days | 121,328 | 185,045 |
| – Over 60 days and within 90 days | 102,134 | 229,615 |
| – Over 90 days and within 180 days | 235,504 | 82,371 |
| – Over 180 days and within 360 days | 43,379 | 39,235 |
| – Over 360 days | 47,551 | 46,579 |
| | 642,709 | 711,105 |

25 BORROWINGS

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-------------|-------------------------------------|---|
| Non-current | 251,780 | – |
| Current | 55,632 | 183,960 |
| | 307,412 | 183,960 |

Movements in borrowings is analysed as follows:

| | Six months ended 30 June | |
|-------------------------------|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Opening amount | 183,960 | 223,080 |
| Repayments of borrowings | (186,360) | (34,110) |
| Proceeds from bank borrowings | 309,812 | – |
| Closing amount | 307,412 | 188,970 |

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

The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the weighted average borrowing rate of 4.99% (2018: 5.30%) and are within level 2 of the fair value hierarchy.

26 NOTE TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Profit before income tax | 32,030 | 238,056 |
| Add: share of loss of equity investments | (5,443) | 1,623 |
| Adjustments for: | | |
| – Depreciation of property, plant and equipment (<i>Note 13</i>) | 45,003 | 36,660 |
| – Amortisation of right-of-use assets (<i>Note 13</i>) | 39,710 | 1,040 |
| – Amortisation of intangible assets (<i>Note 13</i>) | 3,629 | 3,315 |
| – Provision for impairment of trade receivables | 7,011 | 315 |
| – Write-down of inventories | 11,066 | 22,331 |
| – Fair value loss/(gain) on financial assets at fair value through profit or loss | 11,013 | (5,464) |
| – Finance income (<i>Note 9</i>) | (6,737) | (11,995) |
| – Finance expenses (<i>Note 9</i>) | 12,269 | 5,517 |
| – Foreign exchange gains – net | (310) | (177) |
| – Equity-settled share-based compensation | – | 11,348 |
| – Investment income on financial assets at fair value through profit or loss | (108) | – |
| – Loss on disposal of property, plant and equipment – net (<i>Note 7</i>) | 112 | 828 |
| | 149,245 | 303,397 |
| Changes in working capital: | | |
| – Trade receivables | 34,963 | (122,927) |
| – Deposits, prepayments and other receivables | (140,969) | (75,262) |
| – Inventories | (128,214) | (6,857) |
| – Financial assets at fair value through profit or loss | – | (53,000) |
| – Trade payables | (68,396) | 51,535 |
| – Accruals and other payables | (58,457) | (16,018) |
| Cash (used in)/generated from operations | (211,828) | 80,868 |

27 CAPITAL COMMITMENTS

As at 30 June 2019 the Group had the following capital commitments not provided for:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|----------------------------------|-------------------------------------|---|
| Contracted but not provided for: | | |
| Property, plant and equipment | 21,781 | 34,757 |
| Intangible assets | 2,547 | 2,417 |
| | 24,328 | 37,174 |

28 RELATED-PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business for the six months ended 30 June 2019, and balances arising from related party transactions as at reporting date.

(a) Name and relationship with related parties

| Name | Relationship with the Group |
|---|--|
| Mr. Zhang Shengfeng | Director |
| Mr. Lin Zonghong | Director |
| Shantou City Shengqiang Knitting Industrial Co., Ltd. ("Shantou Shengqiang") | Controlled by a brother of Mr. Zhang Shengfeng's spouse |
| Shantou City Maosheng Knitting Underwear Co., Ltd. ("Shantou Maosheng") | Controlled by a brother of Mr. Lin Zonghong |

(b) Transactions with related parties – Purchases of goods

| | Six months ended 30 June | |
|--------------------------|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Continuing transactions: | | |
| Shantou Shengqiang | 13,070 | 11,525 |
| Shantou Maosheng | 1,437 | 5,668 |
| | 14,507 | 17,193 |

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

28 RELATED-PARTY TRANSACTIONS (Continued)**(c) Balances with related parties**

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--------------------|-------------------------------------|---|
| Trade payables | | |
| Shantou Shengqiang | 867 | 7,417 |
| Shantou Maosheng | 1,148 | – |
| | 2,015 | 7,417 |

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

(d) Key management compensation

The remuneration of directors of the Company and other members of key management of the Group for the six months ended 30 June 2019 is as follows:

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Wages, salaries and bonuses | 4,416 | 4,063 |
| Social insurance and housing fund | 256 | 265 |
| Equity-settled share-based compensation | – | 4,208 |
| | 4,672 | 8,536 |

Other Information

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interest and short positions in the Company

| Name of directors | Nature of interest | Number of shares held ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|-------------------------------------|---|--------------------------------------|--|
| Mr. Zheng Yaonan ^{(2),(3)} | Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion | 1,193,529,678 (L) | 53.06% (L) |
| Mr. Zhang Shengfeng ⁽²⁾ | Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion | 1,193,529,678 (L) | 53.06% (L) |
| Mr. Lin Zonghong ⁽²⁾ | Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion | 1,193,529,678 (L) | 53.06% (L) |
| Mr. Cheng Zuming ⁽²⁾ | Interests held jointly with another person; interest of controlled company; founder of a discretionary trust who can influence how the trustee exercises his discretion | 1,193,529,678 (L) | 53.06% (L) |
| Ms. Wu Xiaoli ^{(2),(3)} | Interest of spouse | 1,193,529,678 (L) | 53.06% (L) |
| Mr. Wen Baoma | Personal Interests | 5,000,000 (L) | 0.22% (L) |
| Dr. Lu Hong Te | Personal Interests | 210,000 (L) | 0.01% (L) |

Notes:

- (1) The letter “L” denotes the person’s long position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,249,457,213 shares) of the Company as at 30 June 2019.
- (2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,193,529,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 53.06% of the total issued share capital in the Company.
- (3) Ms. Wu Xiaoli is the spouse of Mr. Zheng Yaonan. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zheng Yaonan is interested. Ms. Wu Xiaoli is also one of the beneficiaries of a discretionary trust, founded by Mr. Zheng Yaonan, which holds the entire issued share capital of Yao Li Investment Holdings Limited.

(ii) Interest in associated corporations of the Company

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

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, the following shareholders (other than the Directors and chief executive) were interested, directly or indirectly, in 5% or more of the number of issued shares and the underlying shares of the Company and those interests were required to be recorded in the register required to be kept under Section 336 of the SFO:

| Name | Nature of interest | Number of shares held ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|--|--|--------------------------------------|--|
| Forever Flourish International Holdings Limited ^{(2),(7)} | Interests held jointly with another person; interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Forever Shine Holdings Limited ^{(2),(3)} | Interests held jointly with another person; interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Great Brilliant Investment Holdings Limited ^{(2),(8)} | Interests held jointly with another person; interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Harmonious Composition Investment Holdings Limited ⁽²⁾ | Interests held jointly with another person; beneficial interest | 1,193,529,678 (L) | 53.06% (L) |
| Hong Ye Asset Holdings Limited ^{(3),(6)} | Interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Mountain Dragon Investment Limited ^{(2),(9)} | Interests held jointly with another person; interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Ms. Cai Jingqin ⁽⁴⁾ | Interest of spouse | 1,193,529,678 (L) | 53.06% (L) |
| Ms. Cai Shaoru ⁽⁵⁾ | Interest of spouse | 1,193,529,678 (L) | 53.06% (L) |
| TMF (Cayman) Limited ⁽⁶⁾ | Trustee | 1,193,529,678 (L) | 53.06% (L) |
| Xin Feng Asset Holdings Limited ^{(6),(7)} | Interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Yao Li Investment Holdings Limited ^{(6),(8)} | Interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Zuming Investment Holdings Limited ^{(6),(9)} | Interest of controlled company | 1,193,529,678 (L) | 53.06% (L) |
| Fosun International Holdings Limited ⁽¹⁰⁾ | Interest of controlled company | 240,000,000 (L) | 10.67% (L) |
| Fosun International Limited ⁽¹⁰⁾ | Interest of controlled company | 240,000,000 (L) | 10.67% (L) |
| Fosun Ruizhe Grace Investments Limited ⁽¹⁰⁾ | Beneficial interest | 240,000,000 (L) | 10.67% (L) |

Other Information

| Name | Nature of interest | Number of shares held ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|---|---|--------------------------------------|--|
| Guo Guangchang ⁽¹⁰⁾ | Interest of controlled company | 240,000,000 (L) | 10.67% (L) |
| Prime Capital Management Company Limited | Beneficial owner | 196,837,478 (L) | 8.75% (L) |
| Morgan Stanley ⁽¹¹⁾ | Interest of controlled company; Interests held jointly with another person | 131,855,174 (L) 32,003,130 (S) | 5.86% (L) 1.42% (S) |
| Capital Today Investment XVIII (HK) Limited ⁽¹²⁾ | Beneficial owner | 133,156,000 (L) | 5.92% (L) |
| Capital Today Investment XVIII Limited ⁽¹²⁾ | Interest of controlled company | 133,156,000 (L) | 5.92% (L) |
| Capital Today China Growth Fund, LP ⁽¹²⁾ | Interest of controlled company | 133,156,000 (L) | 5.92% (L) |
| Capital Today China Growth GenPar, LTD ⁽¹²⁾ | Interest of controlled company | 133,156,000 (L) | 5.92% (L) |
| Capital Today Partners Limited ⁽¹²⁾ | Interest of controlled company | 133,156,000 (L) | 5.92% (L) |
| Ms. Xu Xin ⁽¹²⁾ | Interest of controlled company | 133,156,000 (L) | 5.92% (L) |

Notes:

- (1) The letter “L” denotes the person’s long position in the shares and the letter “S” denotes the person’s short position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,249,457,213 shares) of the Company as at 30 June 2019.
- (2) Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Great Brilliant Investment Holdings Limited, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited, Mountain Dragon Investment Limited and Harmonious Composition Investment Holdings Limited, acting in concert, together controlled (and each of them was deemed to be interested in) 1,193,529,678 shares of the Company (of which 10,500,000 shares were issuable upon exercises of the share options granted pursuant to the share option scheme adopted by the Company on 9 June 2014), representing approximately 53.06% of the total issued share capital in the Company
- (3) Forever Shine International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Hong Ye Asset Holdings Limited. Hong Ye Asset Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.
- (4) Ms. Cai Jingqin is the spouse of Mr. Lin Zonghong. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Lin Zonghong was interested.
- (5) Ms. Cai Shaoru is the spouse of Mr. Zhang Shengfeng. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zhang Shengfeng was interested.
- (6) TMF (Cayman) Ltd. in its capacity as the trustee holds the entire issued share capital of Yao Li Investment Holdings Limited, Xin Feng Asset Holdings Limited, Hong Ye Asset Holdings Limited and Zuming Investment Holdings Limited. The four discretionary trusts are founded by Mr. Zheng Yaonan, Mr. Zhang Shengfeng, Mr. Lin Zonghong and Mr. Cheng Zuming respectively for themselves and their close relatives.

Other Information

- (7) Forever Flourish International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Xin Feng Asset Holdings Limited. Xin Feng Asset Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.
- (8) Great Brilliant Investment Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Yao Li Investment Holdings Limited. Yao Li Investment Holdings Limited is a company incorporated in the British Virgin Islands and owned by TMF (Cayman) Ltd. as the trustee.
- (9) Mountain Dragon Investment Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Zuming Investment Holdings Limited. Zuming Investment Holdings Limited is a company incorporated in the British Virgin Islands and is owned by TMF (Cayman) Ltd. as the trustee.
- (10) Pursuant to the subscription agreement entered into between the Company and Fosun Ruizhe Grace Investments Limited on 5 May 2017, Fosun Ruizhe Grace Investments Limited, an indirectly wholly-owned subsidiary of Fosun International Limited, designated by Fosun International Limited, subscribed and paid for 240,000,000 shares at the subscription price of HK\$2.50 per share, which was completed on 17 May 2017. Each of Mr. Guo Guangchang, Fosun International Holdings Limited and Fosun International Limited were deemed to be interested in the 240,000,000 shares of the Company held by Fosun Ruizhe Grace Investments Limited because Fosun Ruizhe Grace Investments Limited is an indirect wholly-owned subsidiary of Fosun International Limited. Fosun International Limited is indirectly owned as to 71.77% by Fosun International Holdings Limited, which is owned as to 64.45% by Mr. Guo Guangchang.
- (11) Morgan Stanley was deemed to have a long position in 131,855,174 shares and a short position in 32,003,130 shares in total by virtue of its control over the following corporations:
 - (a) Morgan Stanley & Co. International plc (Morgan Stanley's indirect subsidiary) had a long position in 130,201,040 shares and a short position in 32,001,949 shares.
 - (b) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 1,654,134 shares
 - (c) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a short position 1,181 shares.

In addition, the long position in 35 shares and short position in 32,003,130 shares involved cash settled derivatives (off exchange).

- (12) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing approximately 5.92% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly-owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, LP, an exempted limited partnership registered in the Cayman Islands, holds approximately 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, LP is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, approximately 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. Xu Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, LP, Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. Xu Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing approximately 5.92% of the total issued share capital of the Company.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any person (other than the Directors and chief executive) who had, directly or indirectly, interest or short positions in shares and underlying shares of the Company and those interests or short positions were required to be recorded in the register kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 9 June 2014 (the “Share Option Scheme”), there were 48,500,000 options outstanding as at 30 June 2019, which represented approximately 2.16% of the total number of issued shares of the Company as at the date of this interim report.

During the six months ended 30 June 2019, the movements of the options that have been granted under the Share Option Scheme were as follows:

| Category and name of participants | Date of grant | Exercise price per Share (HK\$) | Exercise period ¹ | Number of options | | | Balance as at 30 June 2019 | |
|-----------------------------------|-----------------|---------------------------------|------------------------------------|------------------------------|---------------------------|-----------------------------|----------------------------|--|
| | | | | Balance as at 1 January 2019 | Granted during the period | Exercised during the period | | Cancelled/ lapsed during the period ² |
| Directors | | | | | | | | |
| Mr. Zheng Yaonan | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 2,100,000 | – | – | – | 2,100,000 |
| Mr. Zhang Shengfeng | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 2,100,000 | – | – | – | 2,100,000 |
| Mr. Lin Zonghong | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 2,100,000 | – | – | – | 2,100,000 |
| Mr. Wu Xiaoli | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 2,100,000 | – | – | – | 2,100,000 |
| Ms. Cheng Zuming | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 2,100,000 | – | – | – | 2,100,000 |
| Total | | | | 10,500,000 | – | – | – | 10,500,000 |
| Employees | | | | | | | | |
| Employees of the Group | 31 October 2017 | 3.288 | 31 October 2018 to 30 October 2027 | 44,800,000 | – | – | (6,800,000) | 38,000,000 |
| Total | | | | 44,800,000 | – | – | (6,800,000) | 38,000,000 |
| Total for all categories | | | | 55,300,000 | – | – | (6,800,000) | 48,500,000 |

Notes:

1. Subject to the terms of the Share Option Scheme, the options granted to each holder of the options are valid for a period of 10 years from the date of grant and shall be valid in five tranches in accordance with the following vesting dates:
 - (a) 10% of the options shall be vested and exercisable from the first anniversary date of the date of grant (i.e. 31 October 2018);
 - (b) 15% of the options shall be vested and exercisable from the second anniversary date of the date of grant (i.e. 31 October 2019);
 - (c) 20% of the options shall be vested and exercisable from the third anniversary date of the date of grant (i.e. 31 October 2020);
 - (d) 25% of the options shall be vested and exercisable from the fourth anniversary date of the date of grant (i.e. 31 October 2021); and
 - (e) 30% of the options shall be vested and exercisable from the fifth anniversary date of the date of grant (i.e. 31 October 2022).
2. This refers to the options lapsed due to cessation of employment.

Save as disclosed above, no other options under the Share Option Scheme were outstanding at the beginning or at the end of the period under review nor any other options were granted, exercised, cancelled or lapsed at any time during the period.

SHARE AWARD SCHEMES

2016 Share Award Scheme

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

As at 30 June 2019, a total of 8,018,000 shares have been purchased from the open market and no shares have been granted to the selected participants of the Group under the 2016 Share Award Scheme.

2019 Share Award Scheme

The Company adopted a share award scheme on 28 June 2019 (the “2019 Share Award Scheme”). The purposes of the 2019 Share Award Scheme are to motivate the employees of the Group and help the Group in retaining its existing members of management and attracting new talents to join the Group. The 2019 Share Award Scheme shall be valid and effective for a period of 10 years commencing on 28 June 2019 and serves to replace the Company employee option plan established and approved by the board of the Company (the “Board”) on 31 October 2017.

As at 30 June 2019, no shares have been purchased from the open market and no shares have been granted to the selected participants of the Group under the 2019 Share Award Scheme. For details, please refer to the Company’s announcement dated 28 June 2019.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2019 (six months ended 30 June 2018: HK2.73 cents per share).

CORPORATE GOVERNANCE PRACTICES

The Board has complied with all the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the period of six months ended 30 June 2019, with the exception of Code Provision A.2.1.

According to Code Provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviated from this provision during the six months ended 30 June 2019 because Mr. Zheng Yaonan (“Mr. Zheng”) performed both the roles of the chairman of the Board and the chief executive officer (the “CEO”) of the Company. Mr. Zheng, with the established market reputation in the intimate wear industry in China, is the founder of the Group and has extensive experience in its business operations and management in general. Under the leadership of Mr. Zheng, the Board worked effectively and performed its responsibilities with all key and appropriate issues discussed in a timely manner. In addition, as all major decisions were made in consultation with members of the Board and relevant Board committees, and there are four independent non-executive directors on the Board offering advice in independent perspectives, the Board was therefore of the view that there were adequate safeguards in place to ensure sufficient balance of powers within the Board.

Reference is made to the announcement by the Company dated 19 August 2019 in which Mr. Siu Ka Lok has been appointed as the CEO of the Company. Mr. Zheng remains as the Chairman and an executive director of the Company. The change of the CEO will enable the Company to comply with the Code Provision A.2.1, and enables the Chairman and the CEO to devote more time and energy to focus on their respective roles.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2019, the Company repurchased a total of 6,567,000 shares on the Stock Exchange at an aggregate consideration (excluding related expenses) of approximately HK\$15,653,000 and all the shares repurchased have been duly cancelled. Particulars of the shares repurchased are as follow:

| Month | Number of shares repurchased | Highest price per share (HK\$) | Lowest price per share (HK\$) | Aggregate consideration (HK\$’000) |
|--------------|------------------------------|--------------------------------|-------------------------------|------------------------------------|
| January 2019 | 931,000 | 2.70 | 2.57 | 2,447 |
| March 2019 | 2,900,000 | 2.31 | 2.25 | 6,663 |
| April 2019 | 2,286,000 | 2.61 | 2.30 | 5,546 |
| May 2019 | 450,000 | 2.25 | 2.18 | 997 |
| Total | 6,567,000 | | | 15,653 |

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The audit committee comprises four independent non-executive directors of the Company, namely Mr. Yau Chi Ming, Dr. Dai Yiyi, Mr. Chen Zhigang and Dr. Lu Hong Te. Mr. Yau Chi Ming, who possesses appropriate professional qualifications as required by the Listing Rules, is the chairman of the audit committee.

The committee holds regular meetings to review the Group's financial information, financial reporting system, internal control procedures and risk management system, including a review of the interim financial information for the six months ended 30 June 2019.

INFORMATION REGARDING DIRECTORS

Mr. Cheng Zuming and Mr. Lin Zonghong have been re-designated as a non-executive director of the Company with effect from 1 February 2019 and 19 August 2019, respectively. They are entitled to annual salaries of RMB702,000 and RMB176,000 respectively.

Mr. Hu Shengli has been retired as a non-executive director of the Company with effect from 21 May 2019. Mr. Zhao Yingming has been appointed as a non-executive director of the Company with effect from 21 May 2019.

Mr. Zheng Yaonan has resigned as a chief executive officer with effect from 19 August 2019 but continues to serve as the Chairman of the Board.

Save as disclosed above, there was no change in the information regarding the Directors subsequent to the date of publication of the Annual Report 2018 of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.