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INNOVATION
TRUST
VITALITY

Annual Report 2019

GXG

Mulsanne Group Holding Limited
慕尚集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1817

CONTENTS

CORPORATE INTRODUCTION

We are a leading fashion menswear company based in China, which also covers sportswear market and other fashion segments. With our experience in the fashion industry, multi-brand development and execution capabilities, we have expanded our brands to capture future market opportunities. Our founders first launched our flagship GXG branded products in 2007, and we catered to different menswear styles by introducing gxg jeans in 2010 and brought our GXG series design philosophy into kidswear market by launching gxg.kids in 2012. With a view to expanding into the fast-growing sportswear, we introduced Yatlas in 2014 to offer athleisure apparel and 2XU in 2017 to offer performance sportswear. Each of our brands has a uniquely defined design identity and encompasses a range of products, offered in a variety of fits, fabrics, finishes, styles and price points intended to appeal a broad spectrum of customers.

We adopt an integrated omni-channel business model that capitalises on online and offline strengths, delivers a seamless and consistent customer experience, and increases efficiency in terms of inventory management, supply chain management, product selection and logistics. With our deep understanding of customers, we have adopted a customer-centred model to offer our customers a one-stop shopping experience. For both our online and offline channels, we provide a similar product range and unified pricing, shared inventories, as well as flexible and efficient logistics support. Moreover, by analysing the big data generated from both online channels and offline retail stores through our product lifecycle management system, we can capture the precise level of demand and quickly react to the latest market trends by adjusting our production and inventory plan, which is highly helpful for our inventory control and supply chain management. New retail has become a major trend of the apparel industry in China in recent years, and our Group is a leader in new retail integration among the major fashion apparel brands in China which have adopted the new retail business model with innovative initiatives.

BOARD OF DIRECTORS

EXECUTIVE DIRECTOR

Mr. YU Yong *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS

Mr. HUANG Hanji *(Chairman)*
Mr. YANG Herong
Mr. LIN Lin
Mr. ONG Yew Thiong, Gilbert[1]
Mr. WANG Jun[2]
Mr. Ravinder Singh THAKRAN

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GU Jiong
Mr. YUAN Tao
Mr. Paolo BODO

AUDIT COMMITTEE

Mr. GU Jiong *(Chairman)*
Mr. YUAN Tao
Mr. Paolo BODO

REMUNERATION COMMITTEE

Mr. GU Jiong *(Chairman)*
Mr. YUAN Tao
Mr. Paolo BODO
Mr. YANG Herong
Mr. LIN Lin

NOMINATION COMMITTEE

Mr. HUANG Hanji *(Chairman)*
Mr. GU Jiong
Mr. YUAN Tao

JOINT COMPANY SECRETARIES

Mr. DING Dade
Ms. NG Sau Mei *(FCIS, FCS)*

AUTHORIZED REPRESENTATIVES

Mr. YU Yong
Ms. NG Sau Mei

AUDITOR

Ernst & Young

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS

No. 111, Shanshan Road
Wangchun Industrial Park
Haishu District
Ningbo, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F., Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

THE CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited

STOCK CODE

1817

COMPANY'S WEBSITE

www.gxggroup.cn

LISTING DATE

27 May 2019

Notes:

(1) Mr. ONG Yew Thiong, Gilbert resigned as a non-executive Director on 27 August 2019.

(2) Mr. WANG Jun was appointed as a non-executive Director on 27 August 2019.

CHAIRMAN’S STATEMENT

Affected by the global economic environment, the economic growth and consumption of the People’s Republic of China (“**PRC**”) has decelerated in the recent two years. Meanwhile, with the significant increase in the number of high-tech companies and the emergence of various innovative high-tech business models, China’s apparel industry faces new challenges and opportunities. Moreover, with the changing consumption patterns and psychology, there is a growing number of groups pursuing a quality and personalised lifestyle.

2019 is the first financial year of the Group as a listed company. Despite the inventory pressure from the integration of new retail channels and the influence from the diversification of consumption in the sluggish consumption environment, the Group benefited from its multi-brand and internationalization strategy and its apparent strength in online channels. By virtue of the big-data-oriented new retail marketing model, and with the joint efforts of all staff, the Group still recorded a growth in its business. In particular, the revenue from eCommerce channel increased by 5.59% as compared to the corresponding period in 2018, and represented up to 38.3% of the total revenue. In conclusion, the integration of new retail channels of the Company meets the expectation.

In 2019, the Group continued to be member-centred and dedicated into the new retail platform of which we are proud. By making full use of the RFID technology and the flexible supply chain, we shortened the time from order placing, production to shipment of products to seven days at least, and achieved visualisation from production to sales of products. We had expanded to over 120 smart stores with 13.50 million followers. The full integration of social eCommerce effectively enhanced the bond with consumers and rendered supreme consumption experience to members.

During the year, the Group continued to practice its development strategy of multi-brand and internationalisation, actively sought cooperation with fashion IP (namely Intellectual Property) brands, and penetrated into market segments. The Company launched jointly-developed products with nearly 20 IPs, including BE@RBRICK, TETRIS, umbro, NASA, MIGHTY ATOM, PEPSI, PINK PANTHER, TUZKI, SPONGEBOB, etc. Meanwhile, we also enhanced the bond with and the loyalty of followers. In December 2019, the Group reached a joint venture agreement with ESPRIT, a classic leisurewear brand with 51 years of history, pursuant to which the Group will contribute 60% of the capital to form a joint venture company. It will take full charge of its operations in Mainland China and take over, with full authority, the development, reform and reshaping of ESPRIT in Mainland China in the future. At this point, Mulsanne Group owns six brands including GXG, gxg jeans, gxg.kids, Yatlas, 2XU and ESPRIT. Mulsanne is on the way to become a fashion group which continuously enriches its product offerings to cater to the dressing needs of different consumer groups in various daily life scenarios.

Looking ahead, Mulsanne remains confident in its future as a leading fashion company in China. We will proactively expand new and innovative online sales channels, such as social eCommerce channels, while continuously enhance the Group's competitive edge in traditional online channels such as Tmall, Taobao and VIPshop. We develop new product portfolio and brand metric through multi-brand strategy in order to further integrate online new retail channels with offline ones and the supply chain system, enhance the Group's operational efficiency and improve member's experience and attract more followers.

Finally, I would like to take this opportunity to, on behalf of the board ("**Board**") of the Directors ("**Directors**") of the Company, express my heartfelt gratitude to all shareholders, business partners and customers for their continuous faith and support to the Group, and to the staff for their dedication to the Company. The Group will keep developing at a steady pace to continuously maximise returns to our shareholders and deliver products and services of higher quality to our loyal customers.

HUANG Hanji
Chairman of the Company

BUSINESS OVERVIEW AND OUTLOOK

Affected by the global economic environment, China's economy and consumption growth has also decelerated in 2019. Meanwhile, with the significant increase in the number of high-tech companies and the emergence of various innovative high-tech business models, 2019 has been a year of both challenges and opportunities for China's apparel industry. In early 2020, China's apparel industry suffered a significant blow as a result of the novel coronavirus ("**COVID-19**") outbreak. The Group's business for the first quarter of 2020, particularly its offline retail channels, was also affected. However, as the Chinese government has put in place a number of policies to support its citizens and businesses, the Group believes that the public's spending power will gradually pick back up and that its performance for the rest of the year will recover. Moreover, benefiting from its multi-brand strategy and its strength in online sales channel to well adapt to the accelerated change of customer shopping behavior from offline to online during and after the COVID-19 outbreak, the Group remains confident towards its future as a leading fashion company in China. To help develop the fashion apparel industry in China, the Group is committed to implementing the following growth strategies:

- Proactively expand new and innovative online sales channels, such as social eCommerce channels, while continuously enhance the Group's competitive edge in traditional online channels such as Tmall, Taobao and VIPshop, to better adapt to the accelerated change of customers' shopping behaviour from offline channels to online channels during and after the COVID-19 outbreak;

- Develop new product portfolio and brand metric through multi-brands strategy in order to further integrate online sales channels with offline sales channels and improve operational efficiency;

- Seek collaboration opportunities with popular apparel brands in order to launch more attractive jointly-developed products;

- Attract more followers by introducing continuous innovative marketing measures, and enhance members' experience through new retail technology and advantages; and

- Further develop its leading supply chain system, improve its ability to serve its customers, and satisfy customers' needs by providing products and services in high quality.

REVENUE

The Group derived its revenue primarily from sales of its products through its self-owned stores, distributors, partners and online channels to end customers. The Group's revenue is stated as the net invoiced value of goods sold, after allowances for returns and trade discounts.

For the year ended 31 December 2019 (the "**Period**"), the total sales revenue recorded was RMB3,721.4 million, representing a decrease of 1.7%, or RMB65.6 million, from RMB3,787.0 million in 2018. The slight decrease in revenue was the result of closure of stores that were under-performing or incurring losses, causing a decrease in the number of the Group's self-owned stores and partnership stores.

REVENUE BY BRAND

	Year ended 31 December			
	2019		2018	
	RMB'000	***%***	*RMB'000*	*%*
GXG series				
GXG	**2,355,606**	**63.3**	2,504,720	66.1
gxg jeans	**649,571**	**17.5**	753,942	19.9
gxg.kids	**598,135**	**16.1**	387,252	10.2
Sportswear				
Yatlas	**60,467**	**1.6**	97,712	2.6
2XU	**15,939**	**0.4**	14,304	0.4
Others	**41,658**	**1.1**	29,112	0.8
Total	**3,721,376**	**100.0**	3,787,042	100.0

For the Period, sales revenue from main brands, namely GXG and gxg jeans, declined by 6.0%, or RMB149.1 million, and 13.8%, or RMB104.3 million, respectively, as compared to that in 2018. The major reasons include (i) an increase in sales of old inventories that had lower prices, and (ii) closure of stores that were under-performing or incurring losses, causing a significant decrease in the number of the Group's self-owned stores and partnership stores. Sales revenue from gxg.kids for the Period increased by 54.4%, or RMB210.8 million, as compared to that in 2018, mainly due to a one-time buyout from an offline national distributor. Accordingly, for the Group's GXG series, the above changes resulted in the reduction in sales proportion of (i) GXG brand from 66.1% in 2018 to 63.3% in 2019 and (ii) gxg jeans brand from 19.9% in 2018 to 17.5% in 2019, and an increase in the sales proportion of gxg.kids brand from 10.2% in 2018 to 16.1% in 2019.

Among the Group's sportswear brands, Yatlas's revenue for the Period decreased by 38.1%, or RMB37.2 million, as compared to that in 2018, mainly due to the Group's adjustment of brand positioning by reducing the number of stores to enhance store efficiency. Due to an increase in e-commerce sales, all of the sales of 2XU and other brands increased during the Period.

REVENUE BY SALES CHANNEL

	Year ended 31 December			
	2019		2018	
	RMB'000	**%**	*RMB'000*	*%*
Sales of apparel products				
Offline channels				
Self-owned stores	**921,229**	**24.8**	1,193,064	31.5
Partnership stores	**334,315**	**9.0**	397,277	10.5
Distributor stores	**1,027,084**	**27.6**	833,584	22.0
Online channels	**1,425,806**	**38.3**	1,350,314	35.7
Sales of other products	**12,942**	**0.3**	12,803	0.3
Total	**3,721,376**	**100.0**	3,787,042	100.0

In May 2019, the Group transferred all offline channels of kidswear to a distributor, aiming to take advantage of the distributor's local experience and knowledge to increase the Group's share in the kidswear market in China. As a result of the conversion in kidswear from self-owned stores and partnership stores to distributor stores, sales from self-owned stores for the Period decreased by 22.8%, or RMB271.9 million, to RMB921.2 million, and sales from partnership stores for the Period decreased by 15.9%, or RMB63.0 million, to RMB334.3 million, while sales from distributor stores for the Period increased by 23.2%, or RMB193.5 million, to RMB1,027.1 million.

Online channel sales for the Period maintained growth with an increase of 5.6%, or RMB75.5 million, to RMB1,425.8 million. As to the Group's revenue composition for the Period, online channel sales was ranked first with 38.3%, followed by distributor stores with 27.6% and self-owned stores with 24.8%.

NUMBER OF STORES BY BRAND

	As at 31 December			
	2019		2018	
	Number of stores	***%***	*Number of stores*	*%*
GXG series				
GXG	**1,118**	**64.4**	1,216	54.0
gxg jeans	**336**	**19.3**	505	22.4
gxg.kids	**249**	**14.3**	454	20.2
Sportswear				
Yatlas	**29**	**1.7**	69	3.1
2XU	**–**	**–**	3	0.1
Others	**5**	**0.3**	3	0.1
Total	**1,737**	**100.0**	2,250	100.0

Due to the relocation of shopping areas in offline channels, market factors such as the increase in store operating cost and the upgrade and consolidation of its offline channels, the Group adjusted its store network during the Period by closing its offline stores that failed to reach designated sales targets. As a result, the total number of stores decreased to 1,737 as at 31 December 2019 from 2,250 as at 31 December 2018.

NUMBER OF STORES BY CHANNEL

	As at 31 December			
	2019		2018	
	Number of stores	***%***	*Number of stores*	*%*
Self-owned stores	**387**	**22.3**	720	32.0
Partnership stores	**345**	**19.9**	532	23.6
Distributor stores	**1,005**	**57.8**	998	44.4
Total	**1,737**	**100.0**	2,250	100.0

During the Period, the number of distributor stores increased while the number of self-owned stores and partnership stores decreased mainly because the Group transferred all offline channels of kidswear to a distributor, aiming to take advantage of the distributor's local experience and knowledge to increase the Group's share in the kidswear market in China.

In addition, the Group closed stores that were under-performing or incurring losses, causing a decrease in the number of its self-owned stores and partnership stores.

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group recorded a total gross profit of RMB1,798.7 million for the Period, representing a decrease of 11.5%, or RMB233.5 million, from RMB2,032.2 million in 2018. Gross profit margin decreased from 53.7% in 2018 to 48.3% in 2019.

GROSS PROFIT AND GROSS PROFIT MARGIN BY BRAND

	Year ended 31 December			
	2019		2018	
	Gross Profit ***RMB'000***	**Gross Profit Margin** ***%***	Gross Profit *RMB'000*	Gross Profit Margin *%*
GXG series				
GXG	**1,204,009**	**51.1**	1,393,630	55.6
gxg jeans	**297,476**	**45.8**	383,538	50.9
gxg.kids	**253,862**	**42.4**	186,946	48.3
Sportswear				
Yatlas	**22,885**	**37.8**	51,127	52.3
2XU	**6,431**	**40.3**	6,994	48.9
Others	**14,072**	**33.8**	9,972	34.3
Total	**1,798,735**	**48.3**	2,032,207	53.7

During the Period, in order to reduce inventory and recoup funds while maintaining the price levels of in-season products, the Group has accelerated the promotional efforts of low-margin off-season products among all brands, which caused a slight decline in the overall gross profit margin of each brand.

GROSS PROFIT AND GROSS PROFIT MARGIN BY SALES CHANNEL

	Year ended 31 December			
	2019		2018	
	Gross Profit ***RMB'000***	**Gross Profit Margin** ***%***	Gross Profit *RMB'000*	Gross Profit Margin *%*
Sales of apparel products				
Offline channels				
Self-owned stores	**603,427**	**65.5**	825,081	69.2
Partnership stores	**150,518**	**45.0**	186,392	46.9
Distributor stores	**476,611**	**46.4**	416,744	50.0
Online channels	**567,296**	**39.8**	603,108	44.7
Sales of other products	**883**	**6.8**	882	6.9
Total	**1,798,735**	**48.3**	2,032,207	53.7

Gross profit of self-owned stores for the Period decreased by RMB221.7 million as compared to that in 2018, with gross profit margin decreased to 65.5% for the Period, which was 3.7 percentage points lower than that in 2018. The decrease was due to (i) increased promotional efforts, which included the offering of higher discount rates in self-owned stores, and (ii) an increase in sales of old inventories that had lower prices. The gross profit of partnership stores for the Period decreased by RMB35.9 million, and the gross profit margin declined slightly by 1.9 percentage points to 45.0%. The gross profit of the distributor stores for the Period increased by RMB59.9 million, while the gross profit margin decreased by 3.6 percentage points, mainly due to the sales channel change for kidswear from self-owned stores and partnership stores to distributor stores in May 2019. The large amount of inventory that was transferred as a result of the sales channel change was priced at a lower price as compared to that offered by ordinary distributors.

Gross profit of online channels for the Period decreased by RMB35.8 million with gross profit margin decreasing by 4.9 percentage points. The decrease was due to the Group's active participation in promotional activities, which included the offering of higher discount rates on e-commerce platforms in order to maintain its influence on those platforms.

OTHER INCOME AND GAINS

Other income and gains for the Period were RMB52.6 million, representing a decrease of 18.3%, or RMB11.8 million, as compared to RMB64.4 million in 2018, mainly due to the decreases in government subsidies and gains from the disposal of an invested subsidiary.

SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses for the Period were RMB1,141.1 million, representing a decrease of 6.6%, or RMB80.4 million, as compared to RMB1,221.5 million in 2018. Selling and distribution expenses as a percentage of the Group's total revenue decreased to 30.7% from 32.3% in 2018, mainly due to the decrease in the proportion of sales from self-owned stores.

ADMINISTRATIVE EXPENSES

Total administrative expenses for the Period were RMB284.5 million, representing an increase of 6.0%, or RMB16.1 million, as compared to RMB268.4 million in 2018. Total administrative expenses as a percentage of the Group's total revenue increased to 7.6% in 2019 from 7.1% in 2018. The increase was mainly due to an increase in impairment of trade receivables.

OTHER EXPENSES

The Group's other expenses for the Period amounted to RMB13.9 million, representing an increase of 256.4%, or RMB10.0 million, from RMB3.9 million in 2018, mainly due to an increase in impairment of leasehold improvements.

FINANCE COSTS

Finance costs for the Period were RMB89.0 million, representing a decrease of 5.8%, or RMB5.5 million, from RMB94.5 million in 2018. The decrease was mainly due to a decrease in interest of bank loans.

PROFIT BEFORE TAX

The Group's profit before tax for the Period was RMB322.9 million, representing a decrease of 36.4%, or RMB184.8 million, from RMB507.7 million in 2018. The decrease was mainly due to the decrease in gross profit.

INCOME TAX EXPENSE

Income tax expense for the Period was RMB114.7 million, representing a decrease of 13.9%, or RMB18.5 million, as compared to RMB133.2 million in 2018. The effective tax rate for the Period was 35.5% as compared to 26.2% in 2018.

PROFIT FOR THE PERIOD

As a result of the foregoing factors, profit for the Period was RMB208.2 million, representing a decrease of 44.4%, or RMB166.3 million, as compared with RMB374.5 million in 2018.

OPERATING CASH FLOWS

Net operating cash inflow for the Period was RMB47.9 million, representing a decrease of 76.5%, or RMB155.6 million, as compared to net operating cash inflow of RMB203.5 million in 2018. Negative working capital adjustments reflected primarily due to (i) an increase in trade and notes receivables of RMB361.5 million, (ii) an increase in inventories of RMB157.7 million, and (iii) a decrease in accrued liabilities and other payables of RMB105.4 million. Such negative adjustments were partially offset by an increase in trade and notes payables of RMB103.2 million.

CAPITAL EXPENDITURES

The Group's capital expenditures include payments for logistic base construction, property, plant and equipment, intangible assets and the renovation of offices and self-owned stores. During the Period, the Group's capital expenditures remained relatively stable at RMB138.1 million, as compared to RMB139.0 million in 2018.

FINANCIAL POSITION

The Group generally funds its operations with bank borrowings and the RMB771.1 million raised from listing its shares during the Period. As at 31 December 2019, the Group had bank borrowings of RMB1,140.2 million. Bank borrowings were denominated in RMB and U.S. dollars as at 31 December 2018 and 2019. For details, see note 25 of the "Notes to Financial Statements".

The Group's cash and cash equivalents and pledged short-term deposits totalled RMB850.4 million as at 31 December 2019, representing an increase of 23.7%, or RMB162.9 million, from RMB687.5 million at the end of 2018. Cash and cash equivalents as at 31 December 2019 were RMB820.8 million, among which 71.9% was denominated in RMB, 17.7% in U.S. dollars, and 10.4% in Hong Kong dollars. Pledged short-term deposits as at 31 December 2019 were RMB29.6 million, all of which were denominated in RMB.

GEARING RATIO

The Group's gearing ratio is calculated by dividing the Group's total borrowings by the Group's total assets. As at 31 December 2019, the Group's gearing ratio was 29.2%.

SIGNIFICANT INVESTMENTS HELD

In December 2019, the Group and The Esprit Group entered into a joint venture agreement in China, which the Group views as a significant investment. The joint venture has passed the anti-monopoly review but not been established as at the date of this report. Pursuant to the joint venture agreement, the joint venture company will be owned as to 60% by the Group and 40% by The Esprit Group. The Group and The Esprit Group will each contribute RMB60.0 million and RMB40.0 million, respectively, to the registered capital of the joint venture company. The Group's contribution amounts to 1.5% of the Group's total assets as at 31 December 2019. The Board considers that, by taking advantage of the Group's online and offline channels and its flexible supply chain system, the establishment of the joint venture company, which promotes and operates business for the Esprit brand, enables the Group to further develop its multi-brand strategy. For more details, please refer to the announcement of the Company dated 2 December 2019.

FUNDING AND TREASURY POLICY

The Group adopts a stable approach on its finance and treasury policy, aiming to maintain an optimal financial position, the most economic finance costs, and minimal financial risks. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its current business operations as well as its future investments and expansion plans.

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

During the Period, the Group did not conduct any material acquisitions or disposals. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the prospectus of the Company dated 15 May 2019 (the "**Prospectus**"), the Group has no specific plan for major investment or acquisition of major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group operates mainly in China with most of its transactions settled in Renminbi. However, the Group is exposed to foreign exchange risk arising mainly from debt denominated in the U.S. dollars.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's US$226 million bank loans were secured by:

(i) mortgages and fixed charges over the Company's equity interests in its subsidiaries Joy Sonic Limited and Alpha Sonic Ltd; and

(ii) mortgages and fixed charges over Joy Sonic Limited's equity interests in its subsidiaries Ningbo Chisage Mulsanne Holding Co., Ltd. and Yatlas (Shanghai) Brand Management Co., Ltd. ("**Yatlas Shanghai**").

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

HUMAN RESOURCES

As at 31 December 2019, the number of employees of the Group was 811 as compared to 935 as at 31 December 2018. In order to attract, retain and develop the knowledge, skills and quality of employees, the Group places a strong emphasis on training and development. The Group provides training periodically across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training. The Group also offers competitive remuneration packages which include salaries, bonuses and other benefits. In general, the Group determines employee salaries based on each employee's qualifications, experience, position and seniority. The total cost of staff, including basic salary and wages, social insurance and bonus, for the Period was RMB112.4 million as compared to RMB145.2 million in 2018. The total cost of staff for the Period represents 3.0% of the Group's revenue as compared to 3.8% in 2018. The decrease was mainly because of (i) a decrease in the number of self-owned stores, which led to a decrease in the number of retail staffs, and (ii) reduced pay for underperforming employees.

DIRECTORS

Executive Director

Mr. YU Yong (余勇), aged 42, was appointed as an executive Director in August 2018. Mr. Yu is the Chief Executive Officer of the Group. He is principally responsible for formulating the development strategies and annual and investment plans, reviewing the financial budgeting and general policies and overseeing the capital operation of the Group. Mr. Yu concurrently holds various positions at subsidiaries of the Company, including the general manager of each of Ningbo Chisage Mulsanne E-commerce Co., Ltd. ("**Chisage Mulsanne E-commerce**") and Yatlas Shanghai, a director and the general manager of each of Ningbo Chisage Mulsanne Holding Co., Ltd. ("**Chisage Mulsanne**") and Ningbo Mulsanne E-commerce Co., Ltd. ("**Mulsanne E-commerce**"), an executive director and manager of Ningbo Mulsanne Maisi Brand Management Co., Ltd., the chairman of the board of directors of TwoXu Sports (Ningbo) Co., Ltd. ("**TwoXu Sports**"), and an executive director and the general manager of Shanghai Yuexing Brand Management Co., Ltd.. He has over 19 years of business operation experience in the apparel manufacturing industry. From January 2001 to April 2002, Mr. Yu worked as a general manager at the Changchun branch of Ningbo Beyond Holding Group Co., Ltd. (寧波博洋控股集團有限公司), an apparel manufacturing company, where he managed its daily operations. He also served as the sales director at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877), from May 2002 to February 2007, during which he was responsible for overseeing the sales of apparel products. Since March 2007, Mr. Yu has been the Chief Executive Officer of the Group.

Mr. Yu graduated from Chongqing University (重慶大學), the PRC, with a college's degree in marketing in July 2014 through an online course. He also obtained an Executive Master of Business Administration (EMBA) degree from Overseas Education College of Shanghai Jiao Tong University (上海交通大學), the PRC, in May 2012.

Non-executive Directors

Mr. HUANG Hanji (黃晗躋), aged 48, was appointed as a non-executive Director in October 2016 and as the chairman of the nomination committee of the Company (the "**Nomination Committee**") in April 2019. Mr. Huang is the chairman of the Board. He is principally responsible for coordinating board affairs and providing strategic advice on the business development and management of the Group. Mr. Huang is concurrently a director of each of Joy Sonic Limited ("**Joy Sonic**"), Alpha Sonic Ltd and Chisage Mulsanne. From September 2000 to July 2005, he served as an associate director at Intel Capital, Hong Kong, a company managing corporate venture capital and global investment. From August 2005 to June 2007, he served as a vice president at Affinity Equity Partners, an independently-owned buyout fund manager. From June 2007 to April 2010, he served as an executive director at D. E. Shaw & Co., Hong Kong, a global investment and technology development firm. Since June 2010, he has been the managing director of L Catterton Asia Advisors, which is one of the Company's substantial shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")), and has been responsible for its operations in the Greater China Region.

Mr. Huang graduated from Ningbo University, the PRC, with a bachelor's degree in business and economies in July 1994. In August 1996, he obtained a master's degree in business administration from University of San Francisco, the United States.

Mr. YANG Herong (楊和榮), aged 56, was appointed as a non-executive Director in August 2018 and as a member of the remuneration committee of the Company (the "**Remuneration Committee**") in April 2019. He is primarily responsible for providing strategic advice on the business development, operations and management of the Group. Mr. Yang is concurrently the chairman of the board of directors of each of Chisage Mulsanne, Chisage Mulsanne E-commerce and Mulsanne E-commerce, a director of Joy Sonic and an executive director of Yatlas Shanghai. Prior to founding the Group in March 2007, Mr. Yang worked at China Construction Bank Corporation (中國建設銀行股份有限公司), where he was the president of the Yinzhou branch from October 1997 to December 2001. During the period between December 2001 to April 2005, he served as the chairman of the board of directors of Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司). Mr. Yang became the chairman of the board of directors of Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司) from May 2005 to October 2007. Since November 2007, he has been the chairman of the board of directors of Zhejiang Chisage Holding Group Co., Ltd. (浙江中哲控股集團有限公司) (currently known as Chisage Holding Group Co., Ltd. (中哲控股集團有限公司)).

Mr. Yang graduated from Huainan Mining Institute (淮南礦業學院) (currently merged into Anhui University of Science & Technology (安徽理工大學)), the PRC, with a bachelor of engineering degree in December 1982. He also received a Master of Business Administration degree from Nanyang Technological University (南洋理工大學), Singapore, in May 2010. Since March 2017, he has been a deputy to National People's Congress of Ningbo City (寧波市人民代表大會).

Mr. LIN Lin (林林), aged 47, was appointed as a non-executive Director in August 2018 and as a member of the Remuneration Committee in April 2019. He is responsible for providing strategic advice on the business development and management of the Group. He is concurrently a director of each of Joy Sonic, Chisage Mulsanne and TwoXu Sports. Mr. Lin possesses over 19 years of experience in finance and investment. From July 2000 to March 2004, he served at Morgan Stanley group of companies as an associate in the investment banking division in Hong Kong. Mr. Lin later worked at Credit Suisse (Hong Kong) Limited Shanghai Representative office, where his last capacity was a director in China Investment Banking Division, from July 2005 to July 2008. Since July 2008, he has also been serving as the executive partner of a private equity firm Crescent Hydepark Advisors (Shanghai) Co., Ltd. (海益得凱欣投資諮詢（上海）有限公司), the investment advisor for Crescent Fund Management Pte. Ltd..

Mr. Lin graduated from Illinois State University, the United States, with a bachelor of science degree in December 1995. He also received from The University of Chicago in the United States a master of business administration degree in December 1999. Since August 1995, Mr. Lin has been a certified public accountant in the United States. He was also certified as a chartered financial analyst (CFA) of the Association for Investment Management and Research (currently known as CFA Institute) in September 2001.

Mr. WANG Jun (王俊), aged 42, was appointed as a non-executive Director in August 2019. Mr. Wang is responsible for providing strategic advice on the business development and management of the Group. He has over a decade of experience in private equity investing, strategic consulting and consumer related sectors. Mr. Wang is the managing director of L Catterton Asia Advisors, which is one of the Company's substantial shareholders (as defined in the Listing Rules) and manages L Capital Asia 2 Pte. Ltd., one of the Company's controlling shareholders (as defined in the Listing Rules). He has gained and built a strong foundation of consumer expertise, analytical capabilities and investment expertise from his professional experience in the United Kingdom, the United States, China and South East Asia.

Prior to L Catterton Asia Advisors, Mr. Wang was a senior associate with McKinsey & Company, Shanghai office, where he served on multiple international and domestic institutions for strategic, operational and mergers and acquisitions (M&A) related projects. Mr. Wang also worked as Scientist and Manager for the Fabric & Home Care Division in Procter & Gamble Company and led numerous cross-border consumer innovation projects. Mr. Wang is a director of Chisage Mulsanne. He is also a board member of China Sasseur Group and Trendy Group.

Mr. Wang holds a master of business administration (MBA) from Harvard Business School (2008), doctor of philosophy in chemistry from University of Oxford (2002) and bachelor of science from Peking University, China (1998).

Mr. Ravinder Singh THAKRAN, aged 56, was appointed as a non-executive Director in August 2018. He is responsible for providing strategic advice on the business development and management of the Group. He is concurrently a director of Chisage Mulsanne. Mr. Thakran spent 19 years with LVMH Moet Hennessy Louis Vuitton SE (the world leading luxury products group), where he has been appointed as the Group President of LVMH, South & South East Asia, Australia & Middle East since August 2008. Mr. Thakran founded L Catterton Asia Advisors, which is one of the Company's substantial shareholders (as defined in the Listing Rules), in March 2009. Since May 2018, Mr. Thakran has been an additional director of Future Lifestyle Fashion Limited (a fashion company listed in The National Stock Exchange of India Limited, stock symbol: FLFL); and since August 2018, Mr. Thakran has been a director of Secoo Holding Limited (a company which operates online and offline shopping platform in the PRC and listed on NASDAQ, stock symbol: SECO).

Mr. Thakran graduated from the Harvana Agricultural University, India, with a bachelor of veterinary science and animal husbandry degree in December 1984. He also obtained his Master of Business Administration (MBA) degree from the Indian Institute of Management, Ahmedabad in April 1988.

Independent Non-executive Directors

Mr. GU Jiong (顧炯), aged 47, joined the Group in April 2019 when he was appointed as an independent non-executive Director, the chairman of each of the audit committee of the Company (the "**Audit Committee**") and the Remuneration Committee and a member of the Nomination Committee. Mr. Gu is mainly responsible for providing independent judgment and advice to the Board. From July 1995 to April 2004, he had worked for Ernst & Young's Shanghai Office and was the senior manager of audit department when he left. Mr. Gu subsequently joined UTStarcom Holdings Corp., a global telecom infrastructure provider of packet optical transport and broadband access products to network operators which is listed on NASDAQ (ticker symbol: UTSI), from April 2004 to December 2009, and he was a financial controller when he left the company. During the period between January 2010 to August 2013, he served as the chief financial officer at BesTV New Media Co., Ltd. (百視通新媒體股份有限公司), which principally provides technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through media source platforms and listed on Shanghai Stock Exchange (stock code: 600637).

Since September 2013, Mr. Gu has been the chief financial officer of CMC Capital Partners (華人文化產業投資基金) (an investment fund specializing in media and entertainment inside and outside the PRC). Since June 2015, Mr. Gu has been an independent non-executive director of Chen Xing Development Holdings Limited (辰興發展控股有限公司) (a real estate development company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), stock code: 2286) and Xinming China Holdings Limited (新明中國控股有限公司) (a PRC property developer listed on the Stock Exchange, stock code: 2699). Since October 2015, he has been the chief financial officer of CMC Holdings Limited (華人文化有限責任公司) (an investment platform focusing on media and entertainment investments). Since March 2017, he has been appointed as the independent director of Amlogic (Shanghai) Co., Ltd. (晶晨半導體（上海）有限公司) (a company which involves in wholesale distribution of electronic parts and electronic communications equipment and listed on Shanghai Stock Exchange, stock code: 688099). Mr. Gu has been an independent non-executive director of Ascletis Pharma Inc. (歌禮製藥有限公司) (a biotechnology company listed on the Stock Exchange, stock code: 1672) since April 2018, DaFa Properties Group Limited (大發地產集團有限公司) (a real estate developer listed on the Stock Exchange, stock code: 6111) since September 2018 and Tu Yi Holding Company Limited (途屹控股有限公司) (an outbound travel products and service provider, stock code: 1701) since March 2019.

Mr. Gu received a bachelor's degree in financial management from Fudan University (復旦大學), the PRC, in July 1995. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants since April 2004.

Mr. YUAN Tao (袁濤), aged 50, joined the Group in April 2019 when he was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He is principally responsible for providing independent judgment and advice to the Board. Mr. Yuan is known as a pioneer and leader in the Chinese music and entertainment industries, with over 23 years of extensive experience in building brand images and public relations.

Prior to joining us, Mr. Yuan worked at Rock Records (China) Company (滾石唱片（中國）公司) as the head of planning department from 1996 to 2003, during which he was responsible for production, planning and promotion of music records for Taiwanese singers in the PRC. From November 2004 to January 2016, he became the general manager of Huayi Brothers Music Co., Ltd. (華誼兄弟音樂公司), a top-tier Chinese records company, where he was responsible for making major decisions and business operations. Throughout the years, he has launched successful promotion campaigns for various famous music artists and groups in the PRC. In December 2016, Mr. Yuan established Xinxi Cultural Development Co., Ltd. (杭州心喜文化發展有限公司), where he served as the chief executive officer and was in charge of formulating and establishing pan entertainment business model and operating system.

Mr. Paolo BODO, aged 78, joined the Group in April 2019 when he was appointed as an independent non-executive Director and a member of each of the Audit Committee and the Remuneration Committee. He is primarily responsible for providing independent judgment and advice to the Board. Mr. Bodo has extensive experience in apparel and fashion industry. Prior to joining us, he served at Sixty Far East Limited, an apparel and accessories manufacturers, as the chief executive officer and was responsible for business development in different countries from 2002 to 2011. In October 2014, Mr. Bodo founded an apparel retail company Nipi Italia Srl and has been the chairman of its board of directors since then. Mr. Bodo has also been a director of Fashion Box S.P.A., which manufactures and distributes casual wear, accessories and footwear, since May 2017.

Mr. Bodo completed a diploma in science from Liceo Scientifico A. Avogadro, Italy, in June 2008.

SENIOR MANAGEMENT

Mr. DING Dade (丁大德), aged 44, is the Chief Financial Officer and vice president of finance of the Group and a joint company secretary of the Company. He is primarily responsible for making major operational and management decisions, providing financial advice on the Group's operations, management, business development and project investment, and advising on risk management. Mr. Ding has been a director of Chisage Mulsanne E-commerce since September 2010 and Mulsanne E-commerce since August 2014. Prior to joining the Group, Mr. Ding served as a financial manager at Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司), a company engaged in exports and imports of apparel, from July 2002 to June 2010. During the period between September 2010 and August 2016, he worked as a financial manager at Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司). Mr. Ding was appointed as the Chief Financial Officer and vice president of finance of Chisage Mulsanne in September 2016.

Mr. Ding graduated from Zhejiang College of Finance and Economies (浙江財經學院) (currently known as Zhejiang University of Finance and Economies (浙江財經大學)), the PRC, with a diploma in accountancy in July 1996.

Ms. TU Guangjun (屠光君), aged 42, is the Chief Operating Officer and vice president of operations of the Group. She is primarily responsible for formulating and implementing the overall marketing and sales strategies, and making decisions on marketing and sales of the Group. Ms. Tu is concurrently a director of TwoXu Sports. Ms. Tu has over 19 years of working experience in the apparel manufacturing industry. Before joining us in July 2007, she served as sales manager at Ningbo Shanshan Ruixiang Sweater Co., Ltd (寧波杉杉瑞祥毛衫有限公司), a company manufacturing and selling apparel products, from June 2000 to December 2002. From May 2003 to August 2006, Ms. Tu worked as manager of marketing department at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877). She then joined Ningbo Hehe Jessica Clothing Co., Ltd. (寧波合和杰斯卡服飾有限公司), the predecessor of Chisage Mulsanne, as marketing manager at in September 2007 and marketing director in June 2011, and was subsequently promoted as the Chief Operating Officer and vice president of operations at Chisage Mulsanne in September 2016.

Mr. WU Lei (吳磊), aged 32, is the vice president of retail and general manager of e-commerce of the Group. He is primarily responsible for overseeing the e-commerce projects, formulating e-commerce strategies and business model and managing the operation, maintenance and development of e-commerce platforms of the Group. Mr. Wu is concurrently an executive director and manager of Ningbo Muxin-buer E-commerce Co., Ltd.. When Mr. Wu joined Ningbo Hehe Jessica E-commerce Co., Ltd. (寧波合和杰斯卡電子商務有限公司), the predecessor of Chisage Mulsanne E-commerce, in July 2010, he served as a senior operation officer and became the operation director in April 2012. He was later promoted as vice president of retail and general manager of e-commerce of Chisage Mulsanne in August 2014.

Mr. Wu obtained a bachelor's degree in advertisement from Zhejiang Wanli University (浙江萬里學院), the PRC, in June 2010.

The Board is pleased to announce the annual report (the "**Annual Report**") and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands with limited liability on 20 November 2015, the shares of which were listed on the Main Board of the Stock Exchange on 27 May 2019 (the "**Listing Date**").

PRINCIPAL BUSINESS

The Company is an investment holding company and the principal businesses of its principal subsidiaries are set out in note 1 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year are set out in the Chairman's Statement on pages 4 to 5 and the Management Discussion and Analysis on pages 6 to 14 of this report.

An account of the Group's key relationships with its key stakeholders is provided in the Chairman's Statements on pages 4 to 5 of this report. An analysis of the Group's performance during the year using financial key performance indicators is set out in the Management Discussion and Analysis on pages 6 to 14 of this report.

The Group is committed to enhancing governance, promoting employee benefits and development, protecting the environment, fulfilling social responsibility and achieving sustainable growth. The Group has complied with the relevant laws and regulations that have significant impacts on the operations of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties faced by the Group include:

- risk relating to the competitive apparel industry in China where the Group operates;
- risk relating to market recognition of the brands of the Group;
- uncertainty as to maintenance of and expansion in offline retail network and online sales network;
- uncertainty as to the achievement in store sales growth;
- uncertainty as to maintenance of optimal inventory levels and lower sales return rates; and
- uncertainty as to expansion in brand and product portfolio of the Group.

SUBSEQUENT EVENTS

The outbreak of COVID-19 continues to spread in China and other countries across the world. The COVID-19 has imposed certain degree of impact on the business operations of the Group, in particular, the sales from offline channels as well as the delivery and buy-off process of the online channels. The degree of impact depends on the effectiveness of the epidemic preventive measures and the duration of the epidemic.

The Group will closely monitor the development of COVID-19, assess and react actively to its impact on the financial position and operating results of the Group. Up to the date of this report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, the transaction amounts of the Group's five largest customers accounted for 19.3% of the Group's total revenue (2018: 11.2%), while the transaction amounts of the largest customer accounted for 8.5% of the Group's total revenue (2018: 5.2%).

For the year ended 31 December 2019, the transaction amounts of the Group's five largest suppliers accounted for 22.5% of the Group's total purchase cost (2018: 28.0%), while the transaction amounts of the largest supplier accounted for 5.5% of the Group's total purchases cost (2018: 6.7%).

During the year ended 31 December 2019, Mr. YANG Herong, being a non-executive Director, held more than 5% of the interests in one of the Group's five largest suppliers, Ningbo Chisage Apparel Co., Ltd.. Save as disclosed above, none of the other Directors, their respective associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in any of the five largest customers or suppliers of the Group during the year ended 31 December 2019.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements on pages 48 to 135 of this report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019.

DIVIDEND POLICY

Pursuant to the dividend policy adopted by the Company, the declaration of dividends is subject to the discretion of the Board, and, if necessary, the approval of the shareholders of the Company (the "**Shareholders**"). In considering the declaration and payment of dividends, the Board shall take into account the Group's results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by the Company, the Company's capital requirements, future business plans and prospects and any other factors that the Board may consider relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the articles of association of the Company (the "**Articles of Association**") and all applicable laws and regulations. The Directors may reassess the dividend policy from time to time.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 136 of this report. The summary does not form part of the audited consolidated financial statements.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group for the year ended 31 December 2019 are set out in note 25 to the financial statements.

USE OF PROCEEDS FROM THE LISTING

The Company was listed on the Main Board of the Stock Exchange on 27 May 2019 and issued 200,000,000 new ordinary shares. After deducting the underwriting fees, commissions and estimated expenses, the total net proceeds from the listing were approximately RMB704.9 million (equivalent to approximately HK$802.7 million). As at 31 December 2019, a total of RMB326.5 million (equivalent to approximately HK$380.3 million) of the proceeds have been used. These proceeds have been used for the purposes as stated in the Prospectus and the announcement of the Company dated 22 May 2019 (the "**Price Reduction Announcement**") as follows:

Item	**Approximate percentage of total amount**	**Planned use of proceeds** *(RMB million)*	**Actual amount used as at 31 December 2019** *(RMB million)*	**Unutilised amount as at 31 December 2019** *(RMB million)*
To repay the Group's existing indebtedness and reduce the Group's financial expenses	45%	317	317	–
To expand the Group's brand and product portfolio by pursuing brand acquisitions or strategic alliances	15%	106	–	106
To upgrade the Group's offline retail stores to smart stores	10%	70	2	68
To purchase land and establish the Group's self-owned advanced smart logistics centre	20%	141	–	141
To provide funding for working capital and other general corporate purposes	10%	71	8	63
Total	100%	705	327	378

As at 31 December 2019, the remaining proceeds of approximately RMB378.4 million (equivalent to approximately HK$422.4 million) will continue to be used in accordance with the purposes as set out in the Prospectus and the Price Reduction Announcement and are expected to be fully utilized within the next 24 months.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital for the year ended 31 December 2019 are set out in note 27 to the financial statements.

EQUITY-LINKED AGREEMENT

There was no equity-linked agreement entered into by the Company or any of its subsidiaries in the year ended 31 December 2019 or subsisted at the end of the year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note 37 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the reserves of the Company available for distribution to its Shareholders amounted to approximately RMB3,719.2 million (2018: approximately RMB3,465.5 million).

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date up to 31 December 2019 (the "**Relevant Period**").

DONATIONS

For the year ended 31 December 2019, charitable donations made by the Group amounted to RMB50,000 (2018: nil).

DIRECTORS

The directors during the year and as at the date of this report are:

EXECUTIVE DIRECTOR

Mr. YU Yong *(Chief Executive Officer)*

NON-EXECUTIVE DIRECTORS

Mr. HUANG Hanji *(Chairman)*
Mr. YANG Herong
Mr. LIN Lin
Mr. ONG Yew Thiong, Gilbert (resigned on 27 August 2019)
Mr. WANG Jun (appointed on 27 August 2019)
Mr. Ravinder Singh THAKRAN

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. GU Jiong
Mr. YUAN Tao
Mr. Paolo BODO

In accordance with article 83(3) of the Articles of Association, Mr. WANG Jun will hold office until the next following general meeting of the Company and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with article 84 of the Articles of Association, Mr. HUANG Hanji, Mr. YANG Herong and Mr. LIN Lin will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The particulars of Directors who are subject to re-election at the forthcoming annual general meeting are set out in the circular to the Shareholders to be dated 15 May 2020.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director a confirmation of independence in accordance with Rule 3.13 of the Listing Rules, and considers them to be independent as at the date of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 19 of this report.

DIRECTORS' SERVICE CONTRACTS

The executive Director has entered into a service contract with the Company on 26 April 2019, and the Company has issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors. The service contract with the executive Director is for an initial fixed term of three years commencing from 26 April 2019. The letter of appointment to each of the non-executive Directors and independent non-executive Directors is for an initial fixed term of three years. The service contract and the letters of appointment are subject to termination in accordance with their respective terms. The service contract and the letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of the Directors has entered into, or has proposed to enter into, a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

EMOLUMENT POLICY

As at 31 December 2019, the Group had a total of 811 employees. The Group provides training periodically across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training. The Group also offers competitive remuneration packages which include salaries, bonuses and other benefits. In general, the Group determines employee salaries based on each employee's qualifications, experience, position and seniority. The Remuneration Committee was set up for reviewing the Group's emolument policy and structure of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. The remuneration received by Directors and senior management include salaries, bonuses, allowances and benefits in kind and pension scheme contributions complied with the requirements under applicable laws, rules and regulations.

Details of the emoluments of the Directors and the five highest paid individuals for the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S 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 in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company 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 (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Company/Name of Group company	Nature of interest	Number of shares	Approximate percentage of shareholding[3]
Mr. YU Yong[2]	Company	Interest in controlled corporation	213,750,000 (L)	22.50%
Mr. YANG Herong[2]	Company	Interest in controlled corporation	213,750,000 (L)	22.50%

Notes:

(1) The letter "L" denotes the person's long position in such shares of the Company.

(2) Each of Mr. YU Yong and Mr. YANG Herong is entitled to exercise or control the exercise of one-third of the voting power at general meetings of Madison International Limited (which holds the entire equity interest in GXG Trading Limited), and is therefore deemed to be interested in the shares of the Company in which GXG Trading Limited is interested.

(3) As at 31 December 2019, the Company had 950,000,000 ordinary shares in issue.

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company 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

As at 31 December 2019, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO or which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of interest[4]
Great World Glory Pte. Ltd.[2]	Beneficial owner	363,579,785 (L)	38.27%
L Capital Asia 2 Pte. Ltd.[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Capital Asia 2 Sing LP[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Capital Asia 2 LP[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Capital Asia 2 Sing GP Pte. Ltd.[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Capital Asia 2 GP[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Catterton Asia Advisors[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Catterton Asia Holdings Limited[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Catterton Management Limited[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
Catterton Holdings, LLC[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Catterton, L.P.[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
L Catterton GP, LLC[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
Mr. J. Michael Chu[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
Mr. Scott A. Dahnke[2]	Interest in controlled corporation	363,579,785 (L)	38.27%
Crescent Glory Singapore Pte. Ltd.[3]	Beneficial owner	134,474,715 (L)	14.15%
Crescent Capital Investments Ltd.[3]	Interest in controlled corporation	134,474,715 (L)	14.15%
Crescent GP Ltd.[3]	Interest in controlled corporation	134,474,715 (L)	14.15%
Mr. David McKee Hand[3]	Interest in controlled corporation	134,474,715 (L)	14.15%
GXG Trading Limited	Beneficial owner	213,750,000 (L)	22.50%
Madison International Limited	Interest in controlled corporation	213,750,000 (L)	22.50%

Notes:

(1) The letter "L" denotes the person's long position in such shares of the Company.

(2) Each of L Capital Asia 2 Pte. Ltd. (as the controlling shareholder of Great World Glory Pte. Ltd.), L Capital Asia 2 Sing LP and L Capital Asia 2 LP (as the limited partners of L Capital Asia 2 Pte. Ltd.), L Capital Asia 2 Sing GP Pte. Ltd. and L Capital Asia 2 GP (as the general partners of L Capital Asia 2 Sing LP and L Capital Asia 2 LP, respectively), L Catterton Asia Advisors (as the sole shareholder of L Capital Asia 2 Sing GP Pte. Ltd. and L Capital Asia 2 GP), L Catterton Asia Holdings Limited (as the sole shareholder of L Catterton Asia Advisors), L Catterton Management Limited (as the sole shareholder of L Catterton Asia Holdings Limited), Catterton Holdings, LLC (as the controlling shareholder of L Catterton Management Limited), L Catterton, L.P. (as the sole shareholder of Catterton Holdings, LLC), L Catterton GP, LLC (as the general partner of L Catterton, L.P.) and Mr. J. Michael Chu and Mr. Scott A. Dahnke (as managing members of L Catterton GP, LLC) is deemed to be interested in the shares. Mr. J. Michael Chu and Mr. Scott A. Dahnke disclaim beneficial ownership of the shares.

(3) Each of Crescent Capital Investments Ltd. (as the sole voting shareholder of Crescent Glory Singapore Pte. Ltd.), Crescent GP Ltd. (as the controlling shareholder of Crescent Capital Investments Ltd.) and Mr. David McKee Hand (as the controlling shareholder of Crescent GP Ltd.) are deemed to be interested in the shares. Mr. David McKee Hand disclaims beneficial ownership of the shares.

(4) As at 31 December 2019, the Company had 950,000,000 ordinary shares in issue.

Save as disclosed above, as at 31 December 2019, no person (other than the Directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO or which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

RESTRICTED SHARE UNIT SCHEME

On 26 April 2019, the restricted share unit (the "**RSU**") scheme of the Company (the "**RSU Scheme**") was approved and adopted by the Board. The purpose of the RSU Scheme is to incentivise executives for their contribution to the Group, to motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

Persons eligible to receive the RSUs under the RSU Scheme are existing or past employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors), consultants or officers of the Company or any of its subsidiaries. The basis of eligibility of any selected person for the grant of RSUs shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group or such other factors as the Board may deem appropriate.

The RSU Scheme is valid and effective for a period of ten years, commencing from 27 May 2019 or until it is terminated pursuant to the RSU Scheme, whichever is earlier. The remaining life of the RSU Scheme is approximately nine years.

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of shares of the Company held or to be held by the Trustee (as defined below) for the purpose of the RSU Scheme from time to time. The Company may (i) allot and issue shares of the Company to the Trustee to be held by the Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the Trustee to receive existing shares of the Company from any Shareholder or purchase existing shares of the Company (either on-market or off-market) to satisfy the RSUs upon exercise.

The Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the letter granting such RSUs. Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, the Board shall send a vesting notice (the "**Vesting Notice**") to each of the relevant RSU participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of shares of the Company (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those shares) involved. The Company has appointed The Core Trust Company Limited as the trustee (the "**Trustee**") to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme.

Further details of the principal terms of the RSU Scheme are set out in the section headed "Statutory and General Information – D. Share Incentive Scheme" in Appendix IV to the Prospectus. During Relevant Period, no RSU has been granted or agreed to be granted under the RSU Scheme, nor has any RSU been cancelled.

NON-COMPETITION UNDERTAKING

To safeguard the Group from any potential competition, Mr. YANG Herong (the "**Covenantor**"), being a non-executive Director, has entered into a deed of non-competition (the "**Deed of Non-Competition**") in favor of the Group on 9 May 2019, pursuant to which the Covenantor has unconditionally and irrevocably undertaken with the Group that he will not (except through the Group and any investment or interests held through the Group), and will procure that his close associates (other than any member of the Group) not to, directly or indirectly (including through nominees), either on his own account or in conjunction with or on behalf of any person, firm or company, among other things, invest in, participate in, engage in and/or operate or be interested in (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which competes or is likely to compete, directly or indirectly, with the existing businesses of any member of the Group, namely fashion menswear brands and sportswear in the PRC, during the period commencing from the Listing Date and ending on the earlier of the date that (i) the shares of the Company being canceled or ceased to be listed on the Stock Exchange; or (ii) the Covenantor is no longer a Director.

For details of the Deed of Non-Competition, please see the section headed "Relationship with Controlling Shareholders – Non-Competition Undertaking" in the Prospectus.

Based on the information and confirmation provided by the Covenantor, the independent non-executive Directors have reviewed the implementation of non-competition undertaking for the year ended 31 December 2019 and are satisfied that the Covenantor has complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

Mr. YANG Herong is a non-executive Director, hence a connected person of the Company under Rule 14A.07(1) of the Listing Rules.

2XU Pty Ltd. is a company indirectly controlled by L Capital Asia 2 Pte. Ltd., one of the Company's controlling shareholders (as defined in the Listing Rules), hence an associate of L Capital Asia 2 Pte. Ltd. and a connected person of the Company under the Listing Rules.

2XU HK Limited is a company wholly-owned by 2XU Pty Ltd., hence an associate of L Capital Asia 2 Pte. Ltd. and a connected person of the Company under the Listing Rules.

TwoXu Sports is an indirect non-wholly-owned subsidiary of the Company and directly controlled by 2XU HK Limited, hence a connected subsidiary (as defined in the Listing Rules) of the Company.

The following transactions between the above connected parties and the Group constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

1. PREMISES LEASED FROM NINGBO SONGHE AND CHISAGE HOLDING

The Group, as tenant, entered into various leases with Ningbo Songhe Apparel Co., Ltd. ("**Ningbo Songhe**") and Chisage Holding Group Co., Ltd. ("**Chisage Holding**"). Each of Ningbo Songhe and Chisage Holding is a company controlled by Mr. YANG Herong, hence an associate of Mr. YANG Herong and a connected person of the Company under the Listing Rules. Pursuant to such leases, Ningbo Songhe and Chisage Holding, respectively as landlords, agreed to lease to the Group certain premises in Ningbo, the PRC, for office, warehouse and other ancillary purposes. The term of each of the leases is for a period of three years, commencing from 1 January 2018 and ending on 31 December 2020. Other major terms of the leases are listed below:

	Landlord	Tenant	Size *sq.m.*	Uses	Payment Schedule	Rent per annum *RMB*
(i)	Ningbo Songhe	Chisage Mulsanne E-commerce	6,671.64	office, warehouse and other ancillary purposes	semiannually in advance	1,200,895
(ii)	Ningbo Songhe	Chisage Mulsanne	27,044.82	office, warehouse and other ancillary purposes	semiannually in advance	4,868,068
(iii)	Chisage Holding	Chisage Mulsanne	62,818.96	warehouse	semiannually in advance	8,711,277

The proposed annual caps for leasing arrangement under the above leases for the year ended 31 December 2019 and the year ending 31 December 2020 are RMB11,407,098 and RMB11,407,098, respectively. The annual caps under these leases were determined with reference to the historical rental amounts with reference to a three-year rental period, as well as the valuation report issued by Ningbo Zheng Ping Assets Evaluation Co., Ltd., an independent property valuer, who confirmed that the rent payable under the above leases reflects the prevailing market rates. The total rent payable by the Group to Ningbo Songhe and Chisage Holding for the year ended 31 December 2019 was RMB10,973,362.

2. MANUFACTURING AGREEMENT WITH 2XU PTY LTD.

The Group entered into a manufacturing agreement with 2XU Pty Ltd., pursuant to which the Group is authorized to design, manufacture and exclusively distribute, as approved by 2XU Pty Ltd., certain products under 2XU brand name, in the PRC (excluding Hong Kong, Macau and Taiwan). The term of the manufacturing agreement is from 5 May 2017 to 31 December 2024. The Group will pay 2XU Pty Ltd., on a quarterly basis, a royalty fee calculated based on the Group's revenue generated from such sales.

The proposed annual caps for aggregate annual royalty fee payable by the Group for the year ended 31 December 2019 and the year ending 31 December 2020 are RMB3,000,800 and RMB6,099,400, respectively. The annual caps under the manufacturing agreement were determined with reference to the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities and the amount of sales projections for apparel products under this agreement as agreed with 2XU Pty Ltd.. The aggregate annual royalty fee payable by the Group to 2XU Pty Ltd. for the year ended 31 December 2019 was RMB234,143.

3. DISTRIBUTION AGREEMENT WITH 2XU PTY LTD. AND 2XU HK LIMITED

The Group entered into a distribution agreement with 2XU Pty Ltd. and 2XU HK Limited, pursuant to which the Group is the exclusive distributor of 2XU products in the PRC (excluding Hong Kong, Macau and Taiwan). The term of the distribution agreement is from 5 May 2017 to 31 December 2024. The purchase prices are determined as a certain percentage of the recommended retail prices. The recommended retail prices typically refer to the recommended retail prices in the United States, or by mutual consent between 2XU Pty Ltd. and TwoXu Sports, an indirect non-wholly-owned subsidiary of the Company.

The proposed annual caps for aggregate annual purchase amount payable by the Group for the year ended 31 December 2019 and the year ending 31 December 2020 are RMB15,210,100 and RMB33,553,900, respectively. The annual caps under the distribution agreement were determined with reference to the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities, the amount of purchase projections for apparel products under this agreement as agreed with 2XU Pty Ltd. and 2XU HK Limited, the recommended retail prices in the United States, and the potential increase in procurement volume of compression wear products. The aggregate annual purchase amount payable by the Group to 2XU Pty Ltd. and 2XU HK Limited for the year ended 31 December 2019 was RMB5,198,422.

4. LOAN SERVICE FRAMEWORK AGREEMENT WITH TWOXU SPORTS

The Group entered into a loan services framework agreement with TwoXu Sports, pursuant to which the Group agreed to provide loan services as permitted by PRC laws and regulations for TwoXu Sports to fund certain of TwoXu Sports' general working capital. The term of the loan service framework agreement is from 21 December 2018 to 20 December 2021. The interest rate is determined with reference to the interest rates for loans of similar types offered for the same period by commercial banks offered to the Group.

The proposed annual caps for annual balance of the principal and interests of the loans provided by the Group for the year ended 31 December 2019 and the two years ending 31 December 2020 and 2021 are RMB40,000,000, RMB40,000,000 and RMB40,000,000, respectively. The annual caps under the loan service framework agreement were determined with reference to the historical figures, the potential increase in financial and operational needs of TwoXu Sports based on potential business expansion plans and the benchmark lending rate published by People's Bank of China from time to time. The annual balance of the principal and interests of the loan provided by the Group to TwoXu Sports for the year ended 31 December 2019 was RMB18,733,178.

5. FRAMEWORK APPAREL MANUFACTURING AGREEMENT WITH NINGBO CHISAGE APPAREL

The Group entered into a framework apparel manufacturing agreement with Ningbo Chisage Apparel Co., Ltd. ("**Ningbo Chisage Apparel**"), pursuant to which Ningbo Chisage Apparel agreed to manufacture apparel products, in particular tops products, for the Group. Ningbo Chisage Apparel is a company controlled by Mr. YANG Herong, hence an associate of Mr. YANG Herong and a connected person of the Company under the Listing Rules. The term of the apparel manufacturing agreements is from 1 July 2018 to 31 December 2020. The manufacturing prices are determined with reference to the cost of material and production cost negotiated between the Group and its suppliers.

The proposed annual caps for aggregate annual procurement amount payable by the Group for the year ended 31 December 2019 and the year ending 31 December 2020 are RMB103,000,000 and RMB117,000,000, respectively. The annual caps under the framework apparel manufacturing agreement were determined with reference to the forecast on production capacity available to the Group and the flexibility of supply chains of Ningbo Chisage Apparel, the historical figures, the potential increase in procurement volume due to the Group's business expansion plans and the potential increase in labor costs. The aggregate annual procurement amount payable by the Group to Ningbo Chisage Apparel for the year ended 31 December 2019 was RMB63,880,048.

6. FRAMEWORK APPAREL MANUFACTURING AGREEMENT WITH HUAIAN CHISAGE INDUSTRIAL

The Group entered into framework apparel manufacturing agreement with Huaian Chisage Industrial., Ltd. ("**Huaian Chisage Industrial**"), pursuant to which Huaian Chisage Industrial agreed to manufacture apparel products, in particular trousers products, for the Group. Huaian Chisage Industrial is a company controlled by Mr. YANG Herong, hence an associate of Mr. YANG Herong and a connected person of the Company under the Listing Rules. The term of the apparel manufacturing agreements is from 1 July 2018 to 31 December 2020. The manufacturing prices are determined with reference to the cost of material and production cost negotiated between the Group and its suppliers.

The proposed annual caps for aggregate annual procurement amount payable by the Group for the year ended 31 December 2019 and the year ending 31 December 2020 are RMB31,000,000 and RMB35,000,000, respectively. The annual caps under the framework apparel manufacturing agreement were determined with reference to the forecast on production capacity available to the Group and the availability on the supply of product types of Huaian Chisage Industrial, the historical figures, the potential increase in procurement volume due to the Group's business expansion plans and the potential increase in labor costs. The aggregate annual procurement amount payable by the Group to Huaian Chisage Industrial for the year ended 31 December 2019 was RMB16,719,161.

Waivers from the Stock Exchange

The transactions described in the paragraph headed "Connected Transactions" above constitute the Group's non-exempt continuing connected transactions and would normally require reporting and announcement but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules. The Stock Exchange has granted the Company a waiver for the above non-exempt continuing connected transactions from strict compliance with the announcements under Rule 14A.105 of the Listing Rules, subject to the condition that the annual transaction value shall not exceed the estimated annual cap (as stated above). The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2019, and will immediately inform the Stock Exchange if there are any changes to the non-exempt continuing connected transactions.

Annual Review of the Continuing Connected Transactions

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

(a) in the ordinary and usual course of business of the Group;

(b) on normal or better commercial terms; and

(c) in accordance with the agreements governing such transactions, the terms of which are fair and reasonable, and are in the interest 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 the 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 disclosed above.

The related party transactions mentioned in notes 32(a)(i) to 32(a)(iv) to the financial statements constituted the connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, and are in compliance with the disclosure requirements in Chapter 14A of the Listing Rules.

Save as disclosed in this report, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company for the year ended 31 December 2019 in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights under the Articles of Association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" above and in this report, no Director has a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its subsidiaries or fellow subsidiaries was a party for the year ended 31 December 2019 and up to the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2019 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or any of their spouses or minor children were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, none of the Directors or their associates had any interest in any business which directly or indirectly competes or may compete with the businesses of the Group for the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws, the Company has arranged for appropriate insurance to cover all costs, charges, losses, expenses and liabilities incurred by any Directors or officers in the execution and discharge of his duties or in relation thereto. The relevant provisions in the Articles of Association and such directors and officers liability insurance were in force during the Relevant Period and as at the date of this report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% (being the minimum public float prescribed by the Stock Exchange and the Listing Rules) of the Company's entire issued share capital were held by the public as at the date of this report.

AUDIT COMMITTEE

The Audit Committee has jointly reviewed with the Board the accounting principles and practices adopted by the Group, and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results of the Group for the year ended 31 December 2019.

AUDITOR

The financial statements have been audited by Ernst & Young who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Relevant Period, the Group has complied with the "comply or explain" provisions in the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules. Further details of the Group's environmental, social and governance ("**ESG**") matters will be set out in the ESG Report to be published by the Company separately in due course and will be made available on the website of the Company and that of the Stock Exchange.

By Order of the Board
HUANG Hanji
Chairman

Hong Kong, 14 May 2020

The Company was listed on the Stock Exchange on 27 May 2019 and the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules was not applicable to the Company before the Listing Date.

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and enhance its corporate value and accountability. After listing, the Company has adopted the Code as its own code of corporate governance.

During the Relevant Period, the Company has complied with the applicable code provisions of the Code. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with the Code.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the business operations of the Group, including the corporate governance function. It promotes the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Group, who will implement the strategy and direction as determined by the Board.

From 27 May 2019 to 26 August 2019, the Board comprised nine Directors, with one executive Director, namely Mr. YU Yong; five non-executive Directors, namely Mr. HUANG Hanji (Chairman), Mr. YANG Herong, Mr. LIN Lin, Mr. ONG Yew Thiong, Gilbert and Mr. Ravinder Singh THAKRAN; and three independent non-executive Directors, namely Mr. GU Jiong, Mr. YUAN Tao and Mr. Paolo BODO.

On 27 August 2019, Mr. ONG Yew Thiong, Gilbert resigned as a non-executive Director and Mr. WANG Jun was appointed as a non-executive Director.

The biographies of the Directors are set out on pages 15 to 18 of this report under the section headed "Biographical Details of Directors and Senior Management". Save as disclosed in this report, there is no financial, business, family or other material relationship among the members of the Board.

The Board considers that the composition of the Board provides a strong independent element with a balance of skills, experience and diversity of perspectives appropriate for the requirements of the business of the Company.

According to code provision A.2.1 of the Code, the roles of chairman of the Board and chief executive officer shall be separated and performed by different individuals. Mr. HUANG Hanjin is the chairman of the Board, who is responsible for coordinating the affairs of the Board and providing strategic advice on the business development and management of the Group. Mr. YU Yong is the chief executive officer of the Company, who is responsible for formulating development strategies, annual and investment plans for the Group, reviewing financial budgets and overall policies as well as supervising capital operation.

The executive Director has entered into a service contract with the Company, and the Company has issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors. The principal particulars of these service contract and letters of appointment are (i) for a term of three years commencing from 26 April 2019 for all Directors, except Mr. WANG Jun, whose term of appointment is three years commencing from 27 August 2019; and (ii) subject to termination in accordance with their respective terms. The term of the service contract and the letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

All Directors, including the independent non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the Articles of Association. A retiring director is eligible for re-election.

The aggregate remuneration (including fees, salaries, bonuses, allowances, benefits in kind and pension scheme contributions) payable to the Directors for the year ended 31 December 2019 was approximately RMB5.3 million.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors for the year ended 31 December 2019 are set out in note 8 to the financial statements. In addition, pursuant to code provision B.1.5 of the Code, the annual remuneration of members of the senior management by band for the year ended 31 December 2019 is set out below:

Remuneration band	**Number of senior management member**
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	1
HK$3,000,001 to HK$4,000,000	1

During the Relevant Period, the Company has three independent non-executive Directors, which meets the requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board and should not be less than three, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise at any time.

The Company has received from each independent non-executive Director a written confirmation of independence in accordance with Rule 3.13 of the Listing Rules, and considers them to be independent as at the date of this report.

Directors have access to the services of the joint company secretaries to ensure that the Board procedures are followed. Mr. DING Dade was appointed as a joint company secretary of the Company in April 2019. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. NG Sau Mei of TMF Hong Kong Limited, a company secretarial service provider, as another joint company secretary of the Company, to assist Mr. DING Dade with the duties of the company secretary of the Company. Mr. DING Dade is the primary contact person of Ms. NG Sau Mei in the Company. During the Relevant Period, Mr. DING Dade and Ms. NG Sau Mei have undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Each of the Directors attended various trainings in 2019, including the trainings for the reporting procedures and disclosure obligations regarding notifiable and connected transactions under the Listing Rules, for the disclosure of interests obligations under the SFO, for the Directors' duties and responsibilities and continuous obligations and for the Model Code, etc. The Company will continue to arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

As the Company's shares were only listed on the Main Board of the Stock Exchange on 27 May 2019, during the Relevant Period, the Board held three meetings to review and approve, among others, the Company's 2019 interim results announcement, 2019 interim report, the Group's operations in the first half of 2019 and the appointment of Mr. WANG Jun as non-executive Director. No general meeting was held during the Relevant Period.

The table below sets out the details of Board meetings attendance of each Director during the Relevant Period:

Director	Number of Board meetings requiring attendance	Number of Board meetings attended
Mr. YU Yong	3	3
Mr. HUANG Hanji	3	3
Mr. YANG Herong	3	3
Mr. LIN Lin	3	3
Mr. ONG Yew Thiong, Gilbert (1)	2	0
Mr. WANG Jun (2)	1	1
Mr. Ravinder Singh THAKRAN	3	0
Mr. GU Jiong	3	2
Mr. YUAN Tao	3	2
Mr. Paolo BODO	3	1

Notes:

(1) Mr. ONG Yew Thiong, Gilbert resigned as a non-executive Director on 27 August 2019.

(2) Mr. WANG Jun was appointed as a non-executive Director on 27 August 2019.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

BOARD COMMITTEES

The Company has three principal Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee has three members. Mr. GU Jiong is the chairman of the Audit Committee and the other two members are Mr. YUAN Tao and Mr. Paolo BODO. All members of the Audit Committee are independent non-executive Directors. The primary duties of the Audit Committee are to review and supervise the financial reporting process and risk management and internal control systems of the Group and provide advice and comments to the Board.

During the Relevant Period, the Audit Committee held one meeting to consider the Company's 2019 interim results announcement and 2019 interim report. The Audit Committee also assessed the Company's risk management and internal control measures and the effectiveness of the Company's internal audit function.

The table below sets out the details of meeting attendance of each member of the Audit Committee during the Relevant Period:

Director	Number of meeting requiring attendance	Number of meeting attended
Mr. GU Jiong	1	1
Mr. YUAN Tao	1	1
Mr. Paolo BODO	1	1

REMUNERATION COMMITTEE

The Company established a Remuneration Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Company has adopted the model described in code provision B.1.2(c)(ii) of the Code in the terms of reference of the Remuneration Committee. The Remuneration Committee has five members, being three independent non-executive Directors, namely Mr. GU Jiong, Mr. YUAN Tao and Mr. Paolo BODO, and two non-executive Directors, namely Mr. YANG Herong and Mr. LIN Lin. Mr. GU Jiong is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations to the Board on employee benefit arrangement.

During the Relevant Period, no meeting was held by the Remuneration Committee.

NOMINATION COMMITTEE

The Company established a Nomination Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being Mr. GU Jiong and Mr. YUAN Yao, and one non-executive Director, being Mr. HUANG Hanji, who is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors.

During the Relevant Period, the Nomination Committee held one meeting to consider the appointment of Mr. WANG Jun.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the Relevant Period:

	Number of meeting requiring attendance	**Number of meeting attended**
Mr. HUANG Hanji	1	1
Mr. GU Jiong	1	1
Mr. YUAN Tao	1	1

NOMINATION PROCESS

The Company has adopted a nomination policy (the "**Nomination Policy**"), which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process as set out in the Nomination Policy:

(i) the Nomination Committee will, giving the consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;

(ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from Shareholders with due consideration given to the criteria set out in the Nomination Policy;

(iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;

(iv) upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and

(vi) the Board will have the final authority in determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

BOARD DIVERSITY POLICY

To enhance the effectiveness of the Board and to maintain the high standard of corporate governance, the Company has formulated and adopted the board diversity policy (the "**Board Diversity Policy**") for compliance with the Listing Rules and the code provisions of the Code concerning the diversity of Board members. The Board Diversity Policy sets out the objective and approach to achieve and maintain diversity of the Board.

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at Board level as an essential element in maintaining competitive advantage and sustainable development. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board has a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, fashion, retail marketing, finance, investment, auditing and accounting. The Directors obtained academic degrees in various majors, including business and economies, marketing, business administration, engineering, science and financial management. The independent non-executive Directors have different industry backgrounds, representing one-third of the members of the Board.

The Board strives to ensure that it has the appropriate balance of skills, experience, knowledge and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective. It has also taken, and will continue to take steps to promote gender diversity at all levels, including but not limited to the Board and the management levels.

NOMINATION CRITERIA

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

For nomination and appointment of Mr. WANG Jun as a non-executive Director, the process and criteria set out above have been applied.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibilities for maintaining sound and effective risk management and internal control systems in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Company's risk management and internal control systems on an annual basis so as to ensure that risk management and internal control systems in place are adequate. The risk management and internal control systems are implemented to manage, rather than eliminate, the risks to which the Group is exposed. The systems therefore serve to provide reasonable but not absolute assurance against material misstatements or losses. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis.

The Company has established a sound risk management and internal control system, covering a full range of operations including procurement, quality control, marketing, finance, treasury activities, finance and human resources management, with a complete organizational structure and clear responsibilities and authorizations. The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

PROCEDURES TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

1. **Establishment of the risk context:** evaluating and reviewing the effectiveness of the risk management and internal control systems of the Group to reduce the costs of operational risk and ensure compliant operation of the Company.

2. **Formulation of the risk management policies:** ensuring that the Group carries out consistent procedures and criteria for risk identification, measurement and reporting.

3. **Identification of the risks:** identifying any potential risks of various business segments and key procedures.

4. **Evaluation on the risks:** evaluating the impact on business and its likelihood of the risks identified.

5. **Response to the risks:** evaluating the risk management solutions and the effectiveness of risk management.

6. **Report and monitor:** monitoring and reviewing the policies and procedures for risk management, and the measures for managing and effectiveness of controlling significant risks, and reporting the findings to the Board.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Board conducts regular review and assessment of inside information, discusses with the management or authorized persons of the Company about disclosure of inside information, reports to the Board once identified any inside information for dissemination. Inside information disclosure policies are formulated to provide employees with guidelines on report and disseminating inside information, confidentiality and compliance with restrictions on trading.

During the Relevant Period, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group once to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions, as well as the effectiveness of the internal audit functions of the Company. The review was made by discussions with the management of the Company, its external and internal auditors and the assessment conducted by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry made by the Company, that they have complied with the Model Code during the Relevant Period.

EXTERNAL AUDITOR

Ernst & Young is appointed as the external auditor of the Company.

For the year ended 31 December 2019, the fees paid or payable to Ernst & Young for the audit of the financial statements of the Group were RMB3.7 million.

Fees paid or payable to Ernst & Young for non-audit services provided to the Group in the year were RMB0.1 million. The non-audit services conducted include consultancy on tax issues of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditor about its reporting responsibilities on the financial statements is set out on pages 42 to 47 of this report. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. According to the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more member(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and 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.

To safeguard the interests and rights of the Shareholders, separate resolutions are and will be proposed at general meetings on each substantial issue, including the election of individual Directors.

The procedures for Shareholders to propose a person for election as Director is available on the Company's website (www.gxggroup.cn). Shareholders may lodge written proposal to the company secretary of the Company at 31/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, provided that the minimum length of the period, during which such written notice is given, shall be at least seven days and that the lodgement of such notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. In order to ensure that other Shareholders would have sufficient time to receive and consider the information of the person proposed for election as a Director, Shareholders are urged to lodge their written notice of his intention to propose a person for election as Director as early as practicable in advance of the relevant general meeting and, in any case, not less than 12 business days (as defined in the Listing Rules, i.e. day(s) on which the Stock Exchange is open for business of dealing in securities) before the date scheduled for holding the relevant general meeting, so that the Company can complete the verification procedure with the Company's share registrar, and procure the publication of an announcement and/or the dispatch of a supplementary circular to Shareholders in compliance with the applicable requirements under the Listing Rules. In the event that any such written notice is received by the Company later than the 12th business day before the date of holding the relevant general meeting, the Company will need to consider whether to adjourn the relevant meeting so as to give Shareholders a notice of at least 10 business days of the proposal in accordance with the Listing Rules.

Enquiries about the Company may be put to the Board by contacting the Company or directly by raising the questions at an annual general meeting or extraordinary general meeting. The contact details of the Company are set out in the Company's website (www.gxggroup.cn). Shareholders can also direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, whose address is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Relevant Period and up to the date of this report, there has been no change to the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company (www.gxggroup.cn) and that of the Stock Exchange.

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Independent auditor's report

To the shareholders of Mulsanne Group Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Mulsanne Group Holding Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 48 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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**") issued by the International Accounting Standards Board 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 Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). 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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2019, the net carrying value of inventories amounted to RMB1,070,922,000, after netting off a provision for impairment of RMB115,131,000, representing 27.5% of the Group's total assets. The Group's inventories are carried at the lower of cost and net realisable value which requires management's significant estimation of the net realisable value of the inventories of different seasons with different brands based on the historical experience, current market condition, customer demands and fashion trends, expected selling prices, estimated costs to sell and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. The Group's disclosures about impairment of inventories are included in notes 2.4 and 3 to the financial statements.	We evaluated management's assessment of the inventories provisions by reviewing the analyses of the ageing with reference to the specification of the inventories which are categorised into different seasons with different brands, and assessing historical and forecasted sale of inventories. We assessed the expected selling prices for each season with different brands by making reference to the historical pricing of the inventories and estimated costs to sell by reviewing the costs incurred historically. We also attended physical inventory counts, on a sample basis, to assess the condition of the inventories and to evaluate the provision for slow moving and obsolete inventories.
Variable consideration for right of return	
The Group provides a right of return to its customers for certain products within a specified period. These arrangements result in deductions to gross revenue and give rise to obligations for the Group to provide customers with the right of return. Considerations received or receivable from the customers for products that are expected to be returned are recognised as refund liabilities. The Group uses the expected value method to estimate the amount of products that will be returned from its customers which requires management significant judgement and estimation in determining an appropriate expected sales return rate for the products sold by each brand and their product lifecycle based on the contracted sales return rate, the Group's sales return policy, marketing strategy and the historical sales return rate. The Group's disclosures about estimating variable consideration for right of return by distributors are included in notes 2.4 and 3 to the financial statements.	We reviewed customer contracts on a sample basis to test the terms and conditions related to sales returns. We evaluated management's estimates on the expected sales returns by comparing historical sales returns, contracted sales return rate, the Group's sales return policy and the actual level of returns recorded subsequent to the period end. We also reviewed the calculation of the expected sales returns and the deduction from revenue and recognition of refund liabilities.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
As at 31 December 2019, the net carrying value of trade receivable amounted to RMB960,324,000, after netting off a loss allowance for impairment of RMB70,382,000, representing 24.6% of the Group's total assets. The impairment of trade receivables is assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and forward-looking information. The assessment is highly judgmental. The Group's disclosures about impairment of trade receivables are included in notes 2.4, 3 and 18 to the financial statements.	We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing on a sample basis, payments received subsequent to year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics on the loss rates of the Group's customers.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT (continued)

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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSAs 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.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

- 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.

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

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 Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
14 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
REVENUE	*5*	**3,721,376**	3,787,042
Cost of sales		**(1,922,641)**	(1,754,835)
Gross profit		**1,798,735**	2,032,207
Other income and gains	*5*	**52,595**	64,359
Selling and distribution expenses		**(1,141,136)**	(1,221,526)
Administrative expenses		**(284,457)**	(268,364)
Other expenses		**(13,869)**	(3,929)
Finance costs	*7*	**(88,956)**	(94,513)
Share of losses of associates		**(50)**	(550)
PROFIT BEFORE TAX	*6*	**322,862**	507,684
Income tax expense	*10*	**(114,694)**	(133,182)
PROFIT FOR THE YEAR		**208,168**	374,502
Attributable to:			
Owners of the parent		**209,547**	380,093
Non-controlling interests		**(1,379)**	(5,591)
		208,168	374,502
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*12*	**RMB24.1 cents**	RMB50.7 cents

	2019 *RMB'000*	2018 *RMB'000*
PROFIT FOR THE YEAR	**208,168**	374,502
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,837**	14,640
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	**(13,904)**	(64,884)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,067)**	(50,244)
TOTAL COMPREHENSIVE INCOME	**197,101**	324,258
Attributable to:		
Owners of the parent	**198,480**	329,849
Non-controlling interests	**(1,379)**	(5,591)
	197,101	324,258

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**146,981**	171,525
Advance payments for property, plant and equipment		**–**	5,512
Right-of-use assets	*14(b)*	**273,642**	–
Prepaid land lease payments	*14(a)*	**–**	22,315
Other intangible assets	*15*	**10,758**	10,339
Investments in associates	*16*	**–**	50
Deferred tax assets	*26*	**119,823**	94,955
Total non-current assets		**551,204**	304,696
CURRENT ASSETS			
Inventories	*17*	**1,070,922**	966,162
Right-of-return assets		**63,791**	109,731
Trade and notes receivables	*18*	**1,032,574**	830,823
Prepayments, other receivables and other assets	*19*	**330,813**	259,469
Derivative financial instruments	*24*	**–**	18,514
Due from related parties	*32(b)(i)*	**230**	84
Pledged short-term deposits	*20*	**29,566**	33,995
Cash and cash equivalents	*20*	**820,788**	653,502
Total current assets		**3,348,684**	2,872,280
CURRENT LIABILITIES			
Trade and notes payables	*21*	**886,193**	782,980
Other payables and accruals	*23*	**249,359**	359,881
Refund liabilities	*5(iii)*	**183,212**	264,197
Contract liabilities	*22*	**57,133**	40,735
Interest-bearing bank and other borrowings	*25*	**134,240**	290,933
Lease liabilities	*14(c)*	**131,127**	–
Tax payable		**109,414**	103,679
Due to related parties	*32(b)(ii)*	**126**	31,633
Total current liabilities		**1,750,804**	1,874,038
NET CURRENT ASSETS		**1,597,880**	998,242
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,149,084**	1,302,938

	Notes	**2019** **RMB'000**	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,149,084**	1,302,938
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*25*	**1,006,002**	1,204,627
Lease liabilities	*14(c)*	**101,940**	–
Deferred tax liabilities	*26*	**4,717**	–
Total non-current liabilities		**1,112,659**	1,204,627
Net assets		**1,036,425**	98,311
EQUITY			
Equity attributable to owners of the parent			
Share capital	*27*	**8,343**	–
Reserves	*28*	**1,029,855**	99,592
		1,038,198	99,592
Non-controlling interests		**(1,773)**	(1,281)
Total equity		**1,036,425**	98,311

Huang Hanji
Director

Yu Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent									
	Share capital RMB'000 (note 27)	Share premium account RMB'000 (note 28)	Merger reserve RMB'000 (note 28)	Capital reserve RMB'000 (note 28)	Statutory surplus reserve RMB'000 (note 28)	Exchange fluctuation reserve RMB'000 (note 28)	Accumu-lated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	–	–	(205,542)	765,317	113,879	43,293	(947,247)	(230,300)	(197)	(230,497)
Profit for the year	–	–	–	–	–	–	380,093	380,093	(5,591)	374,502
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(50,244)	–	(50,244)	–	(50,244)
Total comprehensive income for the year	–	–	–	–	–	(50,244)	380,093	329,849	(5,591)	324,258
Capital injection from non-controlling interests	–	–	–	43	–	–	–	43	4,519	4,562
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(12)	(12)
At 31 December 2018	–	–	(205,542)	765,360	113,879	(6,951)	(567,154)	99,592	(1,281)	98,311

		Attributable to owners of the parent									
	Notes	**Share capital** ***RMB'000*** ***(note 27)***	**Share premium account** ***RMB'000*** ***(note 28)***	**Merger reserve** ***RMB'000*** ***(note 28)***	**Capital reserve** ***RMB'000*** ***(note 28)***	**Statutory surplus reserve** ***RMB'000*** ***(note 28)***	**Exchange fluctuation reserve** ***RMB'000*** ***(note 28)***	**Accumu-lated losses** ***RMB'000***	**Total** ***RMB'000***	**Non-controlling interests** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2019		**–**	**–**	**(205,542)**	**765,360**	**113,879**	**(6,951)**	**(567,154)**	**99,592**	**(1,281)**	**98,311**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**209,547**	**209,547**	**(1,379)**	**208,168**
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**(11,067)**	**–**	**(11,067)**	**–**	**(11,067)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(11,067)**	**209,547**	**198,480**	**(1,379)**	**197,101**
Acquisition of non-controlling interests		**–**	**–**	**–**	**(2,887)**	**–**	**–**	**–**	**(2,887)**	**887**	**(2,000)**
Issue of shares to the then shareholders	*27*	**2**	**(2)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Capitalisation issue	*27*	**6,585**	**(6,585)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of shares for the initial public offering	*27*	**1,756**	**769,294**	**–**	**–**	**–**	**–**	**–**	**771,050**	**–**	**771,050**
Share issue expenses		**–**	**(28,037)**	**–**	**–**	**–**	**–**	**–**	**(28,037)**	**–**	**(28,037)**
Transfer to statutory surplus reserve		**–**	**–**	**–**	**–**	**21,625**	**–**	**(21,625)**	**–**	**–**	**–**
At 31 December 2019		**8,343**	**734,670***	**(205,542)***	**762,473***	**135,504***	**(18,018)***	**(379,232)***	**1,038,198**	**(1,773)**	**1,036,425**

* These reserve accounts comprise the consolidated reserves of RMB1,029,855,000 (2018: RMB99,592,000) in the consolidated statement of financial position.

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**322,862**	507,684
Adjustments for:			
Impairment of trade and other receivables	*18, 19*	**54,784**	18,228
Impairment of property, plant and equipment	*13*	**9,899**	–
Write-down/(reversal of write-down) of inventories to net realisable value	*6*	**52,907**	(21,315)
Depreciation of property, plant and equipment	*13*	**121,635**	113,333
Depreciation of right-of-use assets/recognition of prepaid land lease payments	*14(a), 14(b)*	**133,922**	661
Amortisation of other intangible assets	*15*	**6,070**	2,366
(Gain)/loss on disposal of items of property, plant and equipment, net	*6*	**(105)**	11
Foreign exchange differences, net	*6*	**323**	3,533
Finance costs	*7*	**88,956**	94,513
Share of losses of associates	*16*	**50**	550
Gain on disposal of a subsidiary	*29*	**–**	(3,205)
Loss on modifications of leases		**997**	–
Investment income from financial assets at fair value through profit or loss	*5*	**–**	(763)
Fair value gain on derivative financial instruments – transactions not qualifying as hedges	*5*	**(11,496)**	(9,070)
		780,804	706,526
Increase in trade and notes receivables		**(361,454)**	(312,116)
Increase in prepayments, other receivables and other assets		**(68,024)**	(50,553)
Increase in amounts due from related parties		**(146)**	(18)
(Increase)/decrease in inventories		**(157,667)**	15,294
Decrease in right-of-return assets		**45,940**	27,483
Decrease in amounts due from directors		**–**	90
Decrease/(increase) in pledged short-term deposits		**4,429**	(21,228)
Increase in trade and notes payables		**103,213**	151,292
Decrease in other payables and accruals		**(105,409)**	(40,375)
Decrease in refund liabilities		**(80,985)**	(73,297)
Increase/(decrease) in contract liabilities		**16,398**	(7,383)
Decrease in an amount due to a director		**–**	(15)
(Increase)/decrease in amounts due to related parties	*30*	**(127)**	194
Cash generated from operations		**176,972**	395,894
Income tax paid		**(129,110)**	(192,394)
Net cash flows from operating activities		**47,862**	203,500

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(131,672)**	(129,132)
Purchases of other intangible assets		**(6,476)**	(9,821)
Payments for financial assets at fair value through profit or loss		**–**	(70,000)
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	120,000
Proceeds from disposal of derivative financial instruments		**30,462**	3,414
Disposal of a subsidiary	29	**–**	16
Investment income from financial assets at fair value through profit or loss		**–**	763
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		**352**	48,766
Purchase of shareholdings in associates		**–**	(600)
Net cash flows used in investing activities		**(107,334)**	(36,594)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings	30	**468,190**	457,321
Proceeds from issue of shares		**771,050**	–
Share issue expense		**(20,423)**	–
Acquisition of non-controlling interests		**(2,000)**	–
Capital injection from non-controlling interests		**–**	4,562
Repayment of bank and other borrowings	30	**(741,834)**	(493,148)
Payment for deferred listing expenses		**–**	(3,815)
Principal portion of lease payments	30(c)	**(141,684)**	–
Decrease in amounts due from directors	30	**–**	8,643
Decrease in amounts due to related parties	30	**(30,190)**	(772)
Interest paid		**(87,407)**	(89,824)
Net cash flows from/(used in) financing activities		**215,702**	(117,033)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**156,230**	49,873
Cash and cash equivalents at beginning of year		**653,502**	593,910
Effect of foreign exchange rate changes, net		**11,056**	9,719
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**820,788**	653,502
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**820,788**	653,502

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business in China is located at No. 111 Shanshan Road, Wangchun Industrial Park, Haishu District, Ningbo, Zhejiang Province, People's Republic of China (the "**PRC**").

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the design, marketing and sale of apparel products.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 May 2019.

In the opinion of the directors, the controlling shareholders of the Company are Great World Glory Pte. Ltd. and L Capital Asia 2 Pte. Ltd., which were both incorporated in Singapore with limited liability.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Joy Sonic Limited ("**Joy Sonic**")	Hong Kong	US$39,612,903	100	-	Investment holding, sale of apparel products and consultation services
Alpha Sonic Ltd ("**Alpha Sonic**")	Cayman Islands	US$1	100	-	Investment holding
Ningbo Chisage Mulsanne Holding Co., Ltd. ("**Chisage Mulsanne**") *(i)*	PRC/ Mainland China	RMB400,000,000	-	100	Design, marketing and sale of apparel products
Ningbo Chisage Mulsanne E-commerce Co., Ltd. ("**Chisage Mulsanne E-commerce**") *(ii)*	PRC/ Mainland China	RMB10,000,000	-	100	Marketing and sale of apparel products online
Ningbo Mulsanne E-commerce Co., Ltd. ("**Mulsanne E-commerce**") *(ii)*	PRC/ Mainland China	RMB5,000,000	-	100	Marketing and sale of apparel products online

1. CORPORATE AND GROUP INFORMATION (continued)

INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ningbo Yuexing Brand Management Co., Ltd. ("**Ningbo Yuexing**") *(ii)*	PRC/ Mainland China	RMB5,000,000	-	100	Marketing and sale of apparel products
Shanghai Yuexing Brand Management Co., Ltd ("**Shanghai Yuexing**") *(ii)*	PRC/ Mainland China	RMB5,000,000	-	100	Marketing and sale of apparel products
Beijing Yuexing Brand Management Co., Ltd. ("**Beijing Yuexing**") *(ii)*	PRC/ Mainland China	RMB1,000,000	-	100	Marketing and sale of apparel products
Shenzhen Yuexing Brand Management Co., Ltd. ("**Shenzhen Yuexing**") *(ii)*	PRC/ Mainland China	RMB1,000,000	-	100	Marketing and sale of apparel products
Yatlas (Shanghai) Brand Management Co., Ltd. ("**Yatlas Shanghai**") *(ii)*	PRC/ Mainland China	RMB10,000,000	-	100	Design, marketing and sale of apparel products
Ningbo Mulsanne Maisi Brand Management Co., Ltd. ("**Mulsanne Maisi**") *(ii) (iii)*	PRC/ Mainland China	RMB10,000,000	-	100	Design, marketing and sale of apparel products
TwoXu Sports (Ningbo) Co., Ltd. ("**TwoXu Sports**") *(ii)*	PRC/ Mainland China	RMB15,000,000	-	70	Design, marketing and sale of apparel products
GXG Macau Limited ("**GXG Macau**")	Macau	MOP100,000	-	100	Marketing and sale of apparel products

1. CORPORATE AND GROUP INFORMATION (continued)

INFORMATION ABOUT SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ningbo Muxin-buer E-commerce Co., Ltd. ("**Muxin-buer E-commerce**") *(ii)*	PRC/ Mainland China	RMB5,000,000	-	100	Design, marketing and sale of apparel products
Ningbo Mulsanne Yue Garment Co., Ltd. ("**Mulsanne Yue Garment**") *(ii)*	PRC/ Mainland China	RMB45,000,000	-	100	Design, marketing and sale of apparel products
Ningbo Muguo Clothing Design Co., Ltd. ("**Ningbo Muguo**") *(ii)*	PRC/ Mainland China	RMB500,000	-	100	Design, manufacture and sale of apparel products
Ningbo Mingge Clothing Design Co., Ltd. ("**Ningbo Mingge**") *(ii)*	PRC/ Mainland China	RMB500,000	-	100	Design, manufacture and sale of apparel products
Ningbo Shengying Clothing Design Co., Ltd. ("**Ningbo Yingsheng**") *(ii)*	PRC/ Mainland China	RMB500,000	-	100	Design, manufacture and sale of apparel products
Ningbo Muchuang Brand Management Co., Ltd. ("**Ningbo Muchuang**") *(ii)*	PRC/ Mainland China	RMB1,000,000	-	100	Design, marketing and sale of apparel products

Notes:

(i) This entity is a wholly-foreign-owned company established under PRC law. During the year, the registered capital of this entity increased from RMB200,000,000 to RMB400,000,000.

(ii) These entities are limited liability enterprises established under PRC law.

(iii) In July 2019, the Group acquired the 20% equity interest in Mulsanne Maisi from the non-controlling shareholder. Upon completion of the acquisition, the Group's shareholding in Mulsanne Maisi increased to 100%.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and debt instruments at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, amendments to IAS 19 and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives and* SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

NEW DEFINITION OF A LEASE

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

AS A LESSEE – LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various properties of shopping malls, standalone stores and warehouses. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for an elective exemption for leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

AS A LESSEE – LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES (continued)

Impacts on transition (continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on its assessment of whether leases are onerous immediately before the date of initial application
- Excluding the initial direct costs from the measurement of the right-of-use asset at the date of initial application

FINANCIAL IMPACT AT 1 JANUARY 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) *RMB'000*
Assets	
Increase in right-of-use assets	286,767
Decrease in prepaid land lease payments	(22,315)
Decrease in prepayments, other receivables and other assets	(11,495)
Increase in total assets	252,957
Liabilities	
Increase in lease liabilities	252,957
Increase in total liabilities	252,957

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

FINANCIAL IMPACT AT 1 JANUARY 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	319,280
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(41,665)
	277,615
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments as at 1 January 2019	252,957
Lease liabilities as at 1 January 2019	252,957

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured by the equity method in accordance with IAS 28. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for annual periods beginning on or after 1 January 2022

4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 clarify the criteria for determining whether to classify a liability as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after 1 January 2022. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments and debt instrument at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Leasehold improvements	2 – 3 years
Machinery and equipment	3 – 10 years
Motor vehicles	4 years
Computer and office equipment	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building, leasehold improvements and business operating systems under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or other intangible assets when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Trademarks

Purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

LEASES (APPLICABLE FROM 1 JANUARY 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful life of the assets as follows:

Leasehold land	40 years
Leasehold shopping malls, standalone stores, warehouses and offices	2 – 6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statement of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of shopping malls and standalone stores (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its non-operating nature.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES (APPLICABLE BEFORE 1 JANUARY 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through other comprehensive income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 6 months past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, other payables and accruals, lease liabilities, interest-bearing bank and other borrowings and amounts due to related parties.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

DERIVATIVE FINANCIAL INSTRUMENTS

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign exchange option contracts and interest rate option contracts, to minimise its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of finished goods comprises cost of purchase. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

REVENUE RECOGNITION

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer.

(a) *Sale of products – distributors and partnership*

A significant part of the Group's products is sold to distributors and partnership, who have discretion over both prices and distribution methods for products to be sold in their designated geographical areas.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Revenue from contracts with customers (continued)

(a) Sale of products – distributors and partnership (continued)

Revenues are recognised upon delivery, which occurs when distributors pick up goods at the Group's premises or when goods are handed over to a third-party forwarder as designated by the distributor or when goods are accepted by the end customers in partnership stores, the risks of obsolescence and loss have been transferred to the distributors and partnership, and acceptance by distributors and partnership occurs. Acceptance refers to either of the situations that distributors and partnership accept the goods in accordance with the sales contract or the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the distributors' and partnership's acceptance of the products.

Some contracts for the sale of products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Revenue from contracts with customers (continued)

(b) Sale of products – retail

The Group sells its products to end customers via a chain of retail stores of the Group or over third-party online retail platforms such as Tmall.com and Taobao. Revenue is recognised when the Group can reasonably estimate the acceptance by end customers. For offline retail sales, acceptance by end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third-party payment platforms.

(c) Loyalty points programme

The Group has a loyalty points programme, which allows customers to accumulate points that can be redeemed for discounted coupons. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed or expired.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Rental income is recognised on a time proportion basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONTRACT LIABILITIES

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

RIGHT-OF-RETURN ASSETS

Right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

REFUND LIABILITIES

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

RETIREMENT BENEFITS

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, i.e., assets that necessarily takes a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

FOREIGN CURRENCIES

These financial statements are presented in RMB. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the United States dollar ("**US$**") and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. The Group's presentation currency is RMB because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. The Company's presentation currency is RMB, which is in line with the currency used for the Group's key operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of goods include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained until the associated uncertainties are subsequently resolved based on its historical experience, business forecast and the current economic conditions.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

JUDGEMENTS (continued)

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue deferred tax liabilities in respect of withholding taxes arising from the distributions of dividends by certain PRC subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. Such judgement is made with reference to the Group's business plan and future cash requirements outside Mainland China.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimating variable consideration for right of return

The Group estimates variable considerations to be included in the transaction price for the sale of goods with rights of return.

The Group developed a statistical model for forecasting sales returns. The model used the historical return data of each type of product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customers' actual returns in the future. As at 31 December 2019, the amount recognised as refund liabilities was RMB145,224,000 (2018: RMB221,900,000) for the expected returns.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the consuming sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Provision for expected credit losses on trade receivables (continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the carrying amounts of property, plant and equipment, right-of-use assets and other intangible assets are set out in notes 13, 14(b) and 15 to the financial statements, respectively.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses and deductible temporary differences at 31 December 2019 were RMB66,680,000 (2018: RMB23,760,000) and RMB9,359,000 (2018: RMB7,266,000), respectively. Further details are contained in note 26 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Provision for slow-moving inventories and net realisable value of inventories

When necessary, allowance is provided for obsolete and slow-moving inventories to adjust the carrying value of inventories to the lower of cost and net realisable value. Management has estimated the allowance for obsolete and slow-moving inventories based on review of an ageing analysis of inventories at the end of the reporting period. The assessment of the provision requires management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. As at 31 December 2019, the Group's inventories amounted to RMB1,070,922,000 (2018: RMB966,162,000).

4. OPERATING SEGMENT INFORMATION

The Group is mainly engaged in the sale of apparel products. Additionally, the Group also sells other products to partnership stores and distributors, such as decorations for stores and packaging materials for products. The Group manages its main business of the sale of apparel products by sales channels. There are two operating segments for the sale of apparel products: offline channels and online channels. Offline channels refer to the offline network of retail outlets including self-owned stores and partnership stores, and the offline network of distributors, and online channels refer to online retail platforms, such as Tmall.com, Taobao and VIPshop.

The Group's chief operating decision maker is the chief executive officer, who reviews revenue and results of offline channels for the sale of apparel products, online channels for the sale of apparel products and the sale of other products separately for the purpose of making decisions about resource allocation and assessment of segment performance. Segment result is evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

4. OPERATING SEGMENT INFORMATION (continued)

Segment information by sales channels:

	Year ended 31 December 2019			
	Apparel products			
	Offline channels *RMB'000*	**Online channels** *RMB'000*	**Other products** *RMB'000*	**Total** *RMB'000*
Segment revenue				
Sales to external customers	**2,282,628**	**1,425,806**	**12,942**	**3,721,376**
Total revenue	**2,282,628**	**1,425,806**	**12,942**	**3,721,376**
Segment results	**1,230,556**	**567,296**	**883**	**1,798,735**
Other income and gains				**52,595**
Selling and distribution expenses				**(1,141,136)**
Administrative expenses				**(284,457)**
Other expenses				**(13,869)**
Finance costs				**(88,956)**
Share of losses of associates				**(50)**
Profit before tax				**322,862**

	Year ended 31 December 2018			
	Apparel products			
	Offline channels *RMB'000*	Online channels *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	2,423,925	1,350,314	12,803	3,787,042
Total revenue	2,423,925	1,350,314	12,803	3,787,042
Segment results	1,428,217	603,108	882	2,032,207
Other income and gains				64,359
Selling and distribution expenses				(1,221,526)
Administrative expenses				(268,364)
Other expenses				(3,929)
Finance costs				(94,513)
Share of losses of associates				(550)
Profit before tax				507,684

4. OPERATING SEGMENT INFORMATION (continued)

GEOGRAPHIC INFORMATION

(a) Revenue from external customers

	2019 **RMB'000**	2018 RMB'000
Mainland China	**3,713,683**	3,779,209
Macau	**7,693**	7,833
Total	**3,721,376**	3,787,042

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2019 **RMB'000**	2018 RMB'000
Mainland China	**423,890**	206,938
Macau	**6,043**	2,753
Hong Kong	**1,448**	–
Total	**431,381**	209,691

The non-current asset information above is based on the locations of the assets and excludes investments in associates and deferred tax assets.

INFORMATION ABOUT MAJOR CUSTOMERS

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue during the year (2018: Nil).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of apparel products		
Online channels	**1,425,806**	1,350,314
Offline channels		
Self-owned stores	**921,229**	1,193,064
Partnership stores	**334,315**	397,277
Distributor stores	**1,027,084**	833,584
Sale of other products	**12,942**	12,803
Total	**3,721,376**	3,787,042

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods transferred at a point in time	**3,721,376**	3,787,042

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**40,735**	48,118

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised from performance obligations satisfied in previous periods:		
Sale of goods not previously recognised due to constraints on variable consideration	**14,980**	10,403

5. REVENUE, OTHER INCOME AND GAINS (continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of apparel products

The performance obligation is satisfied upon transfer of the control of the apparel products and payment is generally due within one month to three months from delivery, extending up to one year for major customers, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

At 31 December 2019, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iii) Refund liabilities

	2019	2018
	RMB'000	*RMB'000*
Refund liabilities arising from sales return	**145,224**	221,900
Refund liabilities arising from sales rebates	**37,988**	42,297
	183,212	264,197
Other income and gains		
Bank interest income	**3,140**	1,966
Penalty charges received from distributors	**2,153**	1,194
Rental income	**1,205**	2,410
Government grants*	**32,741**	40,399
Compensation from a fire accident	**–**	3,814
Gain on disposal of items of property, plant and equipment	**105**	–
Gain on disposal of a subsidiary *(note 29)*	**–**	3,205
Investment income from financial assets at fair value through profit or loss	**–**	763
Fair value gain on derivative financial instruments -transactions not qualifying as hedges	**11,496**	9,070
Others	**1,755**	1,538
	52,595	64,359

* The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions and other contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**1,869,734**	1,776,150
Depreciation of property, plant and equipment	*13*	**121,635**	113,333
Impairment of property, plant and equipment	*13*	**9,899**	–
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	*14(a), 14(b)*	**133,922**	661
Amortisation of other intangible assets *	*15*	**6,070**	2,366
Impairment of trade receivables	*18*	**52,382**	16,827
Impairment of other receivables	*19*	**2,402**	1,401
Write-down/(reversal of write-down) of inventories to net realisable value **		**52,907**	(21,315)
Minimum lease payments under operating leases		**–**	187,701
Lease payments not included in the measurement of lease liabilities	*14(d)*	**51,257**	–
Auditor's remuneration		**3,740**	960
Listing expenses		**25,342**	19,537
(Gain)/loss on disposal of items of property, plant and equipment, net		**(105)**	11
Foreign exchange differences, net		**323**	3,533
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**94,291**	126,341
Pension scheme contributions		**13,368**	10,484
Staff welfare expenses		**13,628**	16,035
		121,287	**152,860**

* The amortisation of other intangible assets is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

** The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 **RMB'000**	2018 RMB'000
Interest on bank loans	**76,690**	93,321
Interest on loans from a related party	**–**	1,192
Interest on lease liabilities	**12,266**	–
	88,956	94,513

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2019 **RMB'000**	2018 RMB'000
Fees	**600**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**520**	519
Performance related bonuses	**4,191**	4,554
Pension scheme contributions	**30**	26
	4,741	5,099
	5,341	5,099

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to or receivable by independent non-executive directors during the year were as follows:

	2019 *RMB'000*	2018 *RMB'000*
GU Jiong *	**200**	–
YUAN Tao *	**200**	–
Paolo BODO *	**200**	–
	600	–

*	GU Jiong, YUAN Tao and Paolo BODO were appointed as independent non-executive directors on 26 April 2019.

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(B) EXECUTIVE DIRECTOR, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE

	Salaries, allowances and benefits in kind *RMB'000*	**Performance related bonuses** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total remuneration** *RMB'000*
2019				
Executive director:				
YU Yong (chief executive)	**520**	**4,191**	**30**	**4,741**
Non-executive directors:				
HUANG Hanji	**–**	**–**	**–**	**–**
YANG Herong	**–**	**–**	**–**	**–**
LIN Lin	**–**	**–**	**–**	**–**
ONG Yew Thiong, Gilbert**	**–**	**–**	**–**	**–**
Ravinder Singh THAKRAN	**–**	**–**	**–**	**–**
WANG Jun**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
	520	**4,191**	**30**	**4,741**

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(B) EXECUTIVE DIRECTOR, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE (continued)

	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2018				
Executive director:				
YU Yong (chief executive)	519	4,554	26	5,099
Non-executive directors:				
HUANG Hanji	–	–	–	–
YANG Herong	–	–	–	–
LIN Lin	–	–	–	–
ONG Yew Thiong, Gilbert	–	–	–	–
Ravinder Singh THAKRAN	–	–	–	–
	–	–	–	–
	519	4,554	26	5,099

** ONG Yew Thiong, Gilbert resigned as a non-executive director on 27 August 2019 and WANG Jun was appointed as a non-executive director on 27 August 2019.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is also the chief executive (2018: one director who is also the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Salaries, allowances and benefits in kind	**1,738**	2,302
Performance related bonuses	**4,709**	1,256
Pension scheme contributions	**120**	104
	6,567	3,662

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees **2019**	 2018
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**1**	3
HK$2,000,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$4,000,000	**1**	–
	4	4

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in this jurisdiction.

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax is provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. The Hong Kong subsidiary, Joy Sonic, is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2017/2018. The first HK$2,000,000 (2018: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2018: 8.25%) and the remaining assessable profits are taxed at 16.5% (2018: 16.5%).

Pursuant to the relevant tax law of the Administrative Especial de Macau, Macau profits tax is provided at the rate of 12% on the estimated assessable profits arising in Macau.

The provision for Mainland China corporate income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

10. INCOME TAX (continued)

	2019 *RMB'000*	2018 *RMB'000*
Current tax:		
Charge for the year	**134,845**	149,382
Deferred tax *(note 26)*	**(20,151)**	(16,200)
Total tax charge for the year	**114,694**	133,182

A reconciliation of the tax expense applicable to profit before tax using the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Profit before tax	**322,862**	507,684
At the PRC's statutory income tax rate of 25%	**80,716**	126,921
Lower tax rates for specific provinces or enacted by local authority	**30**	25,533
Expenses not deductible for tax	**23,541**	7,292
Adjustments in respect of current tax of previous years	**–**	(3,761)
Tax losses utilised from previous years	**–**	(246)
Income not subject to tax	**–**	(1,933)
Temporary differences and tax losses not recognised	**10,407**	4,191
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**–**	(24,815)
Tax charge at the Group's effective rate	**114,694**	133,182

11. DIVIDENDS

The board of directors did not recommend the payment of any final dividend for the year (2018: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 869,452,055 (2018: 750,000,000) in issue during the year, on the assumption that the subdivision of shares and the capitalisation issue had been completed on 1 January 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	2019 ***RMB'000***	2018 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**209,547**	380,093

	Number of shares **2019**	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**869,452,055**	750,000,000

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019:							
Cost	15,387	355,940	5,503	10,058	39,871	6,273	433,032
Accumulated depreciation and impairment	(15,387)	(209,191)	(2,489)	(4,182)	(30,258)	–	(261,507)
Net carrying amount	–	146,749	3,014	5,876	9,613	6,273	171,525
At 1 January 2019, net of accumulated depreciation and impairment	–	146,749	3,014	5,876	9,613	6,273	171,525
Additions	–	95,934	4,421	1,533	5,566	24,590	132,044
Depreciation provided during the year *(note 6)*	–	(113,358)	(1,470)	(2,171)	(4,636)	–	(121,635)
Impairment	–	(9,899)	–	–	–	–	(9,899)
Disposals	–	(24,831)	(54)	(140)	(53)	–	(25,078)
Transfers	–	6,273	–	–	–	(6,273)	–
Exchange realignment	–	24	–	–	–	–	24
At 31 December 2019, net of accumulated depreciation and impairment	–	100,892	5,911	5,098	10,490	24,590	146,981
At 31 December 2019:							
Cost	–	269,744	9,863	10,931	45,014	24,590	360,142
Accumulated depreciation and impairment	–	(168,852)	(3,952)	(5,833)	(34,524)	–	(213,161)
Net carrying amount	–	100,892	5,911	5,098	10,490	24,590	146,981

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Computer and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2018							
At 1 January 2018:							
Cost	15,387	286,479	5,124	6,666	36,175	–	349,831
Accumulated depreciation and impairment	(15,387)	(139,067)	(1,452)	(2,697)	(24,362)	–	(182,965)
Net carrying amount	–	147,412	3,672	3,969	11,813	–	166,866
At 1 January 2018, net of accumulated depreciation and impairment	–	147,412	3,672	3,969	11,813	–	166,866
Additions	–	104,682	428	4,841	3,830	6,273	120,054
Depreciation provided during the year *(note 6)*	–	(104,265)	(1,057)	(2,084)	(5,927)	–	(113,333)
Disposals	–	(936)	(29)	(814)	(9)	–	(1,788)
Disposal of a subsidiary *(note 29)*	–	(251)	–	(36)	(96)	–	(383)
Exchange realignment	–	107	–	–	2	–	109
At 31 December 2018, net of accumulated depreciation and impairment	–	146,749	3,014	5,876	9,613	6,273	171,525
At 31 December 2018:							
Cost	15,387	355,940	5,503	10,058	39,871	6,273	433,032
Accumulated depreciation and impairment	(15,387)	(209,191)	(2,489)	(4,182)	(30,258)	–	(261,507)
Net carrying amount	–	146,749	3,014	5,876	9,613	6,273	171,525

14. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for shopping malls, standalone stores, warehouses and offices used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 years, and no ongoing payments will be made under the terms of these land leases. Leases of shopping malls and standalone stores generally have lease terms between 2 and 5 years, while warehouses generally have lease terms between 3 and 6 years and offices generally have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	23,637
Recognised in profit or loss during the year	(661)
Carrying amount at 31 December 2018	22,976
Current portion included in prepayments, other receivables and other assets	(661)
Non-current portion	22,315

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments ***RMB'000***	**Properties** ***RMB'000***	**Total** ***RMB'000***
As at 1 January 2019	**22,976**	**263,791**	**286,767**
Additions	**–**	**151,900**	**151,900**
Reductions as a result of lease modifications	**–**	**(31,103)**	**(31,103)**
Depreciation charge	**(661)**	**(133,261)**	**(133,922)**
As at 31 December 2019	**22,315**	**251,327**	**273,642**

14. LEASES (continued)

THE GROUP AS A LESSEE (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	RMB'000
Carrying amount at 1 January 2019	252,957
New leases	151,900
Reductions as a result of lease modifications	(30,106)
Accretion of interest recognised during the year	12,266
Payments	(153,950)
Carrying amount at 31 December 2019	233,067
Analysed into:	
Current portion	131,127
Non-current portion	101,940

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 **RMB'000**
Interest on lease liabilities	**12,266**
Depreciation charge of right-of-use assets	**133,922**
Expense relating to short-term leases with remaining lease terms ended on or before 31 December 2019 (included in selling and distribution expenses and administrative expenses)	**51,257**
Total amount recognised in profit or loss	**197,445**

(e) The total cash outflow for leases is disclosed in note 30(c) to the financial statements.

14. LEASES (continued)

THE GROUP AS A LESSOR

The Group leases its buildings (note 13) consisting of warehouses in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,205,000 (2018: RMB2,410,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within one year	**–**	2,531

15. OTHER INTANGIBLE ASSETS

	Software *RMB'000*	**Trademarks** *RMB'000*	**Total** *RMB'000*
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	**4,560**	**5,779**	**10,339**
Additions	**6,184**	**292**	**6,476**
Amortisation provided during the year	**(1,981)**	**(4,089)**	**(6,070)**
Exchange realignment	**–**	**13**	**13**
At 31 December 2019	**8,763**	**1,995**	**10,758**
At 31 December 2019:			
Cost	**19,830**	**6,398**	**26,228**
Accumulated amortisation	**(11,067)**	**(4,403)**	**(15,470)**
Net carrying amount	**8,763**	**1,995**	**10,758**
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	4,883	1,350	6,233
Additions	1,906	4,374	6,280
Amortisation provided during the year	(2,229)	(137)	(2,366)
Exchange realignment	–	192	192
At 31 December 2018	4,560	5,779	10,339
At 31 December 2018 and at 1 January 2018:			
Cost	13,646	6,020	19,666
Accumulated amortisation	(9,086)	(241)	(9,327)
Net carrying amount	4,560	5,779	10,339

16. INVESTMENTS IN ASSOCIATES

	2019 ***RMB'000***	2018 *RMB'000*
Investments in associates	**–**	50

The Group's trade receivable balance with the associates is disclosed in note 18 to the financial statements.

Particulars of the associates are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation/ registration and business**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Ningbo Naizuo Clothing Co., Ltd ("**Naizuo Clothing**")	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products
Ningbo Moka Clothing Co., Ltd ("**Moka Clothing**")	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products
Ningbo Songwaxiaxia Electric Commerce Co., Ltd	Ordinary shares	PRC/Mainland China	20	Marketing and sale of apparel products

The Group's shareholdings in these associates all comprise equity shares held through Mulsanne E-commerce, a subsidiary of the Company. These associates were set up in June 2018.

The Group has discontinued the recognition of its share of losses of associates, Naizuo Clothing and Moka Clothing, because the share of losses of the associates exceeded the Group's interests in the associates and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB1,124,000 (2018: RMB73,000) and RMB1,197,000 (2018: RMB73,000), respectively.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 ***RMB'000***	2018 *RMB'000*
Share of the associates' losses for the year	**(50)**	(550)
Aggregate carrying amount of the Group's investments in associates	**–**	50

17. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**11,860**	9,085
Decorations	**17,843**	24,793
Finished goods	**1,041,219**	932,284
	1,070,922	966,162

18. TRADE AND NOTES RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**1,030,706**	740,022
Notes receivable	**72,250**	108,801
	1,102,956	848,823
Impairment of trade receivables	**(70,382)**	(18,000)
	1,032,574	830,823

The Group's trading terms with its customers (other than retail customers) are mainly on credit as well as advances. The credit period is generally one month to three months, extending up to one year for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's related parties of RMB623,000 (2018: RMB548,000) which are repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2019, notes receivable of RMB4,000,000 (2018: RMB1,480,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9 and the remaining notes receivable were measured at amortised cost. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant during the year.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Less than 3 months	**463,182**	595,125
Between 3 and 6 months	**243,035**	70,656
Between 6 and 12 months	**183,283**	28,849
Between 1 and 2 years	**135,496**	44,372
Over 2 years	**5,710**	1,020
	1,030,706	740,022

18. TRADE AND NOTES RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 *RMB'000*	2018 *RMB'000*
At beginning of year	**18,000**	1,173
Impairment losses	**52,382**	16,827
At end of year	**70,382**	18,000

The increase (2018: increase) in the loss allowance was mainly due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of RMB47,922,000 as a result of an increase in trade receivables aged over 6 months (2018: increase in the loss allowance of RMB4,775,000 as a result of an increase in trade receivables aged over 6 months); and

(ii) Increase in the loss allowance of RMB2,532,000 as a result of an increase in defaulted trade receivables (2018: increase in the loss allowance of RMB10,828,000 as a result of an increase in defaulted trade receivables).

The Group's notes receivable are all aged within six months and were neither past due nor impaired.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Gross carrying amount *RMB'000*	**Expected credit loss rate**	**Expected credit loss** *RMB'000*
Defaulted receivables	**14,088**	**100.00%**	**14,088**
Trade receivables from online channels and self-owned stores	**141,749**	**0.06%**	**88**
Other trade receivables aged:			
Less than 6 months	**571,185**	**0.54%**	**3,064**
Between 7 and 12 months	**180,121**	**8.37%**	**15,078**
Between 1 and 2 years	**123,563**	**30.81%**	**38,064**
	1,030,706	**6.83%**	**70,382**

18. TRADE AND NOTES RECEIVABLES (continued)

As at 31 December 2018

	Gross carrying amount *RMB'000*	Expected credit loss rate	Expected credit loss *RMB'000*
Defaulted receivables	11,556	100.00%	11,556
Trade receivables from online channels and self-owned stores	131,254	0.04%	55
Other trade receivables aged:			
Less than 6 months	538,259	0.22%	1,169
Between 7 and 12 months	18,839	1.11%	210
Between 1 and 2 years	40,114	12.49%	5,010
	740,022	2.43%	18,000

At 31 December 2019, the Group discounted certain notes receivable (the "**Discounted Notes**") with carrying amounts in aggregate of RMB68,190,000 (2018: RMB107,321,000) (the "**Discount**"). The Discounted Notes have a maturity from one to five months as at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Discounted Notes have a right of recourse against the Group if the PRC banks or the counterparties default.

At 31 December 2019, the Group recognised the proceeds received from the discount of the Discounted Notes with an amount of RMB68,190,000 (2018: RMB107,321,000) as short-term loans (note 25), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Notes.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 ***RMB'000***	2018 *RMB'000*
Other receivables	**257,897**	191,578
Prepaid expenses	**37,166**	44,828
Prepayments	**16,330**	15,011
Prepaid land lease payments (note 14(a))	**–**	661
Tax recoverable	**22,889**	2,056
Prepaid listing expenses	**–**	7,614
Others	**886**	1,374
	335,168	263,122
Impairment allowance	**(4,355)**	(3,653)
	330,813	259,469

Other receivables mainly represent rental deposits and advances to third parties. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2019, the probability of default applied ranged from 0.05% to 2.00% (2018: 0.05% to 2.00%) and the loss given default was estimated to be 100% (2018: 100%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there were no comparable companies as at 31 December 2019 was 2.00% (2018: 1.00%).

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

The movements in the loss allowance for impairment of other receivables were as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**3,653**	2,252
Impairment losses	**2,402**	1,401
Amount written off as uncollectible	**(1,700)**	–
	4,355	3,653

20. CASH AND CASH EQUIVALENTS AND PLEDGED SHORT-TERM DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**820,788**	653,502
Short-term deposits	**29,566**	33,995
	850,354	687,497
Less: Pledged short-term deposits:		
Pledged for notes payable	**(29,566)**	(33,995)
Cash and cash equivalents	**820,788**	653,502
Denominated in RMB	**590,108**	567,727
Denominated in US$	**144,997**	83,190
Denominated in HK$	**85,366**	594
Denominated in MOP	**317**	1,991
Cash and cash equivalents	**820,788**	653,502

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits were pledged for notes payable with a maturity from one to four months. The bank balances and pledged short-term deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE AND NOTES PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**631,663**	533,730
Notes payable	**254,530**	249,250
	886,193	782,980

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	**606,574**	509,643
3 to 6 months	**17,999**	19,403
6 to 12 months	**3,663**	3,310
1 to 2 years	**2,804**	463
Over 2 years	**623**	911
	631,663	533,730

Included in the trade and notes payables are trade payables of RMB17,124,000 (2018: RMB5,073,000) due to the Group's related parties which are repayable within 120 days, which represents credit terms similar to those offered by the related parties to their major customers.

The trade payables are non-interest-bearing and are normally settled on 120-day terms.

22. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Sale of products	**53,929**	36,664
Loyalty points programme	**3,204**	4,071
Total contract liabilities	**57,133**	40,735

Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at the end of the year.

23. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Other payables	**135,243**	126,525
Accrued payroll	**60,299**	76,949
Accrued expenses	**43,198**	54,367
Taxes payable other than corporate income tax	**8,933**	100,381
Interest payable	**1,686**	1,659
	249,359	359,881

Other payables are non-interest-bearing and repayable on demand.

Included in the other payables and accruals are other payables of RMB1,545,000 (2018: RMB4,682,000) due to the Group's related parties.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Foreign exchange option contracts	**–**	13,465
Interest rate option contracts	**–**	5,049
	–	18,514

The Company has entered into various foreign exchange option contracts and interest rate option contracts to manage its exchange rate exposures and interest rate exposures. These derivatives are not designated for hedge purposes and are measured at fair value through profit or loss. Fair value gain on non-hedging derivatives amounting to RMB11,496,000 for the year (2018: RMB9,070,000) is included in the consolidated statement of profit or loss and other comprehensive income.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Current portion of long-term bank loan – secured US$226,000,000 bank loan	**1-month LIBOR plus 2.50%**	**Within 2020**	**66,050**	1-month LIBOR plus 3.25%	Within 2019	183,612
Discounted notes receivable *(note 18)*	**–**	**Within 2020**	**68,190**	–	Within 2019	107,321
			134,240			290,933
Non-current						
Bank loan – secured US$226,000,000 bank loan	**1-month LIBOR plus 2.50%**	**2021-2022**	**1,006,002**	1-month LIBOR plus 3.25%	2020-2022	1,204,627
			1,140,242			1,495,560

	2019 ***RMB'000***	2018 *RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**134,240**	290,933
In the second year	**250,367**	217,152
In the third to fifth years, inclusive	**755,635**	987,475
	1,140,242	1,495,560

Notes:

(a) The US$226,000,000 bank loan are secured by:

i. mortgages and fixed charges over the Company's equity interests in Joy Sonic and Alpha Sonic; and

ii. mortgages and fixed charges over Joy Sonic's equity interests in Chisage Mulsanne and Yatlas Shanghai.

(b) Except for the US$226,000,000 bank loan which are denominated in United States dollars, all loans are in RMB.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

DEFERRED TAX ASSETS

	Impairment of trade and other receivables RMB'000	Impairment of inventories RMB'000	Provision of sales return RMB'000	Accrued employee benefits RMB'000	Accrued sales rebate RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of property, plant and equipment RMB'000	Lease liabilities RMB'000	Unrealised profit from inter-company transactions RMB'000	Total deferred tax assets RMB'000
At 1 January 2018	857	20,885	37,501	18,076	12,568	9,569	3,021	3,500	–	778	106,755
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	4,554	(5,478)	(9,459)	(6,211)	(1,994)	4,593	1,100	–	–	1,095	(11,800)
At 31 December 2018 and 1 January 2019	5,411	15,407	28,042	11,865	10,574	14,162	4,121	3,500	–	1,873	94,955
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	13,086	12,497	8,264	(3,966)	(1,077)	(827)	(1,823)	(1,164)	56,941	(388)	81,543
At 31 December 2019	18,497	27,904	36,306	7,899	9,497	13,335	2,298	2,336	56,941	1,485	176,498

DEFERRED TAX LIABILITIES

	Right-of-use assets RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2018	–	28,000	28,000
Deferred tax credited to profit or loss during the year *(note 10)*	–	(24,815)	(24,815)
Refund of overpaid withholding tax	–	24,815	24,815
Settlement during the year	–	(28,000)	(28,000)
At 31 December 2018 and 1 January 2019	–	–	–
Deferred tax charged to profit or loss during the year *(note 10)*	61,392	–	61,392
At 31 December 2019	61,392	–	61,392

26. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 **RMB'000**	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**119,823**	94,955
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(4,717)**	–
	115,106	94,955

Deferred tax assets have not been recognised in respect of the following items:

	2019 **RMB'000**	2018 RMB'000
Tax losses	**66,680**	23,760
Deductible temporary differences	**9,359**	7,266
	76,039	31,026

The Group has tax losses arising in Mainland China of RMB53,471,000 (2018: RMB17,139,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Macau of RMB13,209,000 (2018: RMB6,621,000) that will expire in one to three years for offsetting against future taxable profits of GXG Macau in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as they have arisen in subsidiaries which have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008. Pursuant to the approval of the tax bureau in 2018, the Group is entitled to apply a 5% withholding tax rate retrospectively. Therefore, the overpaid deferred tax liabilities amounted to RMB24,815,000 for prior years were reversed and repaid to the Group in 2018.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future due to the Group's business development in Mainland China. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,228,008,000 at 31 December 2019 (2018: RMB966,565,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. SHARE CAPITAL

SHARES

	2019 *RMB'000*	2018 *RMB'000*
Authorised: 10,000,000,000 (2018: 10,000,000,000) ordinary shares of HK$0.01 each	**88,181**	88,181
Issued and fully paid: 950,000,000 (2018: 1,560) ordinary shares of HK$0.01 each	**8,343**	–

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** ***RMB'000***
At 1 January 2018	2	–
Share sub-division on 27 August 2018 *(note a)*	1,998	–
Shares repurchased and cancelled on 7 November 2018 *(note b)*	(2,000)	–
New issues on 7 November 2018 *(note b)*	1,560	–
At 31 December 2018 and 1 January 2019	1,560	–
New issues on 26 April 2019 *(note c)*	198,440	2
Capitalisation issue *(note c)*	749,800,000	6,585
New issues on 27 May 2019 *(note d)*	200,000,000	1,756
At 31 December 2019	950,000,000	8,343

27. SHARE CAPITAL (continued)

Notes:

(a) On 27 August 2018, all the issued and unissued shares of the Company with par value of US$1 each was subdivided into 1,000 shares of US$0.001 each. Accordingly, following the completion of the subdivision, the authorised share capital was altered to US$50,000, divided into 50,000,000 shares of US$0.001 each with issued share capital of US$2 divided into 2,000 shares in issue.

(b) On 7 November 2018, the Company passed resolutions to the effect that (i) the authorised share capital of the Company was increased (from US$50,000 divided into 50,000,000 shares of US$0.001 each) by HK$100,000,000 by the creation of 10,000,000,000 shares of a par value of HK$0.01 each; (ii) following such increase, 1,560 shares of HK$0.01 each were allotted and issued fully paid to the existing shareholders, pro rata to their then interests in the issued share capital of the Company; (iii) following such issue of shares, the Company repurchased the 2,000 existing issued shares of US$0.001 each in the capital of the Company in issue immediately prior to the issue of shares mentioned above at a price of US$0.001, following which such 2,000 shares of par value of US$0.001 each were cancelled; and (iv) following such repurchase, the authorised but unissued share capital of the Company was diminished by the cancellation of all the 50,000,000 unissued shares of US$0.001 each in the authorised share capital of the Company. Accordingly, following the completion of the steps outlined above, the Company had authorised share capital of HK$100,000,000 divided into 10,000,000,000 shares.

(c) On 26 April 2019, following the completion of the redenomination exercise set out in (b) above, an amount of HK$2,000 standing to the credit of the Company's share premium account was capitalised by the issue of 198,440 shares fully paid at par value of HK$0.01 each to the shareholders in proportion to their then existing holding of shares.

Pursuant to an ordinary resolution passed on 26 April 2019, 749,800,000 shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 26 April 2019 in proportion to their respective shareholdings. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (d) below.

(d) In connection with the Company's initial public offering, 200,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$4.39 per share for a total cash consideration, before expenses, of approximately HK$878,000,000 (equivalent to RMB771,050,000). Dealings in these shares on the Stock Exchange commenced on 27 May 2019.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity on page 52 of this report.

SHARE PREMIUM

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

STATUTORY SURPLUS RESERVE

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

EXCHANGE FLUCTUATION RESERVE

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

MERGER RESERVE

The merger reserve represents the paid-up capital and capital reserve of the subsidiaries acquired by the Company pursuant to the reorganisation. Additionally, it also includes the difference of the consideration and the changes in the carrying amount of non-controlling interests.

CAPITAL RESERVE

The capital reserve of the Group represents the share premium contributed by the shareholders of the Company.

29. DISPOSAL OF A SUBSIDIARY

	2018 *RMB'000*
Net assets disposed of:	
Property, plant and equipment *(note 13)*	383
Cash and bank balances	3,236
Trade receivables	635
Other receivables	5,474
Inventories	9,505
Trade payables	(3,961)
Other payables	(15,213)
Non-controlling interests	(12)
	47
Gain on disposal of a subsidiary *(note 5)*	3,205
Satisfied by cash	3,252

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2018 *RMB'000*
Cash consideration	3,252
Cash and bank balances disposed of	(3,236)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	16

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB151,900,000 and RMB151,900,000, respectively, in respect of lease arrangements for shopping malls, standalone stores, warehouses and offices (2018: Nil).

(B) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Interest-bearing bank and other borrowings

	2019 ***RMB'000***	2018 *RMB'000*
At beginning of year	**1,495,560**	1,545,384
Changes from financing cash flows:		
Proceeds from bank and other borrowings	**468,190**	457,321
Repayment of bank and other borrowings	**(741,834)**	(493,148)
Non-cash changes:		
Discounted notes receivable derecognised on maturity	**(107,321)**	(79,850)
Deferred finance charges	**2,741**	3,880
Foreign exchange movement	**22,906**	61,973
At end of year	**1,140,242**	1,495,560

Due from directors

	2019 ***RMB'000***	2018 *RMB'000*
At beginning of year	**–**	8,733
Changes from financing cash flows:		
Changes in amounts due from directors	**–**	(8,643)
Changes from operating cash flows:		
Changes in amounts due from directors	**–**	(90)
At end of year	**–**	–

Due to related parties

	2019 ***RMB'000***	2018 *RMB'000*
At beginning of year	**31,633**	30,059
Changes from financing cash flows:		
Repayment to related parties	**(30,190)**	(772)
Interest paid	**(1,192)**	–
Changes from operating cash flows:		
Advances from a related party	**–**	194
Repayment to related parties	**(127)**	–
Non-cash changes:		
Accrued interest expenses	**–**	1,192
Foreign exchange movement	**2**	960
At end of year	**126**	31,633

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(C) TOTAL CASH OUTFLOW FOR LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019
	RMB'000
Within operating activities	51,257
Within financing activities	141,684
	192,941

31. COMMITMENTS

(A) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Buildings	**7,730**	5,750

(B) OPERATING LEASE COMMITMENTS AS AT 31 DECEMBER 2018

The Group leased certain of its shopping malls, standalone stores and warehouses under operating lease arrangements. Leases of shopping malls and standalone stores generally have lease terms between 2 and 5 years, while warehouses generally have lease terms between 3 and 6 years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	168,011
In the second to fifth years, inclusive	151,269
	319,280

32. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship
Glory Cayman Holding Limited ("**Glory Cayman**")	An entity controlled by a controlling shareholder
Glorious Cayman Ltd. ("**Glorious Cayman**")	An entity controlled by a controlling shareholder
Ningbo Chisage Wenmo Branding Management Co., Ltd. ("**Chisage Wenmo**")	An entity controlled by a director
Ningbo Chisage Wenmo E-Commerce Co., Ltd. ("**Wenmo E-Commerce**")	An entity controlled by a director
Zhejiang Chisage Holding Group Co., Ltd. ("**Chisage Holding**")	An entity controlled by a director
Ningbo Songhe Apparel Co., Ltd. ("**Songhe Apparel**")	An entity controlled by a director
Ningbo Chisage Apparel Co., Ltd. ("**Ningbo Chisage Apparel**")	An entity controlled by a director
Huaian Chisage Industrial Co., Ltd. ("**Huaian Chisage Apparel**")	An entity controlled by a director
Ningbo Hehe Import and Export Co., Ltd. ("**Hehe Import and Export**")	An entity controlled by a director
Ningbo Zhong-Zhe GXG Co., Ltd. ("**Zhong-Zhe GXG**")	An entity controlled by a director
Joy Asia International Limited ("**Joy Asia**")	An entity controlled by a director
Interpid Champion Inc. ("**Interpid Champion**")	An entity controlled by a director
Boyin Investment Co., Ltd. ("**Boyin Investment**")	An entity controlled by a director
Ningbo Moka Clothing Co., Ltd ("**Moka Clothing**")	An associate

32. RELATED PARTY TRANSACTIONS (continued)

(A) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2019 RMB'000	2018 RMB'000
Purchases of products from:			
Huaian Chisage Apparel	*(i)*	**16,719**	22,553
Ningbo Chisage Apparel	*(i)*	**63,880**	83,053
Agency fee to:			
Hehe Import and Export	*(ii)*	**–**	209
Rental fees to:			
Songhe Apparel	*(iii)*	**4,374**	4,808
Zhong-Zhe GXG	*(iii)*	**–**	738
Chisage Holding	*(iii)*	**6,599**	6,599
Rental fees from:			
Chisage Wenmo	*(iv)*	**1,060**	2,121
Wenmo E-Commerce	*(iv)*	**145**	289
Management service fees to:			
Huaian Chisage Apparel	*(v)*	**–**	436
Repayment of loans to:			
Interpid Champion	*(vi)*	**–**	772
Joy Asia	*(vii)*	**20,190**	–
Interest to:			
Joy Asia	*(vii)*	**–**	1,192
Repayment of interest to:			
Joy Asia	*(vii)*	**1,192**	–

32. RELATED PARTY TRANSACTIONS (continued)

(A) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Notes:

(i) The purchases from related parties were made according to the published prices and conditions offered by the related parties to their major customers.

(ii) Agency fee was incurred when Hehe Import and Export purchase goods from Chisage Mulsanne and sell to Joy Sonic.

(iii) The rental fees were paid for the lease of the warehouses and offices from related parties. The rental fees were charged pursuant to the terms of the agreements signed between the Group and the related parties.

(iv) The rental fees were received for the lease of the warehouses to related parties. The rental fees were charged pursuant to the terms of the agreements signed between the Group and the related parties.

(v) The management fees were paid for the management of self-owned stores provided by related parties. The management fees were charged pursuant to the terms as agreed between the Group and the related party.

(vi) The Group obtained loans from Interpid Champion which were unsecured, interest-free and repayable on demand.

(vii) The loans from Joy Asia were used as temporary working capital. The loans are unsecured with interest at 5% per annum and were repaid in January 2019.

32. RELATED PARTY TRANSACTIONS (continued)

(B) OUTSTANDING BALANCES WITH RELATED PARTIES:

(i) Due from related parties

	2019 **RMB'000**	2018 *RMB'000*
Glory Cayman	**–**	14
Glorious Cayman	**230**	70
	230	84

(ii) Due to related parties

	2019 **RMB'000**	2018 *RMB'000*
Boyin Investment	**–**	10,000
Joy Asia	**–**	21,383
Glory Cayman	**126**	250
	126	31,633

(iii) Trade receivables

	2019 **RMB'000**	2018 *RMB'000*
Hehe Import and Export	**–**	548
Moka Clothing	**500**	–
Wenmo E-Commerce	**123**	–
	623	548

(iv) Trade payables

	2019 **RMB'000**	2018 *RMB'000*
Ningbo Chisage Apparel	**17,124**	4,533
Hehe Import and Export	**–**	540
	17,124	5,073

32. RELATED PARTY TRANSACTIONS (continued)

(B) OUTSTANDING BALANCES WITH RELATED PARTIES: (continued)

(v) Other payables and accruals

	2019 *RMB'000*	2018 *RMB'000*
Chisage Wenmo	–	275
Huaian Chisage Apparel	–	222
Songhe Apparel	**1,545**	1,545
Chisage Holding	–	2,640
	1,545	4,682

The balances with related parties are unsecured, interest-free and repayable on demand, except for:

(a) the balances detailed elsewhere in notes 18, 21 and 23;

(b) the amount due to Joy Asia as stated in (b)(ii) above; and

(c) the amount due to Boyin Investment which is repayable on or before 30 June 2019 pursuant to a supplemental agreement between Boyin Investment and Joy Sonic entered into on 28 August 2018.

The balances with related parties listed in (i) to (ii) above are non-trade in nature and those balances with related parties listed in (iii) to (v) above are trade in nature.

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	2019 *RMB'000*	2018 *RMB'000*
Short-term employee benefits	**10,352**	7,803
Pension scheme contributions	**120**	104
Total compensation paid to key management personnel	**10,472**	7,907

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items (a)(i) to (a)(iv) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

FINANCIAL ASSETS

31 December 2019

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such *RMB'000*	**Debt investments** *RMB'000*	**Financial assets at amortised cost** *RMB'000*	**Total** *RMB'000*
Trade and notes receivables	**–**	**4,000**	**1,028,574**	**1,032,574**
Financial assets included in prepayments, other receivables and other assets	**–**	**–**	**253,542**	**253,542**
Due from related parties	**–**	**–**	**230**	**230**
Pledged short-term deposits	**–**	**–**	**29,566**	**29,566**
Cash and cash equivalents	**–**	**–**	**820,788**	**820,788**
	–	**4,000**	**2,132,700**	**2,136,700**

31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such *RMB'000*	Debt investments *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Derivative financial instruments	18,514	–	–	18,514
Trade and notes receivables	–	1,480	829,343	830,823
Financial assets included in prepayments, other receivables and other assets	–	–	187,925	187,925
Due from related parties	–	–	84	84
Pledged short-term deposits	–	–	33,995	33,995
Cash and cash equivalents	–	–	653,502	653,502
	18,514	1,480	1,704,849	1,724,843

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

FINANCIAL LIABILITIES AT AMORTISED COST

	2019 *RMB'000*	2018 *RMB'000*
Trade and notes payables	**886,193**	782,980
Financial liabilities included in other payables and accruals	**180,127**	182,551
Interest-bearing bank and other borrowings	**1,140,242**	1,495,560
Due to related parties	**126**	31,633
Lease liabilities	**233,067**	–
	2,439,755	2,492,724

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged short-term deposits, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, trade and notes payables, financial liabilities included in other payables and accruals, amounts due from/to related parties and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group enters into derivative financial instruments with a bank. Derivative financial instruments, including foreign exchange option contracts and interest rate option contracts are measured using valuation techniques, such as the Black-Scholes option pricing model. The model incorporates various market observable inputs such as the risk-free interest rate, implied volatility of the exchange rate and spot prices. The carrying amounts of foreign exchange option contracts and interest rate option contracts are the same as their fair values.

The fair values of the notes receivable classified as financial assets at fair value through other comprehensive income under IFRS 9 as at 31 December 2019 have been calculated by discounting the expected future cash flows, which are the par values of the notes receivable. In addition, the notes receivable will mature within six months, thus their fair values approximate to their carrying values.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Notes receivable	–	4,000	–	4,000

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Derivative financial instruments	–	18,514	–	18,514
Notes receivable	–	1,480	–	1,480
	–	19,994	–	19,994

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (continued)

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 (2018: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) ***RMB'000***	**Significant observable inputs (Level 2)** ***RMB'000***	**Significant unobservable inputs (Level 3)** ***RMB'000***	**Total** ***RMB'000***
Interest-bearing bank and other borrowings	**–**	**1,006,002**	**–**	**1,006,002**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	–	1,204,627	–	1,204,627

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with a floating interest rate

The Group's policy is to manage interest cost using a mix of fixed and variable rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
31 December 2019			
US$	**50**	**(5,360)**	**(5,360)**
US$	**(50)**	**5,360**	**5,360**
31 December 2018			
US$	50	(7,048)	(7,048)
US$	(50)	7,048	7,048

FOREIGN CURRENCY RISK

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position and by using foreign exchange options.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK (continued)

	Increase/ (decrease) in rate of foreign currency *%*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2019			
If the RMB weakens against the US$	**5**	**(46,613)**	**(45,753)**
If the RMB strengthens against the US$	**(5)**	**46,613**	**45,753**
If the RMB weakens against the HK$	**5**	**4,298**	**4,298**
If the RMB strengthens against the HK$	**(5)**	**(4,298)**	**(4,298)**
If the RMB weakens against the MOP	**5**	**132**	**157**
If the RMB strengthens against the MOP	**(5)**	**(132)**	**(157)**
2018			
If the RMB weakens against the US$	5	(65,553)	(65,216)
If the RMB strengthens against the US$	(5)	65,553	65,216
If the RMB weakens against the HK$	5	161	161
If the RMB strengthens against the HK$	(5)	(161)	(161)
If the RMB weakens against the MOP	5	100	111
If the RMB strengthens against the MOP	(5)	(100)	(111)

CREDIT RISK

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade receivables *	–	–	–	1,030,706	1,030,706
Notes receivable **	72,250	–	–	–	72,250
Financial assets included in prepayments, other receivables and other assets					
– Normal **	256,554	–	–	–	256,554
– Doubtful **	–	–	1,343	–	1,343
Due from related parties	230	–	–	–	230
Pledged deposits					
– Not yet past due	29,566	–	–	–	29,566
Cash and cash equivalents					
– Not yet past due	820,788	–	–	–	820,788
	1,179,388	–	1,343	1,030,706	2,211,437

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Derivative financial instruments	18,514	–	–	–	18,514
Trade receivables *	–	–	–	740,022	740,022
Notes receivable **	108,801	–	–	–	108,801
Financial assets included in prepayments, other receivables and other assets					
– Normal **	188,221	–	–	–	188,221
– Doubtful **	–	–	3,357	–	3,357
Due from related parties	84	–	–	–	84
Pledged deposits					
– Not yet past due	33,995	–	–	–	33,995
Cash and cash equivalents					
– Not yet past due	653,502	–	–	–	653,502
	1,003,117	–	3,357	740,022	1,746,496

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit quality of the notes receivable and financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 18 and 19 to the financial statements.

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by sales channels. At 31 December 2019, the Group had certain concentrations of credit risk as 27.5% (2018: 9.1%) and 43.1% (2018: 32.4%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings to meet its working capital requirements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2019				
	On demand *RMB'000*	**Less than 3 months** *RMB'000*	**3 to 12 months** *RMB'000*	**1 to 5 years** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank and other borrowings	**–**	**99,568**	**78,324**	**1,068,327**	**1,246,219**
Trade and notes payables	**–**	**416,010**	**470,183**	**–**	**886,193**
Financial liabilities included in other payables and accruals	**180,127**	**–**	**–**	**–**	**180,127**
Due to related parties	**126**	**–**	**–**	**–**	**126**
Lease liabilities	**–**	**38,784**	**102,449**	**106,560**	**247,793**
	180,253	**554,362**	**650,956**	**1,174,887**	**2,560,458**

	As at 31 December 2018				
	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	–	67,796	291,095	1,337,810	1,696,701
Trade and notes payables	–	266,038	516,942	–	782,980
Financial liabilities included in other payables and accruals	182,551	–	–	–	182,551
Due to related parties	31,633	–	–	–	31,633
	214,184	333,834	808,037	1,337,810	2,693,865

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CAPITAL MANAGEMENT (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, lease liabilities, trade and notes payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents and pledged short-term deposits. Capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	31 December 2019 *RMB'000*	**1 January 2019** *RMB'000* *(note)*	31 December 2018 *RMB'000*
Interest-bearing bank and other borrowings	**1,140,242**	**1,495,560**	1,495,560
Lease liabilities	**233,067**	**252,957**	–
Trade and notes payables	**886,193**	**782,980**	782,980
Other payables and accruals	**249,359**	**359,881**	359,881
Due to related parties	**126**	**31,633**	31,633
Less: Cash and cash equivalents	**(820,788)**	**(653,502)**	(653,502)
Pledged short-term deposits	**(29,566)**	**(33,995)**	(33,995)
Net debt	**1,658,633**	**2,235,514**	1,982,557
Equity attributable to owners of the parent	**1,038,198**	**99,592**	99,592
Capital and net debt	**2,696,831**	**2,335,106**	2,082,149
Gearing ratio	**62%**	**96%**	95%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 95% to 96% on 1 January 2019 when compared with the position as at 31 December 2018.

36. EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world. The COVID-19 has certain impact on the business operations of the Group in particular the sales from offline channels as well as the delivery and buy-off process of the online channels to certain degree, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on the Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019	2018
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Other intangible assets	**10**	–
Investments in subsidiaries	**4,557,000**	4,889,000
Total non-current assets	**4,557,010**	4,889,000
CURRENT ASSETS		
Derivative financial instruments	**–**	18,514
Prepayments, other receivables and other assets	**189**	8,652
Due from subsidiaries	**221,847**	3,891
Due from related parties	**230**	70
Cash and cash equivalents	**195,954**	55,244
Total current assets	**418,220**	86,371
CURRENT LIABILITIES		
Other payables and accruals	**2,284**	7,536
Interest-bearing bank and other borrowings	**66,050**	183,612
Due to related parties	**140**	251
Total current liabilities	**68,474**	191,399
NET CURRENT ASSETS	**349,746**	(105,028)

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	2019 **RMB'000**	2018 RMB'000
NET CURRENT ASSETS	**349,746**	(105,028)
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,906,756**	4,783,972
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**1,006,002**	1,204,627
Net assets	**3,900,754**	3,579,345
EQUITY		
Share capital	**8,343**	–
Reserves *(note)*	**3,892,411**	3,579,345
Total equity	**3,900,754**	3,579,345

Note:

A summary of the Company's reserves is as follows:

	Share premium account ***RMB'000***	**Capital reserve** ***RMB'000***	**Exchange fluctuation reserve** ***RMB'000***	**Retained profits** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2018	–	765,317	(48,921)	1,996,543	2,712,939
Total comprehensive income for the year	–	–	162,736	703,670	866,406
At 31 December 2018 and 1 January 2019	–	765,317	113,815	2,700,213	3,579,345
Total comprehensive loss for the year	–	–	59,375	(480,979)	(421,604)
Issue of shares to the then shareholders	(2)	–	–	–	(2)
Issue of shares for the initial public offering	769,294	–	–	–	769,294
Capitalisation issue	(6,585)	–	–	–	(6,585)
Share issue expenses	(28,037)	–	–	–	(28,037)
At 31 December 2019	734,670	765,317	173,190	2,219,234	3,892,411

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 May 2020.

FOUR YEAR FINANCIAL SUMMARY

Results	Year ended 31 December			
	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**3,721,376**	3,787,042	3,510,301	3,017,838
Gross profit	**1,798,735**	2,032,207	1,899,479	1,617,610
Profit before tax	**322,862**	507,684	587,403	573,309
Income tax expenses	**(114,694)**	(133,182)	(165,612)	(173,629)
Profit for the year	**208,168**	374,502	421,791	399,680

Assets, Liabilities and Equity	As at 31 December			
	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**3,899,888**	3,176,976	2,962,967	2,446,731
Total liabilities	**2,863,463**	3,078,665	3,193,464	1,439,251
Total equity	**1,036,425**	98,311	(230,497)	1,007,480