都市丽人
COSMO LADY

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

Annual Report 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Yaonan *(Chairman)*
Mr. Zhang Shengfeng *(Deputy Chairman)*
Ms. Wu Xiaoli
Mr. Siu Ka Lok (appointed on 31 March 2020)

Non-executive Directors

Mr. Lin Zonghong
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 *FCA, 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 and Registered PIE Auditor

PRINCIPAL BANKERS

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

www.cosmo-lady.com.hk

INVESTOR RELATIONS

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

AUTHORIZED REPRESENTATIVES

Mr. Zheng Yaonan
Mr. Loo Hong Shing Vincent

REGISTERED OFFICE

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

HEAD OFFICE

Building N1, Fenggang Tianan Digital City
Fenggang Town, Dongguan City
Guangdong

PLACE OF BUSINESS IN HONG KONG

Unit 909, 9/F.
China Merchants Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

SHARE REGISTRAR IN HONG KONG

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

LEGAL ADVISORS

Hong Kong
ReedSmith Richards Butler
Cleary Gottlieb Steen & Hamilton

Financial Highlights

		Year ended 31 December	
		2019	2018
Revenue	*RMB'000*	**4,081,885**	5,096,453
Operating (loss)/profit	*RMB'000*	**(1,389,193)**	483,978
(Loss)/profit attributable to owners of the Company	*RMB'000*	**(1,297,812)**	378,229
Gross profit margin	%	**22.6%**	41.7%
Operating (loss)/profit margin	%	**–34.0%**	9.5%
Margin of (loss)/profit attributable to owners of the Company	%	**–31.8%**	7.4%
(Loss)/earnings per share			
– Basic	*RMB cents*	**(57.76)**	17.15
– Diluted	*RMB cents*	**(57.76)**	17.10
Final dividend per share	*HK cents*	**–**	3.75
	(RMB cents)	**–**	(3.20)
Special final dividend per share	*HK cents*	**–**	6.20
	(RMB cents)	**–**	(5.30)

Statement from Chairman

Dear Shareholders,

The year 2019 was full of challenges. Global growth recorded its weakest pace since the worldwide financial crisis a decade ago. Rising trade barriers and associated uncertainties weighed on business sentiment and activities globally. The delayed Brexit has brought extended uncertainties to the economy of the Euro market. In the face of complex domestic and international situations, China has been deepening supply-side structural reforms resolutely since the beginning of the year.

Against the backdrop of a weakening economy, the retail market in China encountered unprecedented challenges brought by, inter alia, fast-changing consumption patterns, more diverse consumer preferences, and technology-driven innovation. According to the National Bureau of Statistics of China, the growth rate of the industrial value added in the apparel industry for 2019 was 0.9%, a drop of 3.5% when compared with last year while the cumulative finished cloth volume of apparel enterprises above designated size for the year fell by 3.3%. Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") faced headwinds that impacted adversely upon the apparel industry which is consumer-oriented, and hence the operating performance of the Group.

The rapid network expansion in the past have led to the success of the Group and its market leadership. However, the abilities of different franchisees of the Group on retailing and re-ordering products are uneven, and the structural adjustments in respect of sales channel diversification, product quality and mix of products in the mainland China intimate wear market have resulted in the build-up of inventory in the Group's own stores and the stores of franchisees. In addition, certain business strategies previously adopted by the Group, such as its focus on fast-moving-fashionable-sexy intimate wear products, did not meet the needs of the majority of female consumers on practical, functional and value-for-money products. As such, store productivity and profitability were adversely affected, leading to weakened financial positions of the Group and its franchisees. The board of directors of the Company (the "Board") understands that it will be difficult for many franchisees to make improvement only with their own resources.

Zheng Yaonan
Chairman

New managing team and launch of a transformation plan

Aiming at improving its business performance, the Group took various initiatives, including but not limited to:

a) Appointing a new chief executive officer (the "CEO"), Mr. Siu Ka Lok, and other new senior officers with extensive experience in apparel retail industry in mainland China in the second half of 2019 to lead and drive the strategic initiatives of the Group, and also enhance the Group's execution capabilities and efficiency; and

b) Engaging Boston Consulting Group, a global leading consulting firm, on a long-term basis in August 2019 to review, among others, the overall operation strategies, major brand operation models, inventory management, optimization of management hierarchy, omni channel retailing management, optimization of structure of self-managed stores; formulating business strategies and implementing strategies and prioritization of values measures.

After diligent consideration of a report submitted in late October 2019 by Boston Consulting Group which has detailed areas of financial and operational improvements, the Group has determinedly brought forth a transformation plan in November and December 2019:

a) Returning to focus on practical, functional and value-for-money products again;

b) Launching new commercial advertisements in December 2019 under the theme of "Be your own idol" with our new celebrity endorser, Ms. Guan Xiaotong, promoting new design quality products;

c) Opening 6 shopping mall stores in the fourth quarter of 2019 with "family life concept", and opening and renovating the seventh generation intimate wear stores in December 2019 with a completely new image to attract consumers;

d) Stepping up investments in e-commerce channel and Tencent mini App for breaking down the boundaries between online and offline marketing and realizing omni-channel marketing;

e) Developing business presence in the lower-tier cities in mainland China for filling the market gap;

f) Establishing sizeable channel for clearing aged and outdated inventories, such as outlets and discount stores, in order to maintain inventories at a healthy level for long term;

g) Optimizing structure of franchisees and exploring potential Southeast Asia markets; and

h) Tightening cost controls, optimizing organisation structure and cutting unnecessary expenses.

The Board believes that the measures mentioned above will gradually restore the healthy growth and profitability of the Group and its franchisees.

Transformation plan: large-scale provisions

In addition, having considered the transformation plan measures, actual financial performance of the Group and the applicable accounting standards, the Board and the CEO made the following accounting provisions in the financial statements of the Group:

a) One-off provision for inventories by an amount of approximately RMB737,912,000, in anticipation of the practical difficulties faced by the Group in selling aged inventories to customers and the need to step up promotion in the foreseeable future;

b) One-off waiving amounts of approximately RMB326,602,000 owed by major customers in anticipation of the practical difficulties in recovering these outstanding balances, and the provision for impairment of trade receivables of approximately RMB68,665,000, totalling approximately RMB395,267,000; and

c) An amount of approximately RMB28,705,000, including various costs, such as forfeiture of deposits, write down of leasehold improvements, and various staff redundancy costs, incurred for the closure of certain loss-making stores of the Group, and the provision for impairment of leasehold improvements of other loss-making stores of approximately RMB23,071,000, totalling approximately RMB51,776,000.

The Board appreciates the grand scale of the above accounting provisions and the grave financial impact they will have on the results for the year ended 31 December 2019. The Board stresses that some of the accounting provisions are one-off in nature and are necessary steps to put the Group's finances at a footing from which notable improvements in the future would be possible.

Zheng Yaonan
Chairman

Hong Kong, 25 March 2020

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The revenue of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") is mainly derived from sales of products, either to the franchisees or to the consumers through self-managed stores and online sales platforms.

During the year, as adversely affected by the reasons stated in the "Statement from Chairman" section, the revenue of the Group declined by approximately 19.9% to approximately RMB4,081,885,000.

Revenue by sales channel

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

	Year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Sales to franchisees (Note)	1,950,422	47.8	2,800,790	55.0
Retail sales	1,378,873	33.8	1,494,518	29.3
E-commerce	627,481	15.4	712,450	14.0
Trading of raw materials	125,109	3.0	88,695	1.7
Total revenue	4,081,885	100.0	5,096,453	100.0

The Group held equity interests in some raw materials suppliers and has an in-depth understanding of the cost structure of this industry. From the second half of 2018 onwards, the Group leveraged the economy of scale to make bulk purchase of raw materials and then sold partly to third parties.

Note: There was a low double digit decline for the retail sales of the franchisees.

Revenue by type of product

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

	Year ended 31 December			
	2019		2018	
	RMB'000	%	RMB'000	%
Bras	1,872,085	45.9	2,504,239	49.1
Underpants	745,952	18.3	819,577	16.1
Sleepwear and loungewear	577,739	14.1	651,553	12.8
Thermal clothes	358,046	8.8	529,315	10.4
Trading of raw materials	125,109	3.0	88,695	1.7
Others(Note)	402,954	9.9	503,074	9.9
Total revenue	4,081,885	100.0	5,096,453	100.0

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

Gross profit margin

During the year, the gross profit margin of the Group dropped to around 22.6% (2018: 41.7%). The significant decline was mainly due to the one-off large write down of aged inventories of approximately RMB737,912,000 as mentioned in the "Statement from Chairman" section. If this exceptional item is excluded, the gross profit margin is about 40.7%. The mild decline when compared with that of last year was mainly due to keen competition in the market and higher discount offered to customers.

Selling and marketing expenses

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

The rise of selling and marketing expenses by about 9.6% for the year ended 31 December 2019 to approximately RMB1,612,604,000 (2018: RMB1,471,006,000) was primarily driven by (a) the increase in depreciation and amortization; 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 amortization and others.

The rise of general and administrative expenses by about 16.7% for the year ended 31 December 2019 to approximately RMB304,106,000 (2018: RMB260,589,000) was mainly attributable to the increase in consulting service expenses and provision for impairment of leasehold improvements of loss-making stores.

Other income

Other income consists of government grants, logistic warehousing and delivery income, software usage fee income and others. During the year, other income decreased by approximately 60.5% to approximately RMB35,919,000 (2018: RMB90,937,000), mainly due to the decline in government grants awarded by local governments and the dividend income received from financial assets.

Finance (expenses)/income – net

Finance (expenses)/income – net mainly represents financial expenses on bank borrowings less interest income on short-term bank deposits and financial assets.

The finance income of approximately RMB9,947,000 (2018: RMB19,977,000) decreased mainly resulted from the drop in interest income on short-term bank deposits.

The increase in finance expenses to approximately RMB30,287,000 (2018: RMB10,056,000) was in line with the increase in bank borrowings.

Income tax credit/(expense)

Income tax credit/(expense) primarily represents income tax payable by the Group under relevant income tax rules and regulations of the People's Republic of China (the "PRC").

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 years ended 31 December 2018 and 2019, and the year ending 31 December 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 year ended 31 December 2019. In addition, the Group has also recognised relevant amount of deferred tax assets in the financial statements resulting in an income tax credit.

As at 31 December 2019, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

WORKING CAPITAL MANAGEMENT

	Year ended 31 December	
	2019	2018
Average inventory turnover days	**107 days**	140 days
Average trade receivables turnover days	**49 days**	49 days
Average trade payables turnover days	**68 days**	80 days

The decrease in inventory balance to approximately RMB679,845,000 (31 December 2018: RMB1,164,933,000) and the decrease in the average inventory turnover days to approximately 107 days (31 December 2018: 140 days) were mainly attributable to the one-off large provision for inventories of approximately RMB737,912,000 made as mentioned in the "Statement from Chairman" section.

The average trade receivables turnover days of about 49 days was comparable with that of last year (31 December 2018: 49 days) after taking into account the one-off waiving amount of approximately RMB326,602,000 owed by major customers and the provision for impairment of trade receivables of approximately RMB68,665,000 as mentioned in the "Statement from Chairman" section.

Average trade payables turnover days decreased from about 80 days for the year ended 31 December 2018 to about 68 days for the year ended 31 December 2019 mainly because less finished products were purchased from suppliers near 2019 year end in order to control our inventory level.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB854,794,000 (31 December 2018: RMB1,506,018,000) and bank borrowings amounted to approximately RMB455,190,000 (31 December 2018: RMB183,960,000). As at 31 December 2019, the current ratio was about 1.9 times (31 December 2018: 3.2 times).

As at 31 December 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 17.8% (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 15.7% (31 December 2018: negative 32.5%) as the Group was at a net cash position.

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

External professional consultants were hired to conduct an appropriate review and provide recommendations on business strategies and corporate operations:

a) Engaging Boston Consulting Group, as mentioned in "Statement from Chairman" section; and

b) Engaging Shanghai oIBP SCM Co., Ltd., a reputable China consulting firm, in July 2019 to make scientific, systematic and data-based reforms on product merchandising management, including establishing a blueprint for the product merchandising management system, establishing a platform to collect, process and analyze data, designing product merchandising business plan, and predicting and monitoring performance for quick response.

Boston Consulting Group has submitted a report on its findings to the Group in late October 2019, detailing areas of financial and operational improvements for the Group's consideration and further actions. More recommendations will be made by Boston Consulting Group in the year ending 31 December 2020.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014. The total net proceeds from the Company's initial public offering amounted to approximately HK$1,463 million (equivalent to approximately RMB1,162 million). The Group has, up to 31 December 2019, utilized approximately RMB725,750,000 (equivalent to approximately HK$819,141,000) to maintain its retail network of its self-managed stores, approximately RMB200,395,000 (equivalent to approximately HK$226,182,000) and approximately RMB120,308,000 (equivalent to approximately HK$135,790,000) to construct and operate the logistics centres in Tianjin and Dongguan respectively, approximately RMB40,419,000 (equivalent to approximately HK$45,621,000) to upgrade information technology infrastructure and approximately RMB79,800,000 (equivalent to approximately HK$90,069,000) for acquiring the companies related to the "Ordifen" Brand. As at 31 December 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 (equivalent to approximately RMB525,467,000).

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 31 December 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 RMB17,271,000 (equivalent to approximately HK$21,178,000) for financing on-market share purchases for employees' share award schemes; (d) as to approximately RMB5,366,000 (equivalent to approximately HK$6,579,000) for business development in Hong Kong and overseas business; and (e) as to approximately RMB20,190,000 (equivalent to approximately HK$24,756,000) 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 (equivalent to approximately RMB415,119,000).

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 31 December 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 year, capital expenditure on property, plant and equipment and intangibles assets amounted to approximately RMB221,827,000 (2018: RMB258,644,000), which was mainly used for the construction of the new office of the Group.

PLEDGE OF ASSETS

As at 31 December 2019, certain property, plant and equipment, and land use rights were pledged for obtaining banking borrowings of approximately RMB189,990,000 (31 December 2018: nil).

CONTINGENT LIABILITIES

As at 31 December 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 31 December 2019, the Group's distribution network comprised 5,970 stores (31 December 2018: 7,305), out of which 1,269 (31 December 2018: 1,406) were self-managed stores and 4,701 (31 December 2018: 5,899) were franchised stores.

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 3,530 full-time employees as at 31 December 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 PRC" and regulations set by the Environmental Protection Bureau of local governments. The Group has also attained ISO 14001:2015 Environment Management Systems. A corporate social responsibility report for the Group issued in accordance with the Environmental, Social and Governance reporting guide of the Stock Exchange has been included in this report.

OUTLOOK AND STRATEGY

To face the challenging business environment and adapt itself to the evolving market, the Group has formulated and is implementing various measures and initiatives. Apart from those mentioned in the "Statement from Chairman" section, the Group will also step into personal hygiene business in 2020. Quality face masks and anti-bacterial intimate wear products, including bras, underwear, vests and sleepwear, will be launched to the market in the second quarter or second half of 2020. In addition, air sanitizing and purifying liquid and spray will also be launched in the foreseeable future. Management believes that these can broaden product portfolio of the Group and bring fruitful returns to shareholders in the future.

The Group will closely monitor the manner and progress of execution of the plans and measures instituted in order to revitalize the Group's business.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zheng Yaonan, aged 44, is the chairman of the Board, an executive Director, the chairman of the nomination committee of the Company. He was the chief executive officer from 30 January 2014 to 19 August 2019. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. He is also one of the founders of the Group. With approximately 20 years of experience in the intimate wear manufacturing and sales industry, Mr. Zheng has been the key driver of the business strategies and achievements to date of the Group. He is primarily responsible for the strategic planning, business development, corporate management and overall performance of the Group. Mr. Zheng has been serving the Group since September 2009.

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

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

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

Mr. Zhang Shengfeng, aged 51, is a deputy chairman of the Board, an executive Director, a vice president and a member of the remuneration committee of the Company. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Zhang is also one of the founders of the Group, and he is primarily responsible for the design, research and development and procurement of the Group. Mr. Zhang has been serving the Group since September 2009.

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

Mr. Zhang completed an executive master course in business administration from the School of Management of Xiamen University, Xiamen, Fujian Province. He also completed the executive master of business administration degree at Cheung Kong Graduate School of Business and the EMBA Course at PBC School of Finance, Tsinghua University in 2016 and 2018 respectively. Mr. Zhang obtained a college degree in industrial electric automation from Guangdong University of Technology in 1990.

Ms. Wu Xiaoli, aged 46, is an executive Director and a vice president of the Company. Ms. Wu is primarily responsible for the human resources and administration management of the Group. Ms. Wu has been serving the Group since September 2009.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Lin Zonghong, aged 51, is a non-executive Director from 19 August 2019. He was a deputy chairman of the Board and an executive Director from 30 January 2014 to 19 August 2019. Mr. Lin is one of the founders of the Group and he is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Lin has been serving the Group since September 2009.

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

Mr. Wen Baoma, aged 58, is a non-executive Director. Mr. Wen is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Wen has been serving the Group since October 2010. Mr. Wen has been a partner of Capital Today China Growth (HK) Limited since 2005. Mr. Wen had held a number of senior positions in various investment companies and an investment bank:

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

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

Mr. Yang Weiqiang, aged 52, is a non-executive Director since August 2017. Mr. Yang is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group.

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

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

Mr. Zhao Yingming, aged 47, is a non-executive Director since May 2019. Mr. Zhao is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group.

Mr. Zhao is currently the vice president of the Strategy and Investment Department and the head of the Fashion Household Retail Platform Business Unit of JD.com, Inc. ("JD.com"). Mr. Zhao is also a director of Better Life Commercial Chain Share Co., Ltd. since May 2018. Mr. Zhao has extensive experience in the consumer and retail business. Prior to joining JD.com, Mr. Zhao was an assistant to the president of Wangfujing Group Co., Ltd and the deputy general manager of Chengdu Wangfujing Department Store (Southwest District) from August 1999 to March 2014. He served as a general manager of Shanxi Tianmei Mingdian Shopping Center Co., Ltd. from June 2014 to October 2015. He served as a special assistant to the chairman of Maoye International Holdings Limited and served as the general manager of Chengshang Group Co., Ltd. from October 2015 to January 2017.

Mr. Zhao is currently studying a DBA course in Cheung Kong Graduate School of Business. He obtained a master's degree in Cheung Kong Graduate School of Business in 2005 and a bachelor's degree in Business Administration from Jilin University in 1992.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yau Chi Ming, aged 52, is an independent non-executive Director, the chairman of the audit committee and a member of the nomination committee and risk management committee of the Company. Mr. Yau is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Dr. Dai Yiyi, aged 52, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee and risk management committee of the Company. Dr. Dai is mainly responsible for supervising the activities and decisions of the remuneration committee, giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

Dr. Dai also holds the position of independent director in the following companies listed on the Shanghai/Shenzhen Stock Exchange and independent non-executive director in the companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

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

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

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

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

Mr. Chen Zhigang, aged 47, is an independent non-executive Director, the chairman of the risk management committee of the Company and a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Chen is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Dr. Lu Hong Te, aged 59, is an independent non-executive Director, a member of the audit committee, the remuneration committee, the nomination committee and the risk management committee of the Company.

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

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

SENIOR MANAGEMENT

Mr. Siu Ka Lok, aged 49, joined the Group in August 2019. He is the chief executive officer and his major duty is to manage the intimate wear business of the Group, responsible for planning the strategic development of the Group, implementing the strategies, polices and regulations approved by the Board, and supervising the daily work of core senior officers of the Group.

Mr. Siu joined adidas Sports (China) Co., Ltd. ("adidas") in 2002, and was formerly the senior vice president of adidas Greater China, responsible for all business in Greater China. Under his leadership, the revenue and profit of adidas in Greater China have recorded sustainable and profitable growth every year, making adidas one of the most popular sport wear brands in Greater China. In 2017, Mr. Siu, with extensive management experience in sports and apparel retail industries, has been awarded as "The Top 50 retail leaders in the retail industry in Hong Kong".

Mr. Siu graduated from the Chinese University of Hong Kong in 1992 with a bachelor's degree in social work and completed the MBA program of the Hong Kong University of Science and Technology in 1994. After graduation, he joined Unilever Hong Kong Limited.

Mr. Sha Shuang, aged 47, joined the Group in April 2012. He is a senior vice president. He is also the chief executive officer for Ordifen brand business of the Group. He is mainly responsible for the development of Ordifen brand business of the Group.

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

Mr. Loo Hong Shing Vincent, aged 53, has been appointed as a vice president, the chief financial officer, company secretary and authorized representative of the Company since December 2016. Before joining the Group, Mr. Loo was an executive director, the chief financial officer, company secretary and authorized representative of Hengan International Group Company Limited, a company listed on the Stock Exchange. Mr. Loo has been appointed as an independent non-executive director of Huabang Financial Holdings Limited, a company listed on the Stock Exchange, since 26 June 2012.

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

Mr. Li Guocheng, aged 46, joined the Group in August 2017. He is a vice president of the Group. He is the chief executive officer of Jinghedu (Dongguan) Equity Investment Management Company Limited and Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership), the joint ventures of the Group engaged in asset management and equity investment respectively.

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

Mr. Mao Yu-in, aged 55, joined the Group in July 2017. He is a vice president of the Group. He is mainly responsible for developing the Group's business in shopping malls. In 2019, he was also responsible for product merchandising in respect of sleepwear, loungewear and thermal cloth products.

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

Mr. Yuasa Masaru, aged 61, joined the Group in August 2018. He is the chief technology officer of the Group. He is mainly responsible for research, development and innovation of technology for developing new products and new raw materials.

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

Mr. Pan Jigang, aged 43, joined the Group in April 2019. He is a vice president and the chief human resources officer of the Group. He is primarily responsible for the human resources management of the Group.

Mr. Pan was appointed as the head of the management department of Guangdong Midea Group's Residential Air Conditioning Division, the head of the operation and human resources department of Midea Group's Kitchen Appliance Division, and the human resources manager of Chia Tai Conti Group. Mr. Pan obtained a master's degree in management from Wuhan University of Technology in April 2003.

Ms. Lee Sang Wook, aged 49, joined the Group in October 2019. She is a vice president of the Group. She is mainly responsible for product merchandising of the Group.

Ms. Lee was previously a senior procurement director of Greater China office of adidas Group, the head of women's bottoms business of Uniqlo headquarters, and the director of men's product enterprises for Levi Strauss & Co. Ms. Li obtained a master's degree in international marketing from the Philadelphia University in the United States in 2000 and a corporate MBA degree from Yonsei University in Korea in 2012.

Ms. Wong Pak Wan Peggy, aged 49, joined the Group in November 2019. She is a vice president of the Group. She is primarily responsible for the media communications, marketing and brand management of the Group.

Ms. Wong worked as the chief executive officer of the Media Assessment Council of the China Advertising Association. She was also a media and digital director of the China and the Asia Pacific region of Wrigley Candy group and a marketing officer of P&G China. Ms. Wong obtained a bachelor's degree from Guangdong University of Foreign Studies in 1991.

Ms. Kan Yuet Mei, aged 47, joined the Group in January 2020. She is a vice president of the Group. She is mainly responsible for the product operation and management of the Group.

Ms. Kan served as the senior director of category sales for adidas Greater China and a sales director of Adidas Hong Kong Limited. She also worked as an account manager for Nestlé Hong Kong Ltd. Ms. Kan obtained a Bachelor of Science degree in biochemistry in 1995 and a master's degree in business administration both from the Chinese University of Hong Kong in 2003.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has complied with the code provisions contained therein during the year ended 31 December 2019 and up to the date of this report, with the exception of Code Provision A.2.1.

According to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviated from this provision until 19 August 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 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.

Following the appointment of Mr. Siu Ka Lok as the CEO on 19 August 2019, the Company has complied with the requirement of the roles of chairman and chief executive under the Code Provision A.2.1 of the CG Code.

THE BOARD

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

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

Executive Directors

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

Non-executive Directors

Mr. Lin Zonghong (redesignated from executive Director on 19 August 2019)
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Zhao Yingming (appointed on 21 May 2019)

Independent Non-executive Directors

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

All Directors have signed service contracts or letters of appointment with the Company which set out the key terms and conditions of their appointments. Biographical details of the Director and relevant relationships among them, together with their respective roles in the Board and its committees, are set out under the section headed "Biographies of the Directors and Senior Management" on pages 15 to 20.

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

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

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed four independent non-executive Directors which represent at least one-third of the Board, and complied with the requirement that at least one of them has appropriate professional qualifications of accounting or related financial management expertise. The Company has received written confirmation for the year 2019 from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

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

The Board meetings are held regularly and are also held on an ad hoc basis as required by business needs. All Directors are consulted as to whether to include any matters in the agenda. Notice of at least 14 days are given to all Directors before the date of regular Board meeting. Agenda and accompanying board papers are given to all Directors in a timely manner before the date of each regular Board meeting. During the year 2019, four regular meetings were held by the Board and the chairman of the Board met all non-executive Directors (including independent non-executive Directors).

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

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

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

Audit Committee

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

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

During the year ended 31 December 2019, the Audit Committee held three meetings. The Audit Committee reviewed the accounting policies and practices adopted by the Group, discussed on auditing and financial reporting matters, evaluated the overall effectiveness of the internal control system of the Group and the significant risks faced by the Group. It also reviewed the Company's financial statements, annual and interim reports, the management letter from the auditor of the Company, the continuing connected transactions entered into by the Group, the effectiveness and resource adequacy of internal audit function of the Company, corporate governance practices and audit scope and fees for the year ended 31 December 2019.

The Audit Committee held a meeting in March 2020 to review the consolidated financial statements of the Group for 2019 and consider the re-appointment of the auditor. The Audit Committee recommended the Board to approve the Group's consolidated financial statements for 2019 and propose the re-appointment of the auditor at annual general meeting of the Company for 2020.

Nomination Committee

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

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

During the year ended 31 December 2019, the Nomination Committee held four meetings. The Nomination Committee reviewed the Board structure, size and composition, the Board diversity, and recommended the appointments of Mr. Zhao Yingming as a non-executive Director, Mr. Siu Ka Lok as a CEO and the re-designation of Mr. Lin Zonghong and Mr. Cheng Zuming as non-executive Directors to the Board for approval.

Remuneration Committee

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

Under its terms of reference, the primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors and senior management's remuneration and the remuneration packages of individual executive directors and senior management, to make recommendations to the Board on the remuneration of non-executive Directors. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

Four meetings of the Remuneration Committee were held during 2019 for considering and making recommendations to the Board for approving the remuneration of two newly appointed non-executive Directors and CEO and for an annual review of remuneration policy and packages for all the Directors and senior management of the Company. Details of emoluments paid to the Directors and senior management of the Company for the year ended 31 December 2019 are set out in Note 11 to the consolidated financial statements.

Risk Management Committee

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

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

During the year ended 31 December 2019, the Risk Management Committee held two meetings. It reviewed the risk management framework, internal audit program, including its program status and internal audit findings, and the risk associated with Group strategy.

Attendance Records at Meetings

The attendance of individual Directors at general meeting, regular meetings of the Board and meetings of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee held during the year ended 31 December 2019 is set out below:

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

Notes:

(1) Mr. Cheng Zuming has resigned on 26 February 2020.

(2) Mr. Hu Shengli has retired on 21 May 2019.

(3) Mr. Zhao Yingming was appointed on 21 May 2019.

Appointment and Re-election of Directors

In accordance with article 112 of the Memorandum and Articles of Association of the Company, Mr. Zhao Yingming and Mr. Siu Ka Lok were appointed as a non-executive Director and an executive Director on 21 May 2019 and 31 March 2020 respectively. They will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with article 108 of the Memorandum and Articles of Association of the Company and Code Provision A.4.2 in Appendix 14 of the Listing Rules, Mr. Zheng Yaonan, Mr. Yang Weiqiang, Mr. Yau Chi Ming and Dr. Lu Hong Te will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Nomination Policy

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

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

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

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

(c) reputation for integrity;

(d) independence of candidate; and

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

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

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

A summary of the continuous professional development in which Directors participated during the year ended 31 December 2019 is as follows:

Name of directors	Types(Notes)
Executive Directors	
Mr. Zheng Yaonan	A, C
Mr. Zhang Shengfeng	A, C
Ms. Wu Xiaoli	C
Non-executive Directors	
Mr. Lin Zonghong	A, C
Mr. Cheng Zuming(Note (1))	C
Mr. Wen Baoma	C
Mr. Yang Weiqiang	C
Mr. Hu Shengli(Note (2))	C
Mr. Zhao Yingming(Note (3))	C
Independent Non-executive Directors	
Mr. Yau Chi Ming	A, C
Dr. Dai Yiyi	A, B, C
Mr. Chen Zhigang	A, C
Dr. Lu Hong Te	A

Notes:

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

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

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

(1) Mr. Cheng Zuming has resigned on 26 February 2020.

(2) Mr. Hu Shengli has retired on 21 May 2019.

(3) Mr. Zhao Yingming was appointed on 21 May 2019.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2019.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2019 as disclosed in this report. The Directors have selected suitable accounting policies and applied them consistently, have made judgements and estimates that were prudent and reasonable and have prepared the consolidated financial statements on a going concern basis.

The statement of the Company's auditor regarding its responsibilities for the consolidated financial statements is set out under the section headed "Independent Auditor's Report" on pages 62 to 66 of this report.

Risk Management and Internal Control

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

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

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

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

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

The Board had authorized the Audit Committee and Risk Management Committee to review the effectiveness of the risk management and internal control systems. Information about the two Committees, including their work in 2019, is set out under the sections headed “Audit Committee” on page 23 and “Risk Management Committee” on page 24 of this report.

The Board, through the review of the Audit Committee and Risk Management Committee, was not aware of any areas of concern that would have a material impact on the Group’s financial position or result of operations, and considered that the Group’s risk management and internal control systems were adequate and effective. The Group had complied with the provisions on risk management and internal control as set out in the CG Code during the year ended 31 December 2019.

Auditor’s Remuneration

The Company engages PricewaterhouseCoopers as external auditor and has received a written confirmation from PricewaterhouseCoopers confirming that they are independent and that there are no relationships between PricewaterhouseCoopers and the Company that are likely to impair its independence. The roles and responsibilities of our external auditor are stated under the section headed “Independent Auditor’s Report” on pages 62 to 66. During the year ended 31 December 2019, PricewaterhouseCoopers provided the following services to the Group:

Service rendered	RMB’000
Audit services	
Annual audit and interim review	3,900
Non-audit services	
Tax services	463
Corporate advisory services	211
Environmental, Social and Governance Services	191
Total	4,765

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders’ Enquiries

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

Corporate Communication

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

Corporate Website

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

Shareholders' Meetings

- shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings;
- the process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that shareholders' needs are best served; and
- board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer shareholders' questions.

Investment Market Communications

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

SHAREHOLDERS' RIGHTS

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

(a) Any shareholder(s) holding, at the date of deposit of the requisition, not less than 10% of the paid up capital of the Company may request the Board to convene an extraordinary general meeting. The requisition of the shareholder(s) concerned must clearly state the purposes and transaction of business of the meeting and must be deposited at the Hong Kong office of the Company at Unit 909, 9/F., China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Central, Hong Kong for the attention of the Board or the company secretary. Such meeting shall be held within two months after the deposit of such requisition.

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

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

Procedures for Putting Forward Enquiries to the Board

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

Shareholders may at any time put forward enquiries to the Board through company secretary in writing by mail to the office of the Company in Hong Kong at Unit 909, 9/F., China Merchants Tower, Shun Tak Centre, Nos. 168–200 Connaught Central, Hong Kong.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents of the Company during the year ended 31 December 2019 and up to the date of this report.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE APPROACH

As an industry leader in the intimate wear business in China, Cosmo Lady (China) Holdings Company Limited (the "Company") continuously works towards balancing economic success and stakeholder expectations with the needs of its employees, workers in its supply chain and the environment. The Company and its subsidiaries (the "Group") are committed to acting as a responsible organisation through aligning its core strategy with sustainability objectives of the communities in which it operates. The Group's core values reflect the Group's culture and are embedded in the day-to-day operations.

Figure 1 The Group's vision, mission, values and core strategy

The board of directors of the Company has oversight of Environmental, Social and Governance ("ESG") matters of the Group, and strives to enhance sustainability of the Group in order to bring fruitful returns to shareholders while ensuring socially and environmentally responsible business operations. ESG related activities are implemented across the Group, and are reviewed and reported on a regular basis to raise awareness and encourage improvement.

ABOUT THIS REPORT

This ESG Report provides an annual update describing the overall ESG Report performance and initiatives of the Group's businesses, including the head office and retail stores in China, for the year ended 31 December 2019. Information and data of the previous year are provided for reference. This report has been prepared in accordance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT

Open and transparent communication with the Group's stakeholders is a key element that helps to shape the Group's ESG vision, policies and practices. This ESG report serves as an essential tool to engage the Group's stakeholders in order to understand and address their concerns and interests.

The Group's stakeholders include the Group's employees, customers, suppliers, industry association and the community. Relying on the Group's previous stakeholder engagement results and on-going engagement channels, the Group continues to gather impartial insights on its ESG performance and top areas of improvement from business operations. Stakeholder engagement materiality assessment results were analysed in line with the requirements of the ESG Reporting Guide of the Stock Exchange. The following aspects were noted to be of key importance to the Group by its stakeholders, which are described in more detail in this ESG Report:

Topics	Material aspects
Employment and Labour Practices	Employment Employee benefits and welfare Care for employees Health and safety Development and training Labour standards
Operating Practices	Supply chain management Product responsibility Anti-corruption
Environmental Protection	Emissions Use of resources The environment and natural resources
Community Investment	Community investment
Regulatory Compliance	Regulatory compliance

Table 1 Material ESG aspects of the Group

EMPLOYMENT AND LABOUR PRACTICES

The Group highly values its staff as precious assets contributing to the growth and success of the business, and increasingly works towards building a stronger workforce that encourages mutual trust, respect, and an inclusive, open, healthy and pleasant workplace. The excellence of the Group stems from staff allegiance, commitment, and their innovation to go beyond customer expectations.

The Group has invested in a number of initiatives across the following aspects:

- Employment
- Employee benefits and welfare
- Care for employees
- Health and safety
- Development and training
- Labour standards

Employment

To advocate open and trusting working relationships amongst its employees, the Group attributes great emphasis to fair and equal treatment as well as diversity. The Group acquires new talents through various channels, which include but are not limited to, campus recruitment, experienced hire, internal recommendations and Group-sponsored competitions. All candidates are selected in a fair manner based on their ability and competencies, regardless of their age, disability, gender, race, etc..

Understanding that the success of a sustainable business relies on a talented and engaged workforce as well as a balanced and positive working environment, the Group encourages employees to pursue their career paths within the Group. The Group does so by providing multiple promotion tracks for career progression and tailored on-the-job training. As of 31 December 2019, the Group had over 3,500 employees with an average monthly turnover rate of 2.39%. Given the nature of the business, the Group's workforce is mainly composed of female and young people.

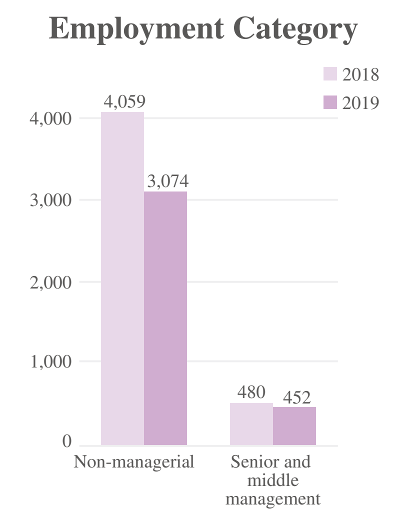

Figure 2 Total workforce by employment category

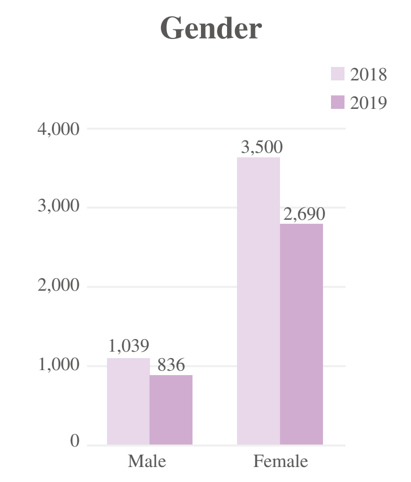

Figure 3 Total workforce by gender

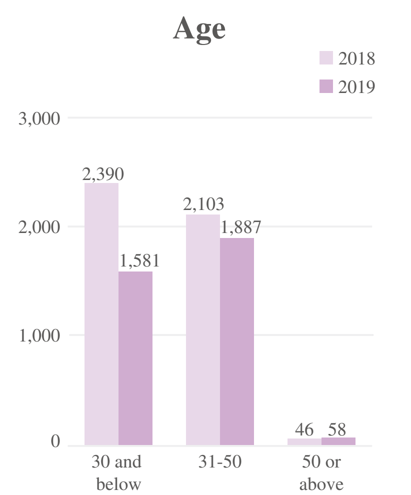

Figure 4 Total workforce by age

Employee Benefits and Welfare

An employee handbook was formally published as one of the human resources' initiatives, which stipulates policies and procedures relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, as well as diversity, anti-discrimination, welfare and other benefits. The Group also implemented human resources management systems to streamline processes for pay and performance, attendance and leave as well as staff promotions. For enhancement purposes, all initiatives are reviewed annually against market conditions and business strategy.

The majority of the Group's remuneration packages are above the average in comparison to industry peers. The Group's payment and performance management system, remuneration policy, and bonus system are in place to align staff salaries with their work experience, qualifications, individual performance and market conditions. Bonus evaluation for employees are based on their performance assessment, operating performance of their respective business units, and the Group's overall operating results.

Care for Employees

The Group motivates employees to deliver quality work through promoting a comfortable, open and trusting atmosphere as well as advocating equal opportunities, inclusion, and harmony in the workplace. In addition to recognizing employees' performance at work by appraisals, rewards were also given to employees for achievements in the areas of innovation, service excellence, cost savings, and collaboration. The purpose is to promote the culture of sharing and learning of different aspects between colleagues.

To foster a sense of belonging, the Group organized diverse entertainment and employee engagement activities, including team building activities, staff birthday parties, cultural games, talent shows and competitions throughout the year. Details of the events were typically announced through the Group's WeChat official account. The Group upholds the values of a healthy work-life balance, well-being and personal growth for its employees. Flexible working arrangements and paid leave are offered to employees to enhance their mental and physical well-being. A gym room and a yoga room located in office building to promote healthy lifestyles among staff. The Group also makes use of a number of channels to facilitate transparent and effective communication between management and other employees, including informal gatherings, newsletters, office administrative bulletins, and online social networking groups. The Group was awarded the certificate for "China's Best Employer" by the 14th China Employer Branding Forum.

Health and Safety

The Group ranks employee health and safety as a priority in caring for its people. Apart from fulfilling the basic statutory obligations in occupational safety, such as the Law of the People's Republic of China (the "PRC") on Work Safety, the Law of the PRC on Prevention and Control of Occupational Diseases and the Occupational Safety and Health Ordinance of Hong Kong, the Group has policies and internal controls in place to ensure a hazard-free workplace to minimize threats that could cause injuries or fatal accidents. To align with the Occupational Health and Safety Assessment Series, the Group has established the "Occupational Health and Safety Management System" with reference to OHSAS 18001: 2007, which focuses on comprehensive identification, evaluation, and prevention of the hazards within the Group's scope of liability. During the reporting year, health checks were regularly held to ensure the level of occupational health of the Group's employees, and there were no significant records related to work-related injuries, fatalities as well as paid leave due to workplace injuries. The Group obtained ISO 45001:2018 Occupational Health and Safety Management Systems to recognize its efforts to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving the occupational health and safety performance.

Development and Training

Development programs serve as a fundamental part of the Group's core strategy to entice new talents, elevate potential of workers and retain existing staff members. The Group intends to foster the atmosphere of continuous learning and team upskilling to meet the rapidly changing market and industry needs. To maintain high-level training operations, the Group offered development programs, such as overseas training attachments, academic education, arts and cultural activities, sports events based on staff competence and career development to boost employee engagement. In parallel, the Group connected with universities and vocational training institutions to offer pilot programs to nurture and upskill future talents.

In 2019, training sessions were provided to all the Group's employees. The respective percentage of staff trained and average training hours per employee by categories are summarized below:

Employee category	Percentage of employees trained	2018 Average training hours	2019 Average training hours
Senior and middle management	100%	74	70
Non-managerial employees	100%	49	54
Store salesmen	100%	27	14

Table 2 Average training hours per employee by category

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

Labour Standards

The Group's policy of employment and labour standards is fully compliant with the Labour Laws of the PRC and the Employment Ordinance of Hong Kong as well as other applicable laws and regulations of the jurisdictions in which it operates.

In strict compliance with the Labour Contract Law of the PRC, the Law of the PRC on Promotion of Employment and the Employment Ordinance of Hong Kong, the Group discourages and resists any form of forced labour and child labour. In particular, the Group strictly follows the Provisions on the Prohibition of Using Child Labour of PRC and the Employment of Children Regulations of Hong Kong to protect human rights of children and disadvantaged groups.

Regular review mechanisms on employment arrangements encompassing working environment, social insurance, and non-discrimination are in place so as to preserve the right of employees. In alignment with the Group's commitment to conduct ethical business, precautionary measures have been established to preclude possible immoral and corrupt practices within the business operations. These measures are continuously improved to align with necessary remedial measures.

OPERATING PRACTICES

The Group strives to maintain its brand reputation as China's intimate wear industry leader through continuous improvements in its internal processes, product design and supply chain network. To ensure that its business is in accordance with the highest ethical, social and environmental standards, the Group also strictly abides by applicable laws in China and practices due diligence in the following areas:

- Supply chain management
- Product responsibility
- Anti-corruption

Supply Chain Management

The Group has an extensive supply chain in China to source finished garments, including the Guangdong Province, East China and other regions of China. The Group's stringent standards for supplier selection reduced the number of suppliers from 175 suppliers in last year to 106 suppliers in this year. The Group's supply chain management processes are further described in this section.

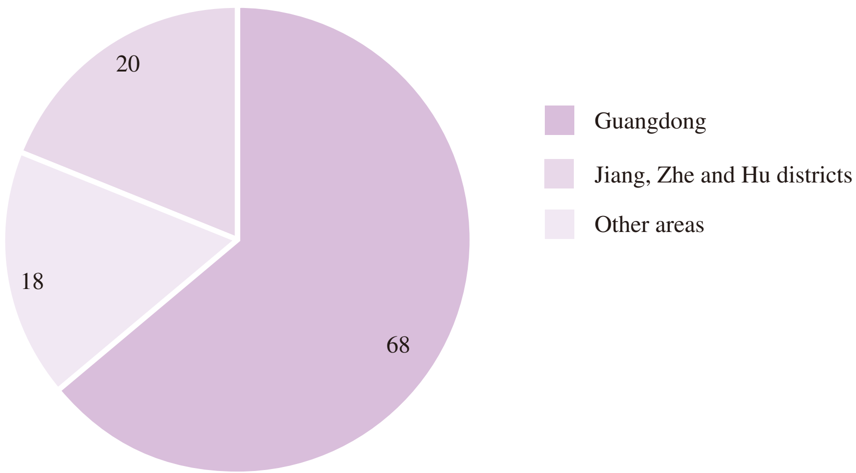

Figure 5 Distribution of suppliers by geographical region

The Group regards its partnership with suppliers and franchisees as an important element to delivering quality products to customers. Therefore, the Group would consider multiple factors when selecting a new business partner, including the quality of product supplied and potential business partners' ethical standards. Prior to the commencement of each partnership, the Group works towards reaching a consensus between parties in such areas as their business operations, product design specifications and mitigation requirements when misalignments and/or inconsistencies arise during the product design, procurement, packaging or distribution phase.

The Group adopts a stringent sourcing strategy across business operations as the first step to achieving sustainability in its supply chain. To guarantee continuous business growth, the Group has established a formal process for selecting, evaluating, and communicating with current and prospective suppliers. The Group updates its suppliers list as appropriate to ensure that all suppliers adhere to the latest standards.

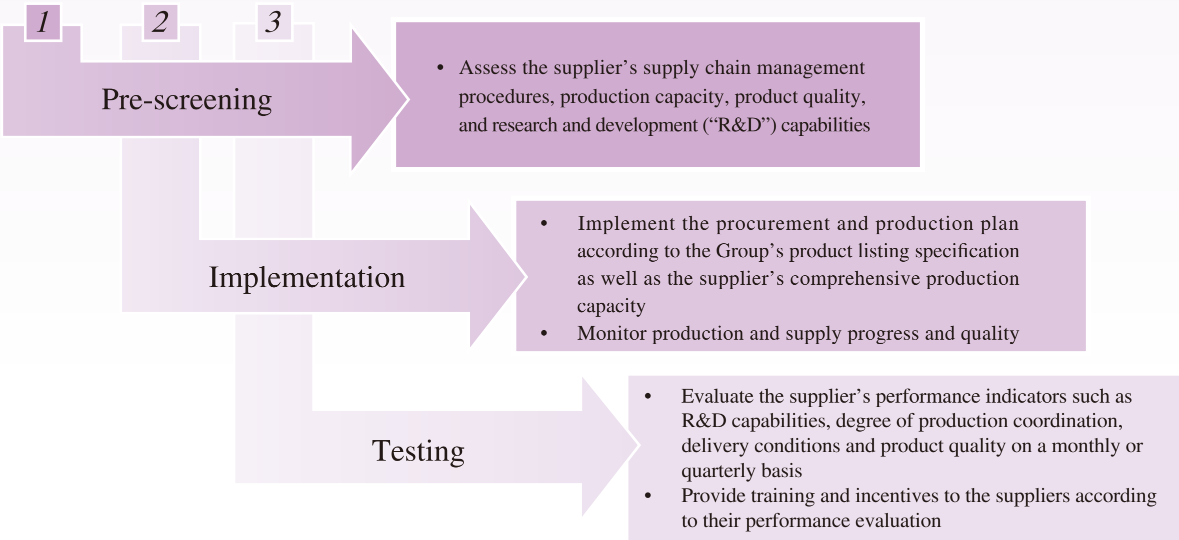

Figure 6 Illustration of supply chain management procedures

The Group has established a set of "Qualified Supplier Rating Criteria" to assess suppliers' performance, and assessments are carried out by independent departments to ensure objectivity. The "Qualified Supplier Rating Criteria" have two aims:

- Ensure that the service performance and product quality of new suppliers can meet the Group's standards; and

- Perform quarterly assessment of existing suppliers to evaluate whether they continue to meet the Group's contractor criteria. This also helps to enhance their service performance and product quality.

Product Responsibility

The Group is dedicated to strengthening its brand recognition, solidifying its industry-leading position and offering consumers with superior products. The Group strictly complies with the applicable laws of the PRC on product quality, advertisements and protection of consumer rights and interests. For example, all the Group's child products meet the requirements of the Safety Technical Code for infants and children textile products implemented in 2016. Different policies and procedures have been drafted to facilitate the integration of such commitment with the Group's daily operations. Clear descriptions on the duties, control methods and requirements on quality and safety management are published across the Group's properties. The policies focus on the following areas:

- Quality and safety of products and services

- Research and development and design

- Product transport and packaging

- Customers

Specifically, product responsibilities are categorized into three major areas, namely product information, selection and advice, and accidental injury and privacy protection. In response to the Group's concerns regarding product safety and customer privacy issues, the Group has implemented a set of product quality and safety procedures that deals with the pre-sales and post-sales business phases. These procedures encompass the Group's advertisements, store shopping guides and customer service hotlines (i.e. telephone and network) amongst other service sectors.

Activities such as online ordering and other interactive programs require the Group to handle or retain customers' sensitive information such as personal contact details and their product preferences. Therefore, strict policies are in place to protect the personal data collected for transaction purposes. As a safeguard against information leakage, the Group has also implemented a secure member management system that serves the purpose of data collection, transmission, and storage of membership information.

The Group believes that providing a high quality shopping experience remains the best way to retain old customers and attract new customers. Therefore, numerous strategies have been implemented on different levels across the Group. On the Group level, initiatives such as "Customer Service Management System", "Store Shopping Guide Process" and "Exhibition Guideline" are constantly optimized across different business departments. On the retail level, employees are required to undergo training to master the "Underwear Product Knowledge Dictionary". This allows the Group's staff to be proficient with the available products, and to assist potential customers in finding their best fit through introducing comprehensive intimate wear information in a friendly environment.

In order to prevent any adverse effect of products on consumers, the Group's quality control department adopts the most stringent quality inspection procedures that adhere to national standards. The Group obtained the ISO 9001:2015 certification for underwear design, production, sales, warehousing and freight transportation (within permitted areas) processes. The achievement reaffirms the Group's commitment in ensuring the consistency of products and services quality.

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

The Group has also set up a customer service centre to manage customer complaints and merchandise returns. The practice of prioritising complaints allows the Group to manage key customer issues with quicker responses. For general customer complaints, the service centre also have procedures in place to handle them. In 2019, the percentage of total products sold or shipped subject to complaints for quality and other reasons is maintained at a level lower than 0.01%, which is lower than the average industry level. In addition, the Group is committed to comply with the national policies, laws and regulations related to intellectual property rights. Procedures are in place to deal with patent infringement and other violations of the intellectual property rights.

Anti-corruption

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

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

The Group adopts a zero-tolerance policy towards any form of unethical practice, including deception, bribery, forgery, extortion, conspiracy, embezzlement and collusion. Employees should not abuse their position to obtain illegal benefits in the form of monetary or non-monetary favours. To better communicate the Group's expectations of staff behaviour to employees and implement relevant anti-corruption initiatives, a "Reward and Punishment Management System" has been developed. When unethical incidents are reported, investigated and verified by the internal monitoring centre, the Group will impose punishment accordingly. Employees involved in any unlawful act may be subjected to the following:

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

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

ENVIRONMENTAL PROTECTION

The Group is committed to reduce its environmental impact through continuous improvements in the sustainability of its daily activities. The Group complies with all applicable environmental protection laws and regulations across all operations, which include the revised Environmental Protection Law of the PRC and regulations set by the Environmental Protection Bureau of Local Government. The Group has also attained ISO 14001:2015 Environment Management Systems to reinforce the Group's dedication to environmental protection.

The Group has implemented policies, procedures, and initiatives to govern the environmental protection objectives to address the following aspects:

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

Emissions

To achieve continuous improvements in environmental performance, the Group has established various initiatives to achieve significant reductions in various aspects, namely air and greenhouse gas emissions, discharges into water and land, and hazardous and non-hazardous waste generation. These include the provision of shuttle buses for employees to workplace for minimizing emissions from private vehicles. In order to reduce emissions from a business perspective, the Group would only employ and purchase green label certified products to satisfy the Group's transportation and logistics requirements.

The Group encourages responsible management of emissions, natural resources and environment in accordance with the Group's "Environment Management Systems". Adhering to the principle of "Reduce, Reuse and Recycle" ("3Rs"), the Group advocates and facilitates the following segregation, storage, and handling practices:

- Encourage the use of reusable stainless steel tableware and restrict the use of disposable items in the staff canteen;
- Apply unrestricted fertilizers, pesticides and detergents for daily operations;
- Inspect grease trap to identify any further maintenance required; and
- Ensure large-scale publicity and promotional activities would keenly endorse the proper use and handling of recyclable materials.

Use of Resources

The Group has adopted various initiatives to promote the efficient use of resources, which include implementing energy conservation programs across its properties to increase energy efficiency and reduce energy usage; and mitigating its contribution to water pollution through freshwater resources preservation. Some specific examples of these policies and initiatives include:

Energy-saving initiatives

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

Figure 7 Energy-saving initiatives

Freshwater resources preservation initiatives

- Install efficient faucets and water dispensers that minimize water wastage
- Provide water conservation training to staffs
- Adopt stricter water utilization supervision to reduce water usage within operational processes

Figure 8 Freshwater resources preservation initiatives

The Group acknowledges the impact of excess packaging to the environment. Therefore, in order to encourage efficient utilization of packaging materials for products, the Group has the following measures and practices in place:

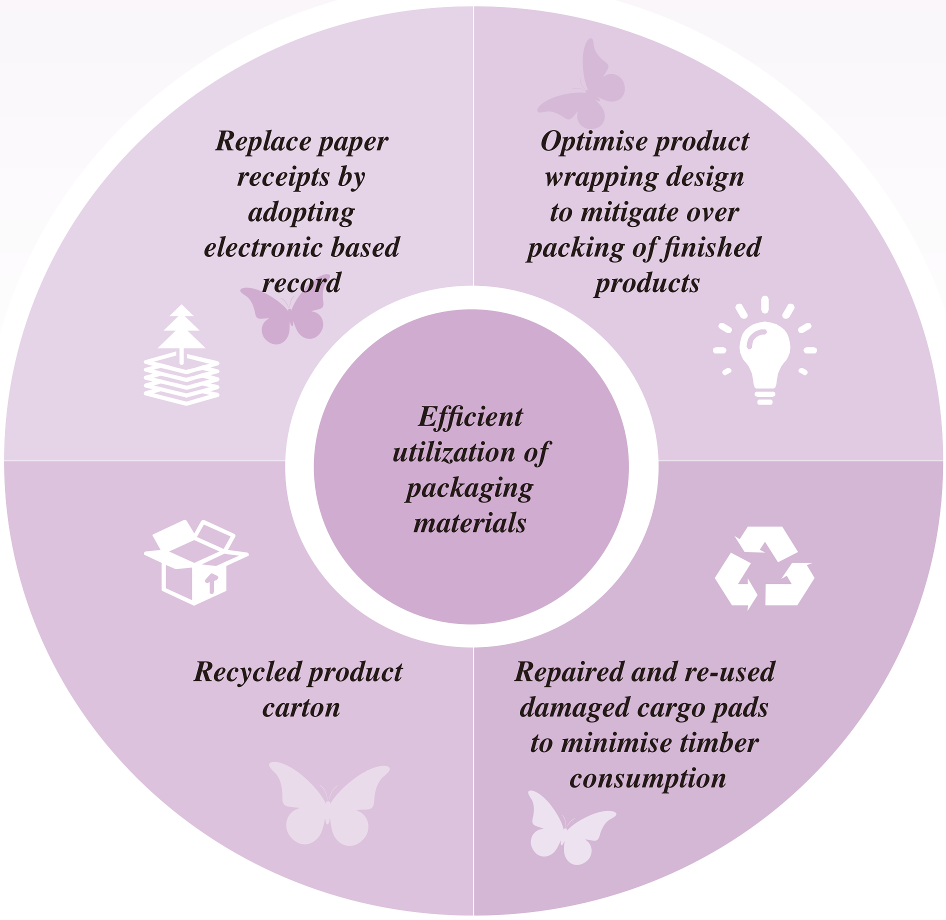

Figure 9 Efficient utilization of packaging materials initiatives

The Environment and Natural Resources

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

Environmental performance data for the year ended 31 December 2019 are as follows:

Environmental KPIs	Unit	2019	2018*
NOx emissions	tonne	0.406	0.860
SOx emissions	tonne	0.000730	0.00124
Particulate matter emissions	tonne	0.0399	0.0846
Total GHG emissions	tonne (CO_2)	5,554	6,274
Greenhouse gas emissions (Scope 1)	tonne (CO_2)	126.7	215.9
Greenhouse gas emissions (Scope 2)	tonne (CO_2)	5,427	6,058
Total non-hazardous waste produced	tonne	16.2	16.2
Total energy consumption	GJ	25,090	29,009
Total energy consumption intensity	GJ/Revenue (in million)	6.15	5.69
Total direct energy consumption	GJ	1,740	2,798
Petrol	GJ	813	1,475
Diesel oil	GJ	926	1,323
Total indirect energy consumption	GJ	23,351	26,064
Purchased electricity	GJ	23,351	26,064
Water consumption	m^3	176,937	193,471
Water consumption intensity	m^3/Revenue (in million)	43.35	37.96
Packaging material	tonne	271	293
Packaging material intensity	tonne/Revenue (in million)	0.07	0.06

Table 3 Environmental performance table

* The data is adjusted to align with the environmental performance data coverage in 2019 that covers Yuquan, Fumin, and Youganpu industrial parks and excludes the retail stores due to changes in business strategy.

COMMUNITY INVESTMENT

The Group is committed to actively explore community investment opportunities in order to fulfil its social responsibility and give back to society. Its corporate philanthropy initiatives drive appropriate measures to support youth, care for the needy, alleviate poverty, advocate the protection of women, and cultivate culture.

To realize its vision, the Group endeavours to provide support to the local community through investing in children medical services, sponsoring sports tournaments locally and providing financial aids after natural disasters. Corresponding departments of the Group are in close contact with local non-government organizations and regularly participate in charity programs organized by community organizations. Contributions and progress of these initiatives are monitored to ensure the accountability and consistency of the Group’s community investment efforts.

In cooperation with the government and the community, the Group organized voluntary activities such as the National Day celebrations and elderly care. Moreover, the Group organized two blood donation initiatives with participation from a total of 160 employees, and was recognized as an "Outstanding Blood Donation Enterprise" by the Fenggang province in Dongguan. For the year ended 31 December 2019, the Group has contributed approximately RMB828,000 and more than 550 volunteer hours for community investment. A total of 8 volunteering projects were undertaken in 2019 as summarized below:

Scope	Number of projects
Caring Community	2
Health	2
Sports Promotion	1
Others	3

Table 4 Number of social investment projects by scope

REGULATORY COMPLIANCE

As a socially and environmentally responsible organisation, the Group recognizes the importance of regulatory compliance and has established preventive and monitoring measures to ensure compliance with relevant laws and regulations. The Group continuously stays abreast of latest regulatory developments and will provide relevant trainings for relevant personnel. The Group did not observe any forms of non-compliance with laws and regulations within the reporting period that may cause a potential impact on the Group's operating areas, such as environmental protection and conservation, employment, labour practices, operational and organisational activities.

CONTENT INDEX
HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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

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

General disclosures and KPIs	Description	Reference paragraph, table and figure and remarks
ASPECT B3: DEVELOPMENT AND TRAINING		
General disclosure		**Development and training**
KPI B3.1	The percentage of employees trained by gender and employee category	Table 2: Average training hours per employee by category
KPI B3.2	The average training hours completed per employee by gender and employee category	Table 2: Average training hours per employee by category
ASPECT B4: LABOUR STANDARDS		
General disclosure		**Labour standards**
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Labour standards
OPERATING PRACTICES		
ASPECT B5: SUPPLY CHAIN MANAGEMENT		
General disclosure		**Supply chain Management**
KPI B5.1	Number of suppliers by geographical region	Figure 5: Distribution of suppliers by geographical region
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply chain management
ASPECT B6: PRODUCT RESPONSIBILITY		
General disclosure		**Product responsibility**
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable. There is no product recall for safety and health reasons during the reporting period.
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Product responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Product responsibility
KPI B6.4	Description of quality assurance process and recall procedures	Product responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Product responsibility

General disclosures and KPIs	Description	Reference paragraph, table and figure and remarks
ASPECT B7: ANTI-CORRUPTION		
General disclosure		**Anti-corruption**
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case	There are no cases of significant corruption recorded during the reporting period.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption
COMMUNITY		
ASPECT B8: COMMUNITY INVESTMENT		
General disclosure		**Community investment**
KPI B8.1	Focus areas of contribution	Community investment
KPI B8.2	Resources contributed to the focus area	Community investment

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding company. The Group is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others, which include leggings and tights, vests, hosiery and accessories) in the People's Republic of China (the "PRC"). The Group is the largest branded intimate wear enterprise in the PRC in terms of total retail sales in 2019, according to Frost & Sullivan.

The detail principal activities of the subsidiaries of the Company were set out in Note 39 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group, a discussion and analysis of the Group's operating performance and a discussion on the Group's future development during the year are provided in the Statement from Chairman and the Management Discussion and Analysis sections, respectively on pages 4 to 6 and on pages 7 to 14 of this report.

A description of the principal risks and uncertainties that the Company may be facing can be found in the Management Discussion and Analysis section on pages 7 to 14 of this report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to the consolidated financial statements. Discussions on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided on pages 32 to 47 of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements on page 67.

No interim dividend was declared for 2019 (2018: HK2.73 cents per share). The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK3.75 cents per share and special final dividend of HK6.20 cents per share).

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders' entitlement to attend and vote at the annual general meeting held on 26 May 2020 (the "2020 AGM"), the register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, both days inclusive, during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the 2020 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in the Hong Kong Special Administrative Region of the People's Republic of China, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 20 May 2020 for registration.

DIVIDEND POLICY

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

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

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

BORROWINGS

Details of borrowings of the Group as at 31 December 2019 are set out in Note 33 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 28 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2019, charitable and other donations made by the Group amounted to approximately RMB828,000 (2018: RMB4,534,000).

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

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

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

For the year ended 31 December 2019, the Company bought back a total of 6,567,000 shares on the Stock Exchange at an aggregate consideration (excluding transaction costs) of approximately HK$15,653,000 and all the shares repurchased have been duly cancelled. Particulars of the shares repurchased are as follows:

Month of repurchases	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
	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 year ended 31 December 2019.

RESERVES

The distributable reserves of the Company as at 31 December 2019 amounted to approximately RMB1,684,340,000 (2018: RMB1,860,946,000).

Movements in reserves of the Group and of the Company during the year are shown in the Consolidated Statement of Changes in Equity on pages 70 to 71, and Note 29, and Note 36 to the consolidated financial statements, respectively.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the preceding five financial years is set out on page 138.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the percentage of the Group's turnover attributable to the Group's largest customer and the five largest customers in aggregate were approximately 0.6% and 2.7% (2018: 1.6% and 5.8%) respectively.

During the year ended 31 December 2019, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were approximately 2.9% and 11.0% (2018: 4.1% and 14.9%) respectively.

During the year ended 31 December 2019, none of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of five largest customers or suppliers of the Group.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Lin Zonghong (redesignated from executive Directors on 19 August 2019)
Mr. Wen Baoma
Mr. Yang Weiqiang
Mr. Zhao Yingming (appointed on 21 May 2019)

Independent Non-executive Directors

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

Notes:

(1) Mr. Cheng Zuming has resigned as a non-executive Director on 26 February 2020.

(2) Mr. Hu Shengli has retired as a non-executive Director on 21 May 2019.

(3) According to an announcement dated 26 February 2020, Mr. Siu Ka Lok will be appointed as an executive Director on 31 March 2020.

A profile of the existing Directors is shown on pages 15 to 20.

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

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

All Directors are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Memorandum of Article of Association. Article 108 provides that at every annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. In this connection, Mr. Zheng Yaonan, Mr. Yang Weiqiang, Mr. Yau Chi Ming and Dr. Lu Hong Te will retire by rotation at the 2020 AGM and, being eligible, offer themselves for re-election.

Mr. Zhao Yingming was appointed as a non-executive Director and Mr. Siu Ka Lok will be appointed as an executive Director on 21 May 2019 and 31 March 2020 respectively. In accordance with article 112 of the Company's Memorandum and Articles of Association, they will retire at 2020 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at 2020 AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 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]	Interest of controlled corporation; founder of a discretionary trust who can influence how the trustee exercises his discretion	768,992,381 (L)	34.19% (L)
Ms. Wu Xiaoli[2]	Interest of spouse; other (beneficiary of a discretionary trust)	768,992,381 (L)	34.19% (L)
Mr. Zhang Shengfeng	Founder of a discretionary trust who can influence how the trustee exercises his discretion	216,285,173 (L)	9.61% (L)
Mr. Lin Zonghong	Founder of a discretionary trust who can influence how the trustee exercises his discretion	156,290,277 (L)	6.95% (L)
Mr. Cheng Zuming	Founder of a discretionary trust who can influence how the trustee exercises his discretion	41,461,847 (L)	1.84% (L)
Mr. Wen Baoma	Beneficial owner	5,000,000 (L)	0.22% (L)
Dr. Lu Hong Te	Beneficial owner	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 31 December 2019.

(2) 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

As at 31 December 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 31 December 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]
TMF (Cayman) Limited[2]	Trustee	1,164,900,699 (L)	51.79% (L)
Great Brilliant Investment Holdings Limited[3]	Interest of controlled corporation; beneficial owner	750,863,402 (L)	33.38% (L)
Yao Li Investment Holdings Limited[2], [3]	Interest of controlled corporation	750,863,402 (L)	33.38% (L)
Harmonious Composition Investment Holdings Limited	Beneficial owner	735,018,732 (L)	32.68% (L)
Fosun International Holdings Limited[4]	Interest of controlled corporation	240,000,000 (L)	10.67% (L)
Fosun International Limited[4]	Beneficial owner	240,000,000 (L)	10.67% (L)
Mr. Guo Guangchang[4]	Interest of controlled corporation	240,000,000 (L)	10.67% (L)
Ms. Cai Shaoru[5]	Interest of spouse	216,285,173 (L)	9.61% (L)

Name	Nature of interest	Number of shares held[1]	Approximate percentage of shareholding interest[1]
Forever Flourish International Holdings Limited[6]	Beneficial owner	216,285,173 (L)	9.61% (L)
Xin Feng Asset Holdings Limited[2], [6]	Interest of controlled corporation	216,285,173 (L)	9.61% (L)
Prime Capital Management Company Limited	Investment Manager	196,837,478 (L)	8.75% (L)
Ms. Cai Jingqin[7]	Interest of spouse	156,290,277 (L)	6.95% (L)
Forever Shine Holdings Limited[8]	Beneficial owner	156,290,277 (L)	6.95% (L)
Hong Ye Asset Holdings Limited[2], [8]	Interest of controlled corporation	156,290,277 (L)	6.95% (L)
Capital Today Investment XVIII (HK) Limited[9]	Beneficial owner	133,156,000 (L)	5.92% (L)
Capital Today Investment XVIII Limited[9]	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today China Growth Fund, L.P.[9]	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today China Growth GenPar, LTD[9]	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today Partners Limited[9]	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Ms. Xu Xin[9]	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Morgan Stanley[10]	Interest of controlled corporation; unlisted derivatives – cash settled	132,527,257 (L) 31,406,953 (S)	5.89% (L) 1.40% (S)

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 31 December 2019.

(2) TMF (Cayman) Limited 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.

(3) 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 wholly owned by TMF (Cayman) Limited as the trustee.

(4) Fosun International Limited is indirectly owned as to 71.77% by Fosun International Holdings Limited, which is in turn owned as to 64.45% by Mr. Guo Guangchang. As such, each of Mr. Guo Guangchang and Fosun International Holdings Limited were deemed to be interested in the 240,000,000 shares of the Company held by Fosun International Limited.

(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) 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 wholly owned by TMF (Cayman) Limited as the trustee.

(7) 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.

(8) 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 wholly owned by TMF (Cayman) Limited as the trustee.

(9) 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, L.P., 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, L.P. 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, L.P., 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.

(10) Morgan Stanley was deemed to have a long position in 132,527,257 shares of the Company and a short position in 31,406,953 shares of the Company 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 132,509,340 shares of the Company and a short position in 31,406,795 shares of the Company.

(b) Morgan Stanley & Co. LLC (Morgan Stanley's indirect subsidiary) had a long position in 17,917 shares of the Company.

(c) Morgan Stanley Capital Services LLC (Morgan Stanley's indirect subsidiary) had a short position in 158 shares of the Comapny.

In addition, Morgan Stanley was also interested in the long position in 2,000 shares and short position in 31,406,953 shares which involved cash settled derivatives (off exchange).

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (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

The principal terms of the share option scheme adopted by the Company on 9 June 2014 (the "Share Option Scheme") are as follows:

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

The maximum number of shares available for issuance under the Share Option Scheme is 190,645,700 shares, which are not more than 10% of the total number of issued shares of the Company as at the date of the approval of the Share Option Scheme, and represents approximately 8.48% of the total number of issued shares of the Company as at the date of this report.

(d) Maximum entitlement of each participants

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

(e) Acceptance of an offer of options

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

(f) Performance target and minimum holding period

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

(g) Basis of determining the exercise price

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

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

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

(iii) the nominal value of a share.

(h) The remaining life of the Share Option Scheme

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

The movements of share options during the year

During the year ended 31 December 2019, the movements of the options which has been granted under the Share Option Scheme were as follows:

				Number of options				
Category and name of participant	Date of grant[1]	Exercise price per share (HK$)	Exercise period[1]	Balance as at 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed/ replaced during the year[2]	Balance as at 31 December 2019
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)	–
Ms. Wu Xiaoli	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. Cheng Zuming*(Notes (3))*	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	–	–	(44,800,000)	–
Total				44,800,000	–	–	(44,800,000)	–
Total for all categories				**55,300,000**	**–**	**–**	**(55,300,000)**	**–**

Notes:

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

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

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

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

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

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

2. This refers to the options lapsed due to cessation of employment and replacement by the 2019 share award scheme.

3. Mr. Cheng Zuming has resigned as a non-executive Director on 26 February 2020.

Save as disclosed above, no other options under the Share Option Scheme were outstanding at the beginning or at the end of 2019, and no other options were granted, exercised, cancelled or lapsed at any time during the year.

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 31 December 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 its benefits serve to replace the benefits under the Company’s employee option plan established and approved by the board of the Company on 31 October 2017.

As at 31 December 2019, a total of 18,493,000 shares have been purchased from the open market, out of which 17,085,000 and 1,408,000 shares have been settled in 2019 and early 2020 respectively, and no shares have been granted to the selected participants of the Group under the 2019 Share Award Scheme.

EQUITY-LINKED AGREEMENTS

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

DEED OF NON-COMPETITION

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

On 1 November 2019, each of Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Cheng Zuming, Forever Flourish International Holdings Limited, Forever Shine Holdings Limited and Mountain Dragon Investment Limited (collectively, the "Former Controlling Shareholders") ceased to be a controlling shareholder of the Company and shall no longer be bound by the Deed of Non-competition.

The independent non-executive Directors have reviewed matters relating to the compliance with the Deed of Non-competition in 2019. The Controlling Shareholders (except for the Former Controlling Shareholders) have provided the Company with an annual confirmation of compliance with the provisions of the Deed of Non-competition; and in respect of the Former Controlling Shareholders, they have provided the Company with confirmation of compliance with the provisions of the Deed of Non-competition for the period from 1 January 2019 to 1 November 2019.

During 2019, the Controlling Shareholders (and in the case of the Former Controlling Shareholders, for the period during 1 January 2019 and 1 November 2019) provided the Company with all information necessary for the enforcement of the Company's rights under the Deed of Non-competition, all information reasonably requested by the Company from time to time relating to the Excluded Businesses (as defined in the Deed of Non-competition) and such other business opportunities or activities related to any business of the Group as the Company reasonably believed was available to the Controlling Shareholders or that the Controlling Shareholders may be planning to participate in, as well as access to appropriate staff members of the Controlling Shareholders to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the Deed of Non-competition.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this report, there had been no transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with the Director (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, were entered into during the year ended 31 December 2019 or subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group has entered into the following continuing connected transactions, details of which are set out below:

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

	2019 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Shengqiang	34,000	30,208

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

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

	2019 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Maosheng	25,000	1,818

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

REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

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

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

b. on normal commercial terms or better; and

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

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in Note 38 to the consolidated financial statements. The related party transactions disclosed also constitute the connected transactions and continuing connected transactions disclosed in accordance with Chapter 14A of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group commits to comply with the relevant laws and regulations including, inter alia, the Companies Ordinance, the Listing Rules, and other applicable local laws and regulations in various jurisdictions in which it operates. During the year ended 31 December 2019 and up to the date of this report, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

RETIREMENT SCHEMES

The Group participated in various retirement benefit schemes in accordance with relevant rules and regulations in the People's Republic of China and Hong Kong. Particulars of the retirement benefit schemes are set out in Note 2.21 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2019 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group continues to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Due to the outbreak of COVID-19, most of our retail stores and franchisees' stores cannot be opened in Feburary and early March. Retail sales and sales to franchisees had significantly decreased. As at the date on which this set of financial statements were authorised for issue, most of our retail stores and franchisees' stores have been opened for business as usual.

In preparing this set of financial statements, the Group assessed the provision of inventory, impairment from financial assets, fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and going concern. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the above accounting items as a result of the COVID-19 outbreak.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2020 AGM of the Company.

On behalf of the Board
Zheng Yaonan
Chairman

Hong Kong, 25 March 2020

Independent Auditor's Report

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 137, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment on carrying value of inventories Refer to note 4(a) (Critical accounting estimates and judgements) and note 24 (Inventories) to the consolidated financial statements. As at 31 December 2019, the Group's gross inventories and provision for impairment of inventories amounted to RMB1,467 million and RMB787 million, respectively. As described in the Accounting Policies in note 2.12 to the consolidated financial statements, inventories are carried at lower of cost and net realisable value. The directors consistently apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of inventories ageing, net realisable value below cost based upon plans for clearance sales and inventories loss based upon turnover rate. The estimations used in applying this methodology are subject to judgement by directors taking into account the changes in economic conditions and customer needs.	We assess the appropriateness of management's assumptions applied in calculating the value of the inventories provisions by, amongst others: • evaluated the outcome of management's estimations in prior years, level of inventories write-off during the year in relation to stock loss, analysis and assessment made by management with respect to inventories ageing. • tested the accuracy of the inventories ageing and performed analytics on selling data of stocks with long ageing to identify product lines with indicators of low turnover or slow moving. • met with marketing team of the Group to validate the assumptions applied by management in the underlying sales forecasts by category to assess the completeness of provisions for obsolescence. • compared the net realisable value, obtained through the sales subsequent to the year-end, to the cost of inventories to check for completeness of the associated provision. • recalculated the inventories provisions as at 31 December 2019. We found that management's assessment of the provision for obsolete or slow moving inventory was supported by the available audit evidence.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of loss allowance for trade receivables Refer to note 4(b) (Critical accounting estimates and judgements) and note 25 (Trade receivables) to the consolidated financial statements. As at 31 December 2019, the Group had gross trade receivables of RMB349 million and provision for impairment of trade receivables of RMB73 million. During the year ended 31 December 2019, the Group had reached agreements with certain customers to waive their long outstanding balances of RMB327 million. Provision is made for lifetime expected credit losses on trade receivables while waiving of trade receivables is made for estimation of loss on long aging outstanding balances of major customers. Management applied judgement in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected credit loss rates are determined based on historical credit losses experienced for the past twelve months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. The waiving of trade receivables is determined based on the aging of these receivables, management's assessment of the financial position and past history of individual customers. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses allowance of the trade receivables.	We understood and validated the credit control procedures performed by management, including its procedures on periodic review of aged receivables and assessment on expected credit losses allowance of receivables. We tested on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices. We tested on a sample basis, the subsequent settlement of trade receivables against bank receipts. We obtained management's assessment on the expected credit losses allowance of receivables. We corroborated and validated management's assessment based on the historical settlement pattern for the past twelve months and market research regarding the relevant forward-looking information such as macroeconomic factors used in management's assessment. We obtained the waiving agreements with customers and validated management's assessment based on the aging of trade receivables, the financial position and past history of those customers. We consider the estimation and judgement made by management in respect of the expected credit losses allowance and the collectability of receivables were supportable by the available evidence.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	6	4,081,885	5,096,453
Cost of sales	9	(3,159,299)	(2,972,889)
Gross profit		922,586	2,123,564
Selling and marketing expenses	9	(1,612,604)	(1,471,006)
General and administrative expenses	9	(304,106)	(260,589)
Net impairment losses on financial assets	12	(419,550)	(4,492)
Other income	7	35,919	90,937
Other (losses)/gains – net	8	(11,438)	5,564
Operating (loss)/profit		(1,389,193)	483,978
Finance income	13	9,947	19,977
Finance expenses	13	(30,287)	(10,056)
Finance (expenses)/income – net	13	(20,340)	9,921
Share of profit of equity investments	20	2,995	8,383
(Loss)/profit before income tax		(1,406,538)	502,282
Income tax credit/(expense)	14	106,746	(122,673)
(Loss)/profit for the year		(1,299,792)	379,609
Other comprehensive (loss)/income for the year			
Item that may be reclassified subsequently to profit or loss			
Exchange differences		17,388	34,433
Item that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income		(9,446)	–
Total comprehensive (loss)/income for the year		(1,291,850)	414,042
(Loss)/profit attributable to:			
Owners of the Company		(1,297,812)	378,229
Non-controlling interests		(1,980)	1,380
		(1,299,792)	379,609
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(1,289,870)	412,662
Non-controlling interests		(1,980)	1,380
		(1,291,850)	414,042
		RMB cents	RMB cents
(Loss)/earnings per share			
Basic (losses)/earnings per share	15	(57.76)	17.15
Diluted (losses)/earnings per share	15	(57.76)	17.10

The notes on pages 73 to 137 are integral parts of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*17*	515,402	564,357
Land use rights	*18*	–	85,231
Right-of-use assets	*18*	516,522	–
Intangible assets	*19*	39,871	44,972
Investment in joint ventures	*20*	285,174	165,405
Investment in an associate	*20*	–	385
Financial assets at fair value through profit or loss	*26*	102,729	106,000
Financial assets at fair value through other comprehensive income	*21*	74,414	60,494
Deposits, prepayments and other receivables	*22*	113,757	14,417
Deferred income tax assets	*23*	178,444	79,983
		1,826,313	1,121,244
Current assets			
Inventories	*24*	679,845	1,164,933
Trade receivables	*25*	276,111	825,627
Deposits, prepayments and other receivables	*22*	694,154	790,493
Financial assets at fair value through profit or loss	*26*	8,822	7,885
Term deposits and restricted bank deposits	*27*	630	9,855
Cash and cash equivalents	*27*	854,164	1,496,163
		2,513,726	4,294,956
Total assets		4,340,039	5,416,200

Consolidated Balance Sheet

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	*28*	140,312	140,755
Share premium	*28*	1,656,669	1,866,386
Other reserves	*29*	418,807	416,471
Retained earnings		320,835	1,623,937
		2,536,623	4,047,549
Non-controlling interests		15,989	15,056
Total equity		2,552,612	4,062,605
Liabilities			
Current liabilities			
Trade payables	*31*	460,642	711,105
Accruals and other payables	*32*	370,292	283,790
Contract liabilities	*6*	133,675	85,763
Current income tax liabilities		–	72,285
Borrowings	*33*	150,000	183,960
Lease liabilities	*18*	199,147	–
Deferred income	*34*	436	2,958
		1,314,192	1,339,861
Non-current liabilities			
Borrowings	*33*	305,190	–
Lease liabilities	*18*	165,880	–
Deferred income tax liabilities	*23*	1,070	1,247
Deferred income	*34*	1,095	12,487
		473,235	13,734
Total liabilities		1,787,427	1,353,595
Total equity and liabilities		4,340,039	5,416,200

The notes on pages 73 to 137 are integral parts of these consolidated financial statements.

Zheng Yaonan
Director

Zhang Shengfeng
Director

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company						
	Share capital RMB'000 *(Note 28)*	Share premium RMB'000 *(Note 28)*	Other reserves RMB'000 *(Note 29)*	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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							
Loss for the year	–	–	–	(1,297,812)	(1,297,812)	(1,980)	(1,299,792)
Other comprehensive income							
Exchange differences	–	–	17,388	–	17,388	–	17,388
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	(9,446)	–	(9,446)	–	(9,446)
Total comprehensive income for the year	–	–	7,942	(1,297,812)	(1,289,870)	(1,980)	(1,291,850)
Transactions with owners							
Dividends paid	–	(196,706)	–	–	(196,706)	–	(196,706)
Shares bought back on-market and cancelled	(443)	(13,011)	–	–	(13,454)	–	(13,454)
Equity-settled share-based compensation *(Note 30)*	–	–	7,944	–	7,944	–	7,944
Shares purchased for share award scheme *(Note 29(d))*	–	–	(18,840)	–	(18,840)	–	(18,840)
Contribution from non-controlling interests	–	–	–	–	–	2,913	2,913
Total transactions with owners	(443)	(209,717)	(10,896)	–	(221,056)	2,913	(218,143)
Appropriation to statutory reserves	–	–	5,290	(5,290)	–	–	–
As at 31 December 2019	140,312	1,656,669	418,807	320,835	2,536,623	15,989	2,552,612

Consolidated Statement of Changes in Equity

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

The notes on pages 73 to 137 are integral parts of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*35(a)*	(183,752)	174,764
Income tax paid		(64,177)	(123,967)
Net cash (used in)/generated from operating activities		(247,929)	50,797
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	*35(b)*	1,719	592
Proceeds from disposal of land use rights		7,788	–
Interest received		9,947	21,864
Investment income from financial assets at fair value through profit or loss		157	8,885
Dividends from financial assets at fair value through other comprehensive income		–	14,000
Payment for financial assets at fair value through other comprehensive income		(23,366)	(37,394)
Purchases of property, plant and equipment		(193,497)	(101,245)
Purchases of intangible assets		(8,219)	(5,006)
Purchases of financial assets at fair value through profit or loss		–	(106,000)
Advance to a joint venture		(3,267)	(364)
Capital contribution to joint ventures		(116,389)	(135,000)
Received in advance for proposed disposal of financial assets at fair value through profit or loss		100,000	–
Term deposits with initial term of over three months		–	100,000
Release of restricted bank deposits		9,225	–
Repayment from a related party		–	2,700
Net cash used in investing activities		(215,902)	(236,968)
Cash flows from financing activities			
Purchase of the Company's shares for share award scheme		(18,840)	(1,121)
Payments for repurchase of the Company's shares		(13,454)	(29,080)
Capital injections from non-controlling interests		2,913	15,300
Proceeds from shares issued		–	415,119
Proceeds from borrowings		470,000	–
Repayments of borrowings		(198,770)	(39,120)
Interest paid for borrowings		(20,324)	(10,056)
Principal elements of lease payments		(218,115)	–
Dividends paid		(196,706)	(115,725)
Net cash (used in)/generated from financing activities		(193,296)	235,317
Net (decrease)/increase in cash and cash equivalents		(657,127)	49,146
Cash and cash equivalents at beginning of the year	27	1,496,163	1,405,285
Effect of foreign exchange rate changes		15,128	41,732
Cash and cash equivalents at end of the year	27	854,164	1,496,163

The notes on pages 73 to 137 are integral parts of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Cosmo Lady (China) Holdings Company Limited (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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014.

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

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Company's board of directors (the "Board") on 25 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group has to change its accounting policies as a result of adopting IFRS 16. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 2.2 below. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards, amendments to existing standards and interpretations that have been issued but are not effective

Certain new accounting standards, amendments to existing standards and interpretations have been published that are not mandatory for adoption during the current reporting period and have not been early adopted by the Group. None of these is expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge accounting	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 2.1 above, 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. The new accounting policies are disclosed in Note 2.28.

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%.

2.2.1 Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.1 Practical expedients applied (Continued)

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 by applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

2.2.2 Measurement of lease liabilities

	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 liabilities recognised as at 1 January 2019	152,132
Of which are:	
Current lease liabilities	69,656
Non-current lease liabilities	82,476
	152,132

2.2.3 Measurement of right-of-use assets

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.

2.2.4 Adjustments recognised in the balance sheet on 1 January 2019

The land use rights are reclassified to right-of-use assets as of 31 December 2019.

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

	1 January 2019 RMB'000
Properties	154,606
Land use rights	85,231
Total right-of-use assets	239,837

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

2.2.4 Adjustments recognised in the balance sheet on 1 January 2019 (Continued)

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 rights	85,231	(85,231)	–

2.2.5 Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries

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

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

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

2.3.2 Associates

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.3 Joint arrangements

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

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

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

2.3.4 Changes in ownership interests in subsidiaries without change of control

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

2.3.5 Disposal of subsidiaries

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

2.4 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

2.8 Intangible assets

(a) *Acquired trademark*

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

(b) *Computer software*

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

(c) *Goodwill*

Goodwill is measured as the excess of the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

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

2.10 Offsetting financial instruments

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

2.11 Investments and other financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and

- those to be measured at amortised cost.

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

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

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

Recognition and derecognition

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

Measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Investments and other financial assets (Continued)

Equity instruments

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

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

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 25 for further details.

2.12 Inventories

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

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Restricted bank deposits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Share capital and shares held for employee share scheme

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

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

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

2.17 Trade and other payables

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

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

2.18 Borrowings

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

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

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

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

2.19 Borrowing costs

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

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

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

Borrowing costs include interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee benefits

(a) *Pension obligations*

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

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

(b) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

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

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

(d) *Bonus entitlements*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

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

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

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

(b) Shares held for the 2016 Share Award Scheme

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Share-based payments (Continued)

(c) *Employee options*

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

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

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

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

The Employee Option Plan is administered by the Company Employee Share Trust, which is consolidated in accordance with the principles in Note 2.22(b). When the options are exercised, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

The Employee Option Plan has been replaced by the 2019 Share Award Scheme mentioned in Note 2.22(d).

(d) *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 2.22(c).

The fair value of shares granted under the 2019 Share Award Scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted:

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Share-based payments (Continued)

(d) *2019 Share Award Scheme* (Continued)

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

The 2019 Share Award Scheme is administered by the Company Employee Share Trust, which is consolidated in accordance with the principles in Note 2.22(b). When the vesting conditions are fulfilled, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

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

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

2.23 Provisions

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

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

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

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

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

2.24 Revenue recognition

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

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

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

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

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

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

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

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

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

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

(d) *Logistic warehousing and delivery income*

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

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

(e) *Other services income*

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

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

(b) *Diluted earnings per share*

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

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

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

2.26 Interest income

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

2.27 Dividend income

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

2.28 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases (Note 18). Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was 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 property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 37(b)). 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases (Continued)

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.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Leases (Continued)

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal 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.

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 are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all 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 and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.29 Dividend distribution

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

2.30 Government grants

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's recognized assets and liabilities in the consolidated balance sheet as at 31 December 2019 are denominated in the respective Group companies' functional currencies.

(b) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets (bank balances and cash, details of which have been disclosed in Note 27), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 33. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. The Group's borrowings were carried at fixed rates and does not expose the Group to cash flow interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure against interest-rate risks.

(c) Price risk

Except for the investments held by the Group and classified on the consolidated balance sheet as FVOCI of RMB74,414,000 (2018: RMB60,494,000) and FVPL of RMB111,551,000 (2018: RMB113,885,000), the Group is not exposed to any equity securities price risk.

(d) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits and other receivables, bank balances and cash included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. For wholesale to customers, the Group has policies in place to ensure credit terms are only granted to franchise customers with good credit histories and credit evaluations were conducted on them periodically, taking into account their financial position, past experience and other factors. For other customers without credit terms granted, deposits and advances are received in most cases before delivery is made. The Group in general does not require collaterals from trade debtors. Provisions are made for past due balances when management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash, credit cards issued by major banks or on-line payments such as WeChat Pay and Alipay.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) *Credit risk* (Continued)

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

The Group also has policies in place to ensure that bank balances, term deposits and restricted bank deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong. There has been no recent history of default in relation to these financial institutions. As at 31 December 2019, the bank balances, term deposits and restricted bank deposits with banks as detailed in Note 27 are held in the following banks in the PRC and Hong Kong:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Top-four major state-owned banks in the PRC/Hong Kong	584,601	783,903
Listed state-owned banks in the PRC/Hong Kong	146,753	535,951
Other regional banks in the PRC	122,573	185,745
	853,927	1,505,599

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

(e) *Liquidity risk*

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

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

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019					
Borrowings *(Note 33)*	153,404	126,144	214,831	494,379	455,190
Lease liabilities *(Note 18)*	212,327	110,923	62,946	386,196	365,027
Trade payables *(Note 31)*	460,642	–	–	460,642	460,642
Accruals and other payables*	216,391	–	–	216,391	216,391
Total	1,042,764	237,067	277,777	1,557,608	1,497,250

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(e) *Liquidity risk* (Continued)

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018					
Borrowings *(Note 33)*	188,329	–	–	188,329	183,960
Trade payables *(Note 31)*	711,105	–	–	711,105	711,105
Accruals and other payables*	196,110	–	–	196,110	196,110
Total	1,095,544	–	–	1,095,544	1,091,175

* Excluding salaries and welfare payables, accrued taxes other than income tax, provision for sales return and deposit received for proposed disposal of FVPL.

3.2 Capital risk management

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

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

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

As at 31 December 2019, 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 and lease liabilities by approximately RMB43,399,000 (2018: RMB1,329,943,000).

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

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

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

As at 31 December 2019, except for the financial assets at FVOCI of RMB74,414,000 (2018: RMB60,494,000) and financial assets at fair value through profit or loss of RMB111,551,000 (2018: RMB113,885,000), which were measured at either level 3 or level 1 fair value respectively, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Analysis of level 3 and level 1 financial instruments for the year ended 31 December 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	8,822	–	102,729	111,551
Financial assets at fair value through other comprehensive income	–	–	74,414	74,414
At 31 December 2019	8,822	–	177,143	185,965
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
As at 1 January 2018	23,100
Additions	143,394
As at 31 December 2018	166,494
Additions	23,366
Losses recognised in other comprehensive income	(9,446)
Losses recognised in other income	(3,271)
As at 31 December 2019	177,143

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

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

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

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

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

Twelve entities engaging in the manufacturing of intimate wear in the PRC	2019	2018
Discount rate	15%	15%
Long term revenue growth rates	3%	3%
Long term profit margins	4%-13%	3%-16%
Discount for lack of marketability	30%	30%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(a) Net realizable value of inventories

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

(b) Impairment of financial assets

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

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

(c) Impairment of non-financial assets

Provision is made when events or changes in circumstances indicate that the carrying amounts may not be recoverable. For the purpose of assessing provision for impairment, non-financial assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverability of the carrying amounts of non-financial assets was assessed according to their recoverable amount. The assessment requires the use of judgement and estimates.

(d) Current and deferred income taxes

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

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

(e) Fair value of certain financial assets

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

5 SEGMENT INFORMATION

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

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

For the year ended 31 December 2019, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2018: None).

6 REVENUE

	Year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Sales to franchisees	**1,950,422**	2,800,790
Retail sales	**1,378,873**	1,494,518
E-commerce	**627,481**	712,450
Trading of raw materials	**125,109**	88,695
	4,081,885	5,096,453

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Contract liabilities related to sales to franchisees	**108,227**	77,621
Contract liabilities related to trading of raw materials	**25,448**	8,142
	133,675	85,763

The revenue recognised in the current reporting year relating to carried-forward contract liabilities as at 1 January 2019 is approximately RMB85,763,000.

7 OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants *(Note)*	**13,559**	41,268
Logistic warehousing and delivery income	**10,252**	10,564
Software usage fee income	**1,290**	2,462
Franchise fee income	**768**	1,489
Investment income from FVPL	**157**	8,885
Dividends from FVOCI	**–**	14,000
Others	**9,893**	12,269
	35,919	90,937

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

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 2.30 for further details.

8 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net foreign exchange (losses)/gains	**(2,445)**	7,293
Fair value losses on financial assets at fair value through profit or loss *(Note 26)*	**(2,334)**	(523)
Loss on disposal of property, plant and equipment – net	**(2,522)**	(1,206)
Loss on disposal of intangible assets	**(4,137)**	–
	(11,438)	5,564

9 EXPENSES BY NATURE

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Costs of inventories recognized in cost of sales	2,381,264	2,895,327
Employee benefit expenses (including directors' emoluments) *(Note 10)*	399,820	376,097
Operating lease expenses in respect of stores under cooperative arrangements	605,313	677,488
Other operating rental expenses	27,330	30,845
Marketing and promotion expenses	190,141	160,963
Depreciation and amortization *(Notes 17, 18 and 19)*		
– Depreciation of right-of-use assets	136,571	–
– Others	104,680	87,602
E-commerce platforms commission expenses	76,583	80,748
Logistic warehousing and delivery expenses	55,765	42,297
Provision for inventories *(Note 24)*	737,912	27,902
Impairment of property, plant and equipment *(Note 17)*	23,071	–
Government charges and levies	25,155	38,946
Utilities expenses	33,009	33,082
Travelling expenses	50,746	41,258
Consumables recognized in expenses	27,183	26,386
Consulting service expenses	33,541	15,133
Auditor's remuneration		
– Audit services	3,900	3,549
– Non-audit services	865	780
Miscellaneous	163,160	166,081
Total cost of sales, selling and marketing expenses and general and administrative expenses	5,076,009	4,704,484

10 EMPLOYEE BENEFIT EXPENSES

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	339,685	316,982
Pension costs – defined contribution plans	37,750	38,331
Welfare and allowance	14,441	15,177
Equity-settled share-based compensation *(Note 30)*	7,944	5,607
	399,820	376,097

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

(a) Benefits and interests of directors

Directors' and chief executive's emoluments for the year ended 31 December 2019 are set out below:

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Zheng Yaonan *(Note 1)*	–	757	64	821
Mr. Zhang Shengfeng	–	640	64	704
Ms. Wu Xiaoli	–	776	92	868
Non-executive Directors				
Mr. Lin Zonghong *(Note 2)*	–	–	64	64
Mr. Cheng Zuming *(Note 3)*	–	640	62	702
Mr. Wen Baoma	–	50	–	50
Mr. Yang Weiqiang	–	–	–	–
Mr. Hu Shengli *(Note 4)*	–	–	–	–
Mr. Zhao Yingming *(Note 5)*	–	–	–	–
Independent Non-executive Directors				
Dr. Dai Yiyi	150	–	–	150
Mr. Chen Zhigang	120	–	–	120
Mr. Yau Chi Ming	179	–	–	179
Dr. Lu Hong Te	150	–	–	150
	599	2,863	346	3,808

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

(a) Benefits and interests of directors (Continued)

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

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive Directors				
Mr. Zheng Yaonan *(Note 1)*	–	827	70	897
Mr. Zhang Shengfeng	–	697	70	767
Mr. Lin Zonghong *(Note 2)*	–	106	70	176
Mr. Cheng Zuming *(Note 3)*	–	687	68	755
Ms. Wu Xiaoli	–	268	70	338
Non-executive Directors				
Mr. Wen Baoma	–	50	–	50
Mr. Yang Weiqiang	–	–	–	–
Mr. Hu Shengli *(Note 4)*	–	–	–	–
Independent Non-executive Directors				
Dr. Dai Yiyi	150	–	–	150
Mr. Chen Zhigang	120	–	–	120
Mr. Yau Chi Ming	175	–	–	175
Dr. Lu Hong Te	150	–	–	150
	595	2,635	348	3,578

Note 1: Mr. Zheng Yaonan voluntarily resigned as the chief executive officer with effect from 19 August 2019. Mr. Siu Ka Lok ("Mr. Siu") has been appointed as the chief executive officer of the Company with effect from 19 August 2019. The emoluments of Mr. Siu was RMB6,368,000 for the year ended 31 December 2019.

Note 2: Mr. Lin Zonghong has been re-designated as a non-executive director of the Company and has vacated the office of deputy chairmanship with effect from 19 August 2019.

Note 3: Mr. Cheng Zuming has been re-designated as a non-executive director of the Company with effect from 1 February 2019, and has resigned as a non-executive director of the Company with effect from 26 February 2020.

Note 4: Mr. Hu Shengli has decided to retire with effect from 21 May 2019.

Note 5: Mr. Zhao Yingming was appointed as a non-executive Director with effect from 21 May 2019.

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

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2018: Nil).

No payment was made to directors as compensation for the early termination of the appointment during the year (2018: Nil).

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

(a) Benefits and interests of directors (Continued)

No payment was made to directors as compensation for the early termination of the appointment during the year (2018: Nil).

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2018: Nil).

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2018: Nil).

Except for those disclosed in Note 38, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included nil director (2018: 1), whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 5 (2018: 4) during the year are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	11,070	5,857
Pension costs – defined contribution plans	462	192
Equity-settled share-based compensation	1,140	–
	12,672	6,049

The emoluments fell within the following bands:

	Number of individual Year ended 31 December	
	2019	2018
Emolument bands:		
HK$500,000 to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	–	2
HK$2,500,001 to HK$3,000,000	1	–
HK$7,000,001 to HK$7,500,000	1	–

During the year, no director or none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2018: Nil).

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

(c) Senior management remuneration by band

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

	Number of individual Year ended 31 December	
	2019	2018
Emolument bands:		
HK$0 to HK$500,000	3	2
HK$500,001 to HK$1,000,000	–	3
HK$1,000,001 to HK$1,500,000	4	1
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	–	2
HK$2,500,001 to HK$3,000,000	1	–
HK$7,000,001 to HK$7,500,000	1	–

12 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
One-off waiving of trade receivables *(Note 25)*	326,602	–
Provision for impairment of trade receivables	68,665	2,372
Provision for impairment of other receivables	24,283	2,120
	419,550	4,492

13 FINANCE INCOME AND EXPENSES

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Finance income		
Interest income on short-term bank deposits	9,522	16,491
Interest income on advance to suppliers	425	3,486
	9,947	19,977
Finance expenses		
Interest expense on bank borrowings	(20,324)	(10,056)
Interest expense on lease liabilities	(9,963)	–
	(30,287)	(10,056)
	(20,340)	9,921

14 INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Current income tax		
– Hong Kong profits tax *(Note (a))*	–	–
– PRC corporate income tax *(Note (b))*	17,090	147,603
– Over-provision in prior year *(Note (d))*	(25,198)	–
	(8,108)	147,603
Deferred income tax *(Note 23)*		
– Deferred income tax current period	(101,249)	(24,930)
– Over-provision in prior year *(Note (d))*	2,611	–
	(98,638)	(24,930)
Income tax (credit)/expense	(106,746)	122,673

Notes:

(a) Hong Kong profits tax

The applicable Hong Kong profits tax rate is 16.5% (2018: 16.5%) for the year ended 31 December 2019.

(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 ("HNTE") 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 year ended 31 December 2019 (2018: 25%) on the estimated assessable profits for the year, 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 Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from BVI income tax.

(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 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 years 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 years from 2018 to 2020. The over-provision represents the difference between 15% and 25% which was the then corporate tax rate used in 2018.

14 INCOME TAX (CREDIT)/EXPENSE (Continued)

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
(Loss)/profit before income tax	(1,406,538)	502,282
Tax calculated at statutory tax rates applicable to each group entity	(249,873)	122,890
Tax losses for which no deferred income tax asset was recognised	61,608	534
Reversal of tax losses for which deferred tax assets were recognised previously	36,553	–
Income not subject to taxation	(82)	(5,736)
Expenses not deductible for tax purposes	64,047	1,712
Withholding tax	3,588	3,273
Over-provision in prior year	(22,587)	–
Income tax (credit)/expense	(106,746)	122,673

15 (LOSS)/EARNINGS PER SHARE

Basic

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

	Year ended 31 December	
	2019	2018
(Loss)/profit for the year attributable to owners of the Company (RMB'000)	(1,297,812)	378,229
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share (thousands of shares)	2,247,066	2,205,670
Basic (loss)/earnings per share (RMB cents per share)	(57.76)	17.15

Note: The weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share for the year ended 31 December 2019 has been adjusted for the effects of purchase and withholding of ordinary shares of the Company for the share award scheme and the repurchase and cancellation of ordinary shares of the Company during the year ended 31 December 2019 (2018: Same).

15 (LOSS)/EARNINGS PER SHARE (Continued)

Diluted

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

	Year ended 31 December	
	2019	2018
(Loss)/profit for the year attributable to owners of the Company (RMB'000)	**(1,297,812)**	378,229
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share (thousands of shares)	**2,247,066**	2,205,670
Adjustment for share options (thousands of shares)	**–**	5,813
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share (thousands of shares)	**2,247,066**	2,211,483
Diluted (loss)/earnings per share (RMB cents per share)	**(57.76)**	17.10

16 DIVIDENDS

At a meeting held on 25 March 2020, the Board did not recommend the payment of final dividend for the year ended 31 December 2019 (2018: HK3.75 cents per share and special final dividend of HK6.20 cents per share).

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

At the annual general meeting held on 21 May 2019, the shareholders approved a final dividend of HK3.75 cents (equivalent to approximately RMB3.20 cents) per ordinary share and special final dividend of HK6.20 cents (equivalent to approximately RMB5.30 cents) per ordinary for celebrating the 5th anniversary of the listing of the Company's shares, totalling approximately HK$224,403,000 (equivalent to approximately RMB196,706,000) for the year ended 31 December 2019, which was paid during the year and has been reflected as an appropriation for the year ended 31 December 2019.

17 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture, fittings and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018							
Cost	445,739	156,829	78,839	128,846	5,423	38,057	853,733
Accumulated depreciation	(63,144)	(119,047)	(27,205)	(74,679)	(4,649)	–	(288,724)
Net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
Year ended 31 December 2018							
Opening net book amount	382,595	37,782	51,634	54,167	774	38,057	565,009
Additions	106	55,419	1,442	13,454	439	9,017	79,877
Transfer	–	1,576	–	2,115	–	(3,691)	–
Disposals	(438)	(432)	(26)	(847)	(55)	–	(1,798)
Depreciation *(Note 9)*	(21,159)	(31,943)	(6,780)	(18,425)	(424)	–	(78,731)
Closing net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
At 31 December 2018							
Cost	445,407	213,392	80,255	143,568	5,807	43,383	931,812
Accumulated depreciation	(84,303)	(150,990)	(33,985)	(93,104)	(5,073)	–	(367,455)
Net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
Year ended 31 December 2019							
Opening net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
Additions	806	52,888	724	17,403	2,650	959	75,430
Transfer	43,151	–	–	–	–	(43,151)	–
Disposals	–	(17)	(5)	(3,028)	–	(1,191)	(4,241)
Depreciation *(Note 9)*	(21,537)	(49,734)	(5,972)	(18,587)	(1,243)	–	(97,073)
Impairment loss *(Note(a))*	–	(23,071)	–	–	–	–	(23,071)
Closing net book amount	383,524	42,468	41,017	46,252	2,141	–	515,402
At 31 December 2019							
Cost	489,364	266,263	80,974	157,943	8,457	–	1,003,001
Accumulated depreciation	(105,840)	(200,724)	(39,957)	(111,691)	(6,316)	–	(464,528)
Accumulated impairment loss	–	(23,071)	–	–	–	–	(23,071)
Net book amount	383,524	42,468	41,017	46,252	2,141	–	515,402

Notes:

(a) As at 31 December 2019, an impairment of RMB23,071,000 (2018: Nil) was made to write down the leasehold improvements for certain loss making retail stores.

(b) As at 31 December 2019, buildings of RMB26,239,000 (2018: Nil) were pledged as collateral for the Group's borrowings (Note 33).

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	2,085	1,087
Selling and marketing expenses	11,102	10,413
General and administrative expenses	83,886	67,231
	97,073	78,731

18 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000
Right-of-use assets		
Properties	441,101	154,606
Land use rights	75,421	85,231
	516,522	239,837
Lease liabilities		
Current	199,147	69,656
Non-current	165,880	82,476
	365,027	152,132

As at 31 December 2018, the amount of land use rights was RMB85,231,000.

Additions to the right-of-use assets during the 2019 financial year were RMB409,917,000.

As at 31 December 2019, land use rights of RMB13,081,000 (2018: Nil) were pledged as collateral for the Group's borrowings (Note 33).

18 LEASES (Continued)

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

		Year ended 31 December	
	Note	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets			
Properties		134,549	–
Land use rights		2,022	–
		136,571	–
Interest expense (included in finance expenses)	13	9,963	–
Expense relating to short-term leases and leases of low-value assets that are not shown above as short-term leases (included in selling and marketing expenses and general and administrative expenses)	9	27,330	–
Expense relating to variable lease payments not included in lease liabilities (included in selling and marketing expenses)	9	605,313	–

The total cash outflow for leases in 2019 was RMB850,758,000.

(c) 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 1 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 on the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes except for those with land use right certification.

(d) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For retail stores, up to 47% of lease payments are on the basis of variable payment terms with percentages ranging from 35% to 40% of sales. Variable payment terms are used for a variety of reasons. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

19 INTANGIBLE ASSETS

	Goodwill RMB'000	Acquired trademark RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2018				
Cost	2,887	10,190	65,724	78,801
Accumulated amortization	–	(3,638)	(29,773)	(33,411)
Net book amount	2,887	6,552	35,951	45,390
Year ended 31 December 2018				
Opening net book amount	2,887	6,552	35,951	45,390
Additions	–	26	6,347	6,373
Amortization charge *(Note 9)*	–	(1,021)	(5,770)	(6,791)
Closing net book amount	2,887	5,557	36,528	44,972
At 31 December 2018				
Cost	2,887	10,216	72,071	85,174
Accumulated amortization	–	(4,659)	(35,543)	(40,202)
Net book amount	2,887	5,557	36,528	44,972
Year ended 31 December 2019				
Opening net book amount	2,887	5,557	36,528	44,972
Additions	–	150	6,493	6,643
Disposal	–	–	(4,137)	(4,137)
Amortization charge *(Note 9)*	–	(969)	(6,638)	(7,607)
Closing net book amount	2,887	4,738	32,246	39,871
At 31 December 2019				
Cost	2,887	10,366	74,427	87,680
Accumulated amortization	–	(5,628)	(42,181)	(47,809)
Net book amount	2,887	4,738	32,246	39,871

Amortization of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income within selling and marketing expenses and general and administrative expenses of RMB2,261,000 (2018: RMB1,969,000) and RMB5,346,000 (2018: RMB4,822,000), respectively.

Impairment review on goodwill of the Group has been conducted by management as at 31 December 2019 and 31 December 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 3% (2018: not more than 3%). The growth rates used do not exceed the industry growth forecast for the market in which the Group operates. The discount rate used of 19% (2018: 19%) is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

20 INVESTMENT IN JOINT VENTURES AND AN ASSOCIATE

The carrying amount of equity-accounted investments has changed as follows in the year ended 31 December 2019.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Beginning of the year	165,790	22,407
Additions	116,389	135,000
Share of profit for the year	2,995	8,383
End of the year	285,174	165,790

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2019 %	2018 %			2019 RMB'000	2018 RMB'000
Guangdong Dongdu Holdings Limited	PRC	19.9	19.9	Joint venture *(Note (a))*	Equity method	19,520	18,347
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	19,499	15,056
Jinghedu(Dongguan) Equity Investment Fund Partnership (Limited Partnership)	PRC	38.72	69	Joint venture *(Note (c))*	Equity method	242,000	132,002
Jinghedu(Dongguan) Equity Investment Management Partnership (Limited Partnership)	PRC	30	–	Joint venture *(Note (c))*	Equity method	3,000	–
Shantou Lianda Technology Company Limited	PRC	19.99	–	Joint venture *(Note (c))*	Equity method	1,155	–

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 31 December 2019, total amount of RMB242,000,000 has been paid by the Group.

(d) Shantou Lianda Technology Company Limited is primarily engaged in producing and selling intimate wear products.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Unlisted equity investments	74,414	60,494

22 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Prepayments for acquisition of property, plant and equipment and intangible assets	105,816	5,043
Value added tax recoverable	220,138	157,705
Prepayments and deposits	8,509	11,715
Prepaid expenses in respect of stores under cooperative arrangements	181,954	304,696
Prepayments for purchase of goods	79,703	142,056
Prepayments for purchase of raw materials	123,640	67,766
Other receivables from agents	43,345	58,292
Other receivables from staffs	13,396	19,404
Others	57,813	40,353
Less: provision for impairment of other receivables	(26,403)	(2,120)
	807,911	804,910
Less: non-current portion	(113,757)	(14,417)
Current portion	694,154	790,493

As at 31 December 2019, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

As at 31 December 2019, the Group's deposits and other receivables are fully performing under normal business terms except that certain other receivables of RMB24,283,000 (2018: RMB2,120,000) (Note 12) have been fully impaired.

23 DEFERRED INCOME TAX

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	106,569	15,040
Deferred tax assets to be recovered within 12 months	71,875	64,943
	178,444	79,983

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

	Provision for inventories RMB'000	Impairment of trade receivables RMB'000	Provision for sales return RMB'000	Deferred income RMB'000	Amortization of right-of-use assets RMB'000	Tax losses RMB'000	Accrued interest RMB'000	Impairment of property, plant and equipment RMB'000	Total RMB'000
At 1 January 2018	16,025	611	605	4,601	–	20,690	12,698	–	55,230
Credited/(charged) to the profit or loss *(Note 14)*	(68)	503	170	(740)	–	15,863	9,025	–	24,753
At 31 December 2018	15,957	1,114	775	3,861	–	36,553	21,723	–	79,983
Credited/(charged) to the profit or loss *(Note 14)*	122,880	13,692	(322)	(3,522)	446	(36,553)	(3,191)	5,031	98,461
At 31 December 2019	138,837	14,806	453	339	446	–	18,532	5,031	178,444

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

	Intangible assets	
	2019 RMB'000	2018 RMB'000
At 1 January	1,247	1,424
Credited to the statement of profit or loss *(Note 14)*	(177)	(177)
At 31 December	1,070	1,247

As at 31 December 2019, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB359,964,000 (2018: RMB1,649,577,000). Deferred tax liabilities of RMB35,996,000 (2018: RMB164,958,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

24 INVENTORIES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	**12,633**	23,121
Work in progress	**–**	6,683
Finished goods	**1,454,118**	1,198,958
	1,466,751	1,228,762
Less: provision for impairment	**(786,906)**	(63,829)
	679,845	1,164,933

Inventories are valued at the lower of cost and estimated net realizable value. Provision is made for obsolete and slow-moving items. The inventory write-down and write-back recognized in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB737,912,000 and RMB14,835,000 respectively for the year ended 31 December 2019 (2018: RMB27,902,000 and RMB28,172,000 respectively).

In view of the deteriorating retail market and the difficulty in promoting sales of old inventories in the second half of the year, management has made a provision of RMB737,912,000 based on the revised strategy to dispose aged inventories through different channels at discounted price.

25 TRADE RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Due from third parties	**349,347**	830,401
Less: provision for impairment	**(73,236)**	(4,774)
Trade receivables – net	**276,111**	825,627

(a) As at 31 December 2019, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.

25 TRADE RECEIVABLES (Continued)

(b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new outlets. The Group would also extend the credit period for certain franchise customers under certain circumstances. The ageing analysis of trade receivables based on invoice date, as at 31 December 2019 is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables, gross		
– Within 30 days	88,808	401,470
– Over 30 days and within 60 days	65,006	113,493
– Over 60 days and within 90 days	51,064	155,705
– Over 90 days and within 180 days	49,485	107,243
– Over 180 days and within 360 days	50,676	33,291
– Over 360 days	44,308	19,199
	349,347	830,401

(c) Trade receivables of the Group are analyzed as below:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Fully performing under credit terms	101,660	687,697
Past due but not impaired	174,451	137,930
Non-performing and impaired	73,236	4,774
	349,347	830,401
Less: provision for impairment	(73,236)	(4,774)
Trade receivables – net	276,111	825,627

As at 31 December 2019, trade receivables of RMB73,236,000 (2018: RMB4,774,000) of the Group are provided for. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles of sales before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP rate of PRC in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

25 TRADE RECEIVABLES (Continued)

(c) Trade receivables of the Group are analyzed as below (Continued):
On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

	Within 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 360 days	More than 360 days	Total
31 December 2019							
Expected loss rate	0%-2%	0%-10%	0% – 15%	0% – 25%	0% –60%	0% – 100%	
Gross carrying amount – trade receivables	88,808	65,006	51,064	49,485	50,676	44,308	349,347
Loss allowance	1,054	4,121	6,759	8,334	28,654	24,314	73,236

For past due but not impaired receivables, based on the past experiences, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors.

The ageing analysis of the Group's trade receivables which are past due but not impaired is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
– Within 30 days	36,741	42,305
– Over 30 days and within 60 days	25,136	18,156
– Over 60 days and within 90 days	22,618	29,931
– Over 90 days and within 180 days	15,797	38,659
– Over 180 days and within 360 days	42,212	5,079
– Over 360 days	31,947	3,800
	174,451	137,930

Movements of impairment losses of trade receivables are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Provision for impairment:		
At beginning of year	4,774	2,444
Waiving of trade receivables	(326,602)	–
Provision for impairment	395,267	2,711
Written-off during the year as uncollectible	–	(339)
Unused amounts reversed	(203)	(42)
At end of year	73,236	4,774

Note: Management has reached agreements with certain franchisees to waive their long outstanding balances in November 2019 as these franchisees were unable to fulfil their obligation to settle the balances and to continue operations.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include the following:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Current asset		
Japan listed equity security *(Note (a))*	**8,822**	7,885
Non-current asset		
Entrusted investment *(Note (b))*	**102,729**	106,000
	111,551	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 (2019: loss of RMB2,334,000; 2018: loss of RMB523,000).

(b) The Group has invested in an unlisted company through a third party investment management company. The Group has entered into agreement with Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) ("Jinghedu") to dispose the entrusted investment. As at 31 December 2019, the Group has received advanced payment from Jinghedu of RMB100,000,000. The transaction was completed subsequently in early 2020.

(c) Risk exposure and fair value measurements

Information about the Group's exposure to price risk is provided in Note 3.1(c). For information about the methods and assumptions used in determining fair value, please refer to Note 3.3.

27 BANK BALANCES AND CASH

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	854,164	1,496,163
Term deposits with initial term of over three months *(Note (a))*	630	630
Restricted bank deposits *(Note (b))*	–	9,225
Total bank balances and cash	854,794	1,506,018
Denominated in:		
RMB	637,432	856,911
HK$	87,646	496,136
Other currencies	129,716	152,971
	854,794	1,506,018

Notes:

(a) As at 31 December 2019, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 2.81% (2018: 2.81%) per annum.

(b) As at 31 December 2019, restricted bank deposits has been released as the final payment has been paid off by 31 December 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.

28 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2018	2,146,457,000	133,792	1,603,035	1,736,827
Proceeds from shares issued *(Note (a))*	121,443,213	7,756	407,363	415,119
Shares bought back on-market and cancelled	(11,666,000)	(778)	(27,809)	(28,587)
Shares bought back on-market and not yet cancelled *(Note (b))*	–	(15)	(478)	(493)
Dividends	–	–	(115,725)	(115,725)
	109,777,213	6,963	263,351	270,314
As at 31 December 2018	2,256,234,213	140,755	1,866,386	2,007,141
Shares bought back on-market and cancelled *(Notes (b) and (c))*	**(6,777,000)**	**(443)**	**(13,011)**	**(13,454)**
Dividends	**–**	**–**	**(196,706)**	**(196,706)**
As at 31 December 2019	**2,249,457,213**	**140,312**	**1,656,669**	**1,796,981**

Notes:

(a) 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.

(b) 210,000 shares were purchased in late 2018 and cancelled in early 2019.

(c) 6,567,000 shares purchased in 2019 from the market were cancelled during the year.

29 OTHER RESERVES

	Merger reserve RMB'000 Note (a)	Shares held for share award scheme RMB'000 Note (d)	Statutory reserve RMB'000 Note (b)	Capital reserve RMB'000 Note (c)	Capital contribution reserve RMB'000	Equity-settled share-based compensation RMB'000	Financial assets at FVOCI RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
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	–	–	–	–	–	5,607	–	–	5,607
– Transaction with non-controlling interest	–	–	–	3,974	–	–	–	–	3,974
Shares purchased for share award scheme	–	(1,121)	–	–	–	–	–	–	(1,121)
Exchange differences	–	–	–	–	–	–	–	34,433	34,433
Appropriation to statutory reserves	–	–	98,133	–	–	–	–	–	98,133
At 31 December 2018	(8,938)	(20,658)	196,356	196,764	23,377	10,248	–	19,322	416,471
Equity-settled share-based compensation									
– Value of employee services	–	–	–	–	–	7,944	–	–	7,944
Shares purchased for share award scheme	–	(18,840)	–	–	–	–	–	–	(18,840)
Revaluation	–	–	–	–	–	–	(9,446)	–	(9,446)
Exchange differences	–	–	–	–	–	–	–	17,388	17,388
Appropriation to statutory reserves	–	–	5,290	–	–	–	–	–	5,290
At 31 December 2019	(8,938)	(39,498)	201,646	196,764	23,377	18,192	(9,446)	36,710	418,807

Notes:

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

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

(c) Capital reserve
Capital reserve as at 1 January 2013 represented the excess of the cash consideration over the paid-in capital arising from capital contributions to Cosmo Lady Guangdong Holdings Limited by investors.

On 29 July 2013, Cosmo Lady Guangdong was converted into a joint stock company with limited liability by converting the total equity as at 31 December 2012 into 420,000,000 ordinary shares of nominal value of RMB1.00 each. The excess of total equity of Cosmo Lady Guangdong over the nominal value of total issued share capital with the amount of RMB192,790,000 has been recognized as capital reserve in the consolidated balance sheet.

(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 and 28 June 2019, the Board of Directors may from time to time determines the maximum number of ordinary shares of the Company which may be purchased by the Share Scheme Trustee in the open market on the Stock Exchange.

During the year ended 31 December 2019, the Share Scheme Trustee acquired and withheld 17,085,000 ordinary shares of the Company (2018: 500,000) from the open market with funds provided by the Company by way of contributions, for an aggregate consideration of approximately HK$21,102,000 (equivalent to approximately RMB18,840,000) (2018: RMB1,121,000), which had been deducted from shareholders' equity.

30 EQUITY-SETTLED SHARE-BASED COMPENSATION

(a) 2016 Share Award Scheme

The Board of Directors has approved the adoption of the Share Award Scheme on 17 August 2016. The purpose of the Share Award Scheme is to recognize and motivate the contribution of certain members of management of the Group and to provide incentives and help the Group in retaining its existing members of management and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. The vesting period of the awarded shares is determined by the Board.

No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 31 December 2019.

(b) Employee Option Plan

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

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

Each option shall entitle the holder of the option to subscribe for one share upon exercise of such option at an exercise price of HK$3.288 per share, being the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing price of the shares as quoted on the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

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

	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
Granted	HK$3.288	–	HK$3.288	–
Forfeited and replaced	HK$3.288	(55,300,000)	HK$3.288	(19,700,000)
As at 31 December	HK$3.288	–	HK$3.288	55,300,000
Vested and exercisable at 31 December	–	–	–	–

The benefits of the share options granted under the Employee Option Plan has been replaced by the benefits of the shares to be granted under the 2019 Share Award Scheme as mentioned in Note 30(c). As such, the remaining share option balance of RMB35,437,000 as at 31 December 2018 will continue to be amortised over its remaining period when the conditions as defined in the plan are fulfilled.

30 EQUITY-SETTLED SHARE-BASED COMPENSATION (Continued)

(c) 2019 Share Award Scheme

The Board of Directors has approved the adoption of the 2019 Share Award Scheme on 28 June 2019. The purpose of the Share Award Scheme is to recognize and motivate the contribution of 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 benefits under the Share Award Scheme serves to replace the benefits under the Company's employee option plan established and approved by the Board on 31 October 2017. The vesting period of the awarded shares is determined by the Board.

The shares are recognised at the closing share price on the grant date (grant date fair value) as an issue of shares under employee share scheme and as part of employee benefit costs in the period the shares are granted.

As at 31 December 2019, the number of shares to be granted under the plan to participating employees provided that certain performance standards are met is 34,332,000.

The shares had a grant date fair value of HK$62,111,000 (equivalent to approximately RMB55,638,000).

(d) Expenses arising from share-based payment transactions

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
General and administrative expenses:		
2019 Share Award Scheme	**5,018**	–
Share-based compensation related to senior managements' interest in subsidiaries *(Note)*	**–**	5,607
Selling and marketing expenses		
2019 Share Award Scheme	**2,926**	–
	7,944	5,607

Note: In 2018, certain senior management together with their management team invested in two subsidiaries of the Group. The fair value of the shares invested over their actual investment amount was booked as share-based compensation.

31 TRADE PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Due to third parties	**440,928**	703,688
Due to related parties *(Note 38(c))*	**19,714**	7,417
	460,642	711,105

As at 31 December 2019, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

31 TRADE PAYABLES (Continued)

As at 31 December 2019, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 31 December 2019 is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables		
– Within 30 days	76,738	128,260
– Over 30 days and within 60 days	50,898	185,045
– Over 60 days and within 90 days	150,834	229,615
– Over 90 days and within 180 days	130,202	82,371
– Over 180 days and within 360 days	47,521	39,235
– Over 360 days	4,449	46,579
	460,642	711,105

32 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Payables for purchases of property, plant and equipment and intangible assets	17,734	37,943
Salaries and welfare payables	47,566	47,827
Accrued taxes other than income tax	4,271	36,753
Deposits from franchisees	53,658	54,731
Payable for logistics	40,480	26,963
Payable for advertisements	11,404	13,338
Provision for sales return	2,064	3,100
Deposit received for proposed disposal of FVPL	100,000	–
Other accrued expenses and payables	93,115	63,135
	370,292	283,790

As at 31 December 2019, accruals and other payables of the Group are non-interest bearing, and their fair values, except for the provision for sales return and receipts in advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2019, accruals and other payables of the Group are denominated in RMB.

33 BORROWINGS

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current		
Secured bank borrowing *(Note)*	189,990	–
Unsecured bank borrowing	115,200	–
	305,190	–
Current		
Unsecured bank borrowing	150,000	183,960
	455,190	183,960

Movements in borrowings are analysed as follows:

	RMB'000
Opening amount as at 1 January 2019	183,960
Repayments of bank borrowings	(198,770)
Proceeds from bank borrowings	470,000
Closing amount as at 31 December 2019	455,190

Note: The amount represents the bank borrowing of RMB189,990,000, which bears interest at 5.23% per annum, repayable by 17 June 2022 and is secured by the Group's certain buildings and right-of-use assets of RMB39,320,000.

The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.46% (2018: 5.22%) and are within level 2 of the fair value hierarchy.

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

Notes to the Consolidated Financial Statements

34 DEFERRED INCOME

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Non-current	1,095	12,487
Current	436	2,958
	1,531	15,445

Deferred income represented government grants relating to property, plant and equipment. See Note 7 for further details.

35 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of (loss)/profit before income tax to net cash generated from operations

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
(Loss)/profit before income tax	(1,406,538)	502,282
Adjustments for:		
Depreciation of property, plant and equipment *(Note 17)*	97,073	78,731
Amortization of right-of-use assets *(Note 18)*	136,571	–
Amortization of land use rights *(Note 18)*	–	2,080
Amortization of intangible assets *(Note 19)*	7,607	6,791
Provision for impairment of other receivables *(Note 12)*	24,283	2,120
Provision for impairment of trade receivables *(Note 12)*	68,665	2,372
Waiving of trade receivables *(Note 12)*	326,602	–
Provision for inventories *(Note 24)*	737,912	27,902
Impairment of property, plant and equipment *(Note 17)*	23,071	–
Fair value losses on FVPL *(Note 8)*	2,334	523
Finance income *(Note 13)*	(9,947)	(19,977)
Finance expenses *(Note 13)*	30,287	10,056
Foreign exchange losses/(gains) *(Note 8)*	2,445	(7,293)
Equity-settled share-based compensation	7,944	5,607
Share of profit of equity investments	(2,995)	(8,383)
Investment income from FVPL	(157)	(8,885)
Dividends from FVOCI	–	(14,000)
Loss on disposal of property, plant and equipment – net *(Note 8)*	2,522	1,206
Loss on disposal of intangible assets – net *(Note 8)*	4,137	–
	51,816	581,132
Changes in working capital:		
Decrease/(increase) in trade receivables	154,249	(273,720)
Decrease/(increase) in deposits, prepayments and other receivables	75,323	(259,591)
Increase in inventories	(252,824)	(80,876)
(Decrease)/increase in trade payables	(250,463)	127,537
Increase/(decrease) in accruals and other payables	4,149	(2,496)
Increase in contract liabilities	47,912	85,763
Decrease in deferred income	(13,914)	(2,985)
Cash (used in)/generated from operations	(183,752)	174,764

35 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Proceeds from disposal of property, plant and equipment

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net book amount of property, plant and equipment *(Note 17)*	4,241	1,798
Loss on disposal of property, plant and equipment – net *(Note 8)*	(2,522)	(1,206)
Proceeds from disposal of property, plant and equipment	1,719	592

(c) Net cash reconciliation

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Total bank balance and cash	854,794	1,506,018
Liquid investment *(Note)*	8,822	7,885
Borrowings	(455,190)	(183,960)
Lease liabilities	(365,027)	–
Net cash	43,399	1,329,943
Cash and liquid investments	863,616	1,513,903
Gross debt – fixed interest rates	(555,017)	(183,960)
Gross debt – variable interest rates	(265,200)	–
Net cash	43,399	1,329,943

35 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Net cash reconciliation (Continued)

	Other assets			Liabilities from financing activities		
	Cash, cash equivalents RMB'000	Term deposits and restricted bank deposits RMB'000	Liquid investment *(Note)* RMB'000	Leases RMB'000	Borrowings RMB'000	Total RMB'000
Net cash as at 1 January 2018	1,405,285	109,855	8,408	–	(223,080)	1,300,468
Cash flows	49,146	(100,000)	–	–	39,120	(11,734)
Foreign exchange adjustments	41,732	–	–	–	–	41,732
Other non-cash movements	–	–	(523)	–	–	(523)
Net cash as at 31 December 2018	1,496,163	9,855	7,885	–	(183,960)	1,329,943
Recognised on adoption of IFRS 16	–	–	–	(152,132)	–	(152,132)
Net cash as at 1 January 2019	1,496,163	9,855	7,885	(152,132)	(183,960)	1,177,811
Cash flows	(657,127)	(9,225)	–	218,115	(271,230)	(719,467)
Foreign exchange adjustments	15,128	–	–	–	–	15,128
Other non-cash movements	–	–	937	(431,010)	–	(430,073)
Net cash as at 31 December 2019	854,164	630	8,822	(365,027)	(455,190)	43,399

Note: Liquid investment comprises current investment that is traded in an active market, being the Group's financial assets held at fair value through profit or loss under current assets.

36 BALANCE SHEET AND RESERVES OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2019 **RMB'000**	2018 RMB'000
Assets		
Non-current assets		
Interests in subsidiaries *(Note (a))*	**1,192,036**	1,169,604
Current assets		
Other receivables	**483**	823
Amounts due from a subsidiary *(Note (b))*	**472,865**	146,392
Financial assets at fair value through profit or loss	**8,822**	7,885
Bank balances and cash	**155,433**	691,513
	637,603	846,613
Total assets	**1,829,639**	2,016,217
Equity		
Capital and reserves		
Share capital *(Note 28)*	**140,312**	140,755
Share premium *(Note 28)*	**1,656,669**	1,866,386
Other reserves	**199,186**	169,916
Accumulated losses	**(175,051)**	(167,996)
Total equity	**1,821,116**	2,009,061
Liabilities		
Current liabilities		
Accruals and other payables	**8,523**	7,156
Total liabilities	**8,523**	7,156
Total equity and liabilities	**1,829,639**	2,016,217

Zheng Yaonan
Director

Zhang Shengfeng
Director

36 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Accumulated losses of the Company

	RMB'000
At 1 January 2018	(164,802)
Loss for the year	(3,194)
At 31 December 2018	(167,996)
Loss for the year	(7,055)
At 31 December 2019	(175,051)

Other reserves of the Company

	Shares held for share award scheme RMB'000	Capital contribution reserve RMB'000	Equity-settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other Reserves RMB'000
At 1 January 2018	(19,537)	18,429	9,589	58,569	67,050
Shares purchased for share award scheme	(1,121)	–	–	–	(1,121)
Currency translation differences	–	–	–	103,987	103,987
At 31 December 2018	(20,658)	18,429	9,589	162,556	169,916
Value of employee services	–	–	7,944	–	7,944
Shares purchased for share award scheme	(18,840)	–	–	–	(18,840)
Currency translation differences	–	–	–	40,166	40,166
At 31 December 2019	(39,498)	18,429	17,533	202,722	199,186

36 BALANCE SHEET AND RESERVES OF THE COMPANY (Continued)

Other reserves of the Company (Continued)

Notes:

(a) Interests in subsidiaries

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Capital contribution relating to share-based payment	33,857	27,341
Loans to subsidiaries	1,158,179	1,142,263
	1,192,036	1,169,604

The capital contribution relates to shares granted to employees of subsidiaries under Share Award Scheme. Refer to Note 30(d) for further details on the Group's share award scheme.

Loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to subsidiaries.

(b) Amounts due from a subsidiary are unsecured, non-interest bearing and repayable on demand. The carrying amounts of these balances are mainly denominated in HK$ and approximate their fair values.

37 COMMITMENTS

(a) Capital commitments

As at 31 December 2019, the Group had the following capital commitments not provided for:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Contracted but not provided for:		
Property, plant and equipment	96,584	28,880
Intangible assets	2,182	697
	98,766	29,577

(b) Operating lease commitments

The Group leases certain of its stores, warehouses and office properties under lease arrangements with leases negotiated for terms mainly ranging from one to five years.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 2.2.2 and Note 18 for further information.

37 COMMITMENTS (Continued)

(b) Operating lease commitments (Continued)

As at 31 December 2019, the future aggregate minimum lease payments in respect of certain short-term and low-value office equiments under non-cancellable operating leases were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
No later than 1 year	6	82,466
Later than 1 year and no later than 5 years	–	85,689
Later than 5 years	–	–
	6	168,155

38 RELATED PARTY TRANSACTIONS

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and balances arising from related party transactions as at 31 December 2019.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. Zhang Shengfeng	Director
Mr. Lin Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd (汕頭市盛強針織實業有限公司) ("Shantou Shengqiang")	Controlled by a brother of Mr. Zhang Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd (汕頭市茂盛針織內衣有限公司 ("Shantou Maosheng")	Controlled by a brother of Mr. Lin Zonghong
Guangdong Zhengji Innovative Industrial Park Development Co., Ltd. (廣東正基創新產業園發展有限公司) ("Guangdong Zhengji")	Controlled by Mr. Zheng Yaonan
Cosmo Lady Guangdong Intelligent Industry Investment Co., Ltd. (廣東都市麗人智能產業投資有限公司) ("CLGIII")	Controlled by Mr. Zheng Yaonan
Guangdong Dongdu Holdings Limited (廣東東都實業有限公司)	Joint venture
Zhong Rui Run He (Ningbo) Investment Management Company Limited (中瑞潤和(寧波)投資管理有限公司)	Joint venture
Jinghedu (Dongguan) Equity Investment Management Company Limited (京合都(東莞)股權投資管理有限公司)	Joint venture
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) (京合都(東莞)股權投資基金合夥企業(有限合夥))	Joint venture
Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership) (京合都(東莞)股權投資管理合夥企業(有限合夥))	Joint venture
Shantou Lianda Technology Company Limited (汕頭市聯大科技有限公司)	Joint venture

38 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties – Purchases of goods:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Continuing transactions:		
Shantou Shengqiang	30,208	28,348
Shantou Maosheng	1,818	8,847
	32,026	37,195

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

(c) Balance with related party

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade payables balance *(Note 31)*:		
Shantou Shengqiang	19,714	7,417

The trade payables to related party 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 is as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	16,429	10,846
Pension costs – defined contribution plans	876	663
Equity-settled share-based compensation	3,266	–
	20,571	11,509

39 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP

(a) Particulars of the subsidiaries of the Group as at 31 December 2019 are set out below:

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group 2019	Interests held by the Group 2018	Principal activities/ place of operation
Directly held:					
Cosmo Lady (International) Holdings Co., Ltd (都市麗人(國際)控股有限公司)	BVI	1 share of US$1	100%	100%	Investment holding/ Hong Kong
Indirectly held:					
Cosmo Lady Guangdong Holdings Limited (廣東都市麗人實業有限公司)	PRC	RMB420,000,000	100%	100%	Sale of intimate wear/ PRC
Beijing Ziseyangguang Sale Co., Ltd. (北京紫色陽光銷售有限公司)	PRC	RMB1,000,000	100%	100%	Sale of intimate wear/ PRC
Shenzhen Sisters Fashion Co., Ltd (深圳市姐妹風尚服裝銷售有限公司)	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Guangzhou) Co., Ltd (廣州市都市麗人服裝有限公司)	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Tianjin Dushifengshang Fashion Co., Ltd. (天津都市風尚服裝銷售有限公司)	PRC	RMB30,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Chongqing) Co., Ltd (重慶市凡雪服裝有限公司)	PRC	RMB20,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Shanghai) Co., Ltd (上海市凡雪服裝有限公司)	PRC	RMB3,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (TianJin) E-commerce Company Limited (天津都市麗人電子商務有限公司)	PRC	RMB10,000,000	95%	95%	Sale of intimate wear/ PRC
Freeday (Tianjin) Fashion Company Limited (天津自在時光服裝銷售有限公司)	PRC	RMB15,000,000	100%	100%	Sale of intimate wear/ PRC
Ordinfen (Tianjin) Fashion Company Limited (天津歐迪芬服裝銷售有限公司)	PRC	RMB100,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Guang Dong) Technology Company Limited (廣東都市麗人科技有限公司)	PRC	RMB3,000,000	100%	100%	Sale of raw material/ PRC
Guangdong Cosmo Logistics Technology Company Limited (廣東都市物流科技有限公司)	PRC	RMB10,000,000	100%	100%	Logistics warehousing and distribution services/PRC

39 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2019 are set out below (Continued):

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group 2019	Interests held by the Group 2018	Principal activities/ place of operation
Cosmo Lady (International) Company Limited (都市麗人(國際)集團有限公司)	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Holdings Company Limited (都市麗人(香港)控股有限公司)	Hong Kong	10,000 shares of HK$1	100%	100%	Investment holding/ Hong Kong
Freeday (Hong Kong) Holdings Company Limited (自由時光(香港)控股有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Hong Kong) Holdings Company Limited (歐迪芬(香港)控股有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Industrial Company Limite (都市麗人(香港)工業有限公司)	Hong Kong	1 share of HK$1	100%	100%	Investment holding/ Hong Kong
Ordinfen (Shanghai) Corporate Management Consulting Co., Ltd (上海歐迪芬企業管理諮詢有限公司)	PRC	HK$10,000,000	100%	100%	Corporate consulting/ PRC
Guangdong Qipao Living Goods Company Limited (廣東汽泡生活用品有限公司)	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Dongguan Jiali Intelligence Technology Goods Company Limited (東莞市佳麗智慧科技有限公司)	PRC	RMB8,000,000	60%	60%	Sale of intimate wear/ PRC
Dongguan Liruiyao Textile Company Limited (東莞市利瑞瑤紡織有限公司)	PRC	RMB10,000,000	51%	51%	Sale of intimate wear/ PRC
Dongguan Cosmo Lady Sales Company Limited (東莞市都市麗人銷售有限公司)	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Tumushuke) Co., Ltd (圖木舒克市凡雪服裝有限公司)	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Shenzhen Yueshang IT Company Limited (深圳悅尚信息科技有限公司)	PRC	RMB5,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Dongguan) E-commerce Company Limited (東莞市都市麗人電子商務有限公司)	PRC	RMB5,000,000	100%	100%	Sale of intimate wear/ PRC
Shenzhen Dushi Fashion Company Limited (深圳都市貝比服飾有限公司)	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC

39 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2019 are set out below (Continued):

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group 2019	2018	Principal activities/ place of operation
Shangyue (Tianjin) Fashion Company Limited (悅尚(天津)服飾有限公司)	PRC	RMB20,000,000	75%	75%	Sale of intimate wear/ PRC
Dongguan Yimaotong Supply Chain Management Company Limited (東莞市易貿通供應鏈管理有限公司)	PRC	RMB10,000,000	100%	100%	Sale of raw material/ PRC
Shenzhen Yimaotong Supply Chain Management Company Limited (深圳市易貿通供應鏈管理有限公司)	PRC	RMB10,000,000	100%	100%	Sale of raw material/ PRC
Dongguan Kejiayi Textile Sales Company Limited (東莞市科嘉藝紡織銷售有限公司)	PRC	RMB10,000,000	51%	51%	Sale of raw material/ PRC
Dongguan Dushi Hengfeng Sales Company Limited (東莞市都市恒鋒銷售有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Dongguan Dushi Hengyao Sales Company Limited (東莞市都市恒耀銷售有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Dongguan Dushi Hongfeng Sales Company Limited (東莞市都市宏鋒銷售有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Dongguan Dushi Yaoli Sales Company Limited (東莞市都市耀麗銷售有限公司)	PRC	RMB10,000,000	100%	–	Sale of intimate wear/ PRC
Shaoguan Dongdu Property Management Company Limited (韶關市東都物業管理有限公司)	PRC	RMB5,000,000	100%	-	Property management services/PRC
Shaoguan Dushi Feiteng Logistics Company Limited (韶關都市飛騰物流有限公司)	PRC	RMB2,000,000	100%	–	Logistics warehousing and distribution services/PRC

(b) Particulars of the associate of the Group as at 31 December 2019 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2019	2018	Principal activities/ place of operation
Zhong Rui Run He (Ningbo) Investment Management Company Limited (中瑞潤和(寧波)投資管理有限公司)	PRC	RMB4,000,000	40%	40%	Investment management/ PRC

39 PARTICULARS OF THE SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES OF THE GROUP (Continued)

(c) Particulars of the joint ventures of the Group as at 31 December 2019 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group 2019	Interests held by the Group 2018	Principal activities/ place of operation
Guangdong Dongdu Holdings Limited (廣東東都實業有限公司)	PRC	RMB100,000,000	19.9%	19.9%	Real estate development/ PRC
Jinghedu (Dongguan) Equity Investment Management Company Limited (京合都(東莞)股權投資管理有限公司)	PRC	RMB3,000,000	60%	60%	Investment management/ PRC
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) (京合都(東莞)股權投資基金合夥企業(有限合夥))	PRC	RMB242,000,000	38.72%	69%	Investment management/ PRC
Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership) (京合都(東莞)股權投資管理合夥企業(有限合夥))	PRC	RMB3,000,000	30%	–	Investment management/ PRC
Shantou Lianda Technology Company Limited (汕頭市聯大科技有限公司)	PRC	RMB1,399,000	19.99%	–	Manufacturing and sales of intimate wear/PRC

The English names of the PRC companies referred to the above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

40 EVENTS AFTER THE REPORTING PERIOD

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country. The Group continues to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Due to the outbreak of COVID-19, most of our stores and franchisees' stores cannot be opened in Feburary and early March. Retail sales and sales to franchisees had significantly decreased. As at the date on which this set of financial statements were authorised for issue, most of our stores and franchisees' stores have been opened for business as usual.

In preparing this set of financial statements, the Group assessed the provision of inventory, impairment from financial assets, fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and going concern. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the above accounting items as a result of the COVID-19 outbreak.

Five-year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out as follows:

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	4,081,885	5,096,453	4,542,483	4,512,385	4,953,415
Gross profit	922,586	2,123,564	1,964,523	2,002,037	2,114,794
Gross profit margin	22.6%	41.7%	43.2%	44.4%	42.7%
Operating (loss)/profit	(1,389,193)	483,978	419,565	305,449	688,803
Operating (loss)/profit margin	–34.0%	9.5%	9.2%	6.8%	13.9%
(Loss)/profit attributable to owners of the Company	(1,297,812)	378,229	317,002	241,961	540,008
Net (loss)/profit margin	–31.8%	7.4%	7.0%	5.4%	10.9%

	As of 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Bank balances and cash	854,794	1,506,018	1,515,140	809,178	960,074
Borrowings	455,190	183,960	223,080	200,000	–
Non-current assets	1,826,313	1,121,244	807,084	760,100	766,268
Current assets	2,513,726	4,294,956	3,729,410	3,019,286	2,716,499
Non-current liabilities	473,235	13,734	228,129	201,601	1,778
Current liabilities	1,314,192	1,339,861	952,252	883,956	842,127
Net current assets	1,199,534	2,955,095	2,777,158	2,135,330	1,874,372
Total assets	4,340,039	5,416,200	4,536,494	3,779,386	3,482,767
Total liabilities	1,787,427	1,353,595	1,180,381	1,085,557	843,905
Total equity	2,552,612	4,062,605	3,356,113	2,693,829	2,638,862

	2019	2018	2017	2016	2015
Current ratio (times)	2	3	4	3	3
Average inventory turnover period (days)	107	140	160	142	93
Average trade receivables turnover period (days)	49	49	40	39	29
Average trade payables turnover period (days)	68	80	81	76	49