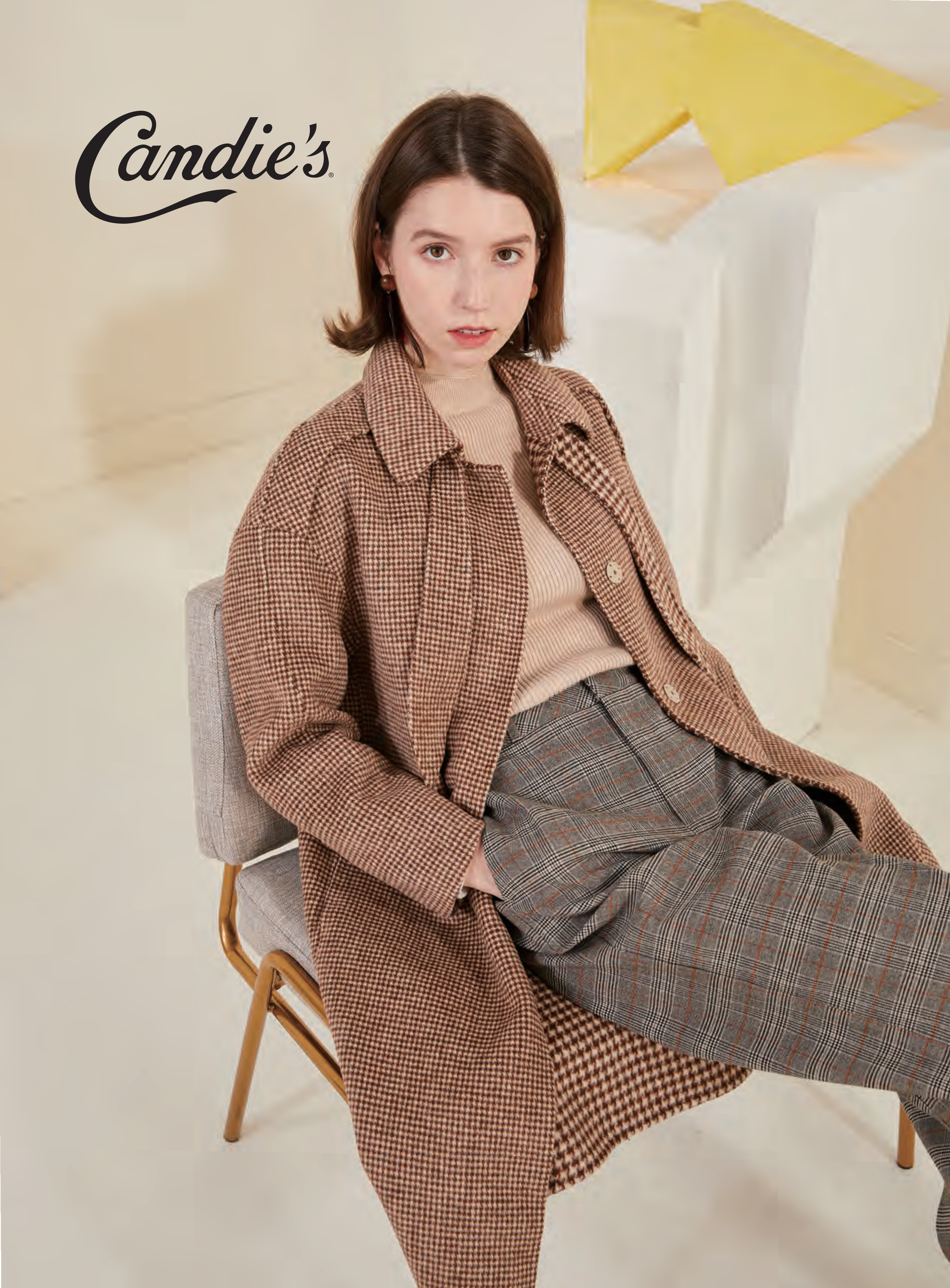
La Chapelle

Xinjiang La Chapelle Fashion Co., Ltd.

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

INTERIM REPORT 2020

(Stock Code: 06116)


Candie's

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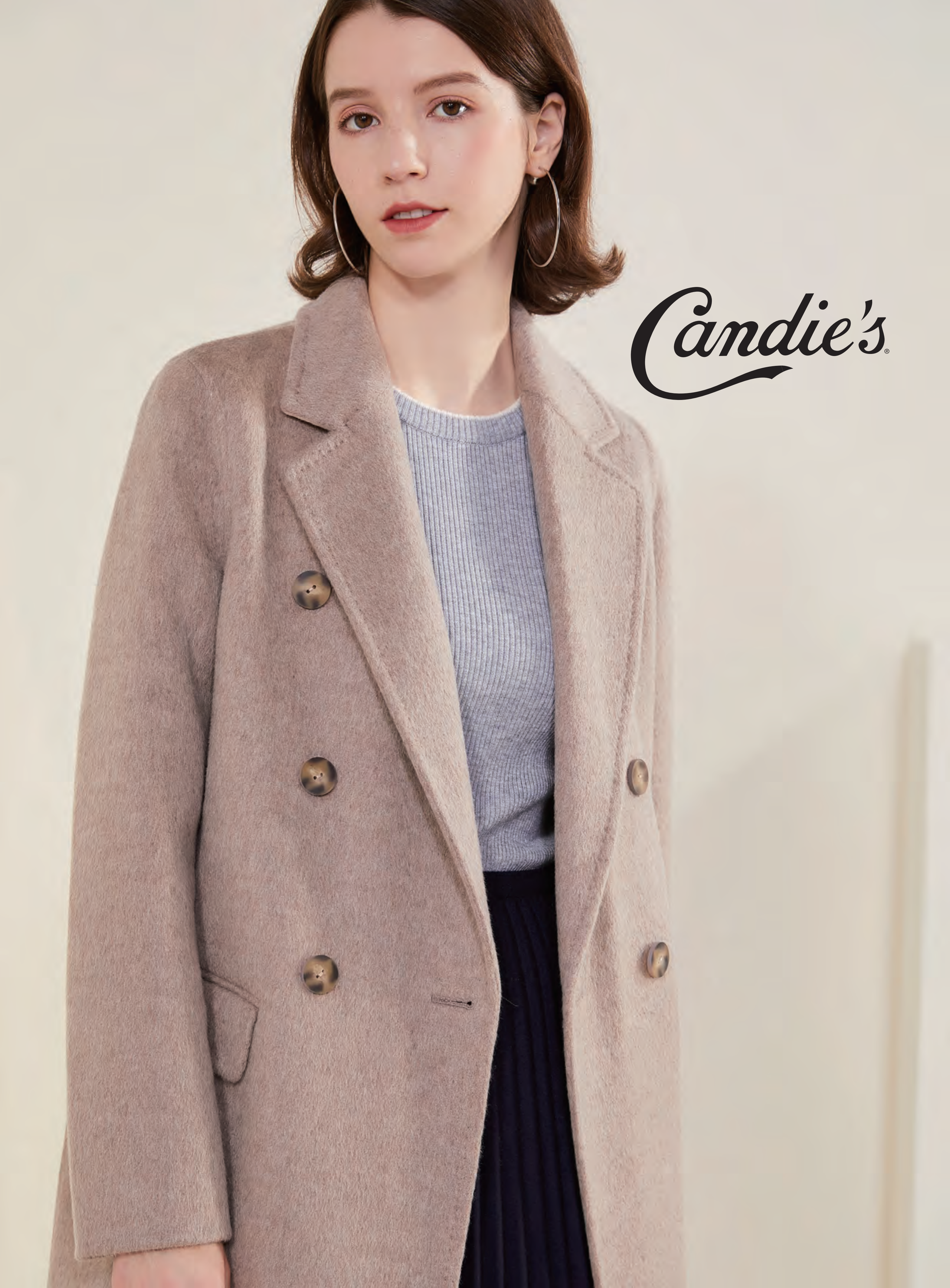
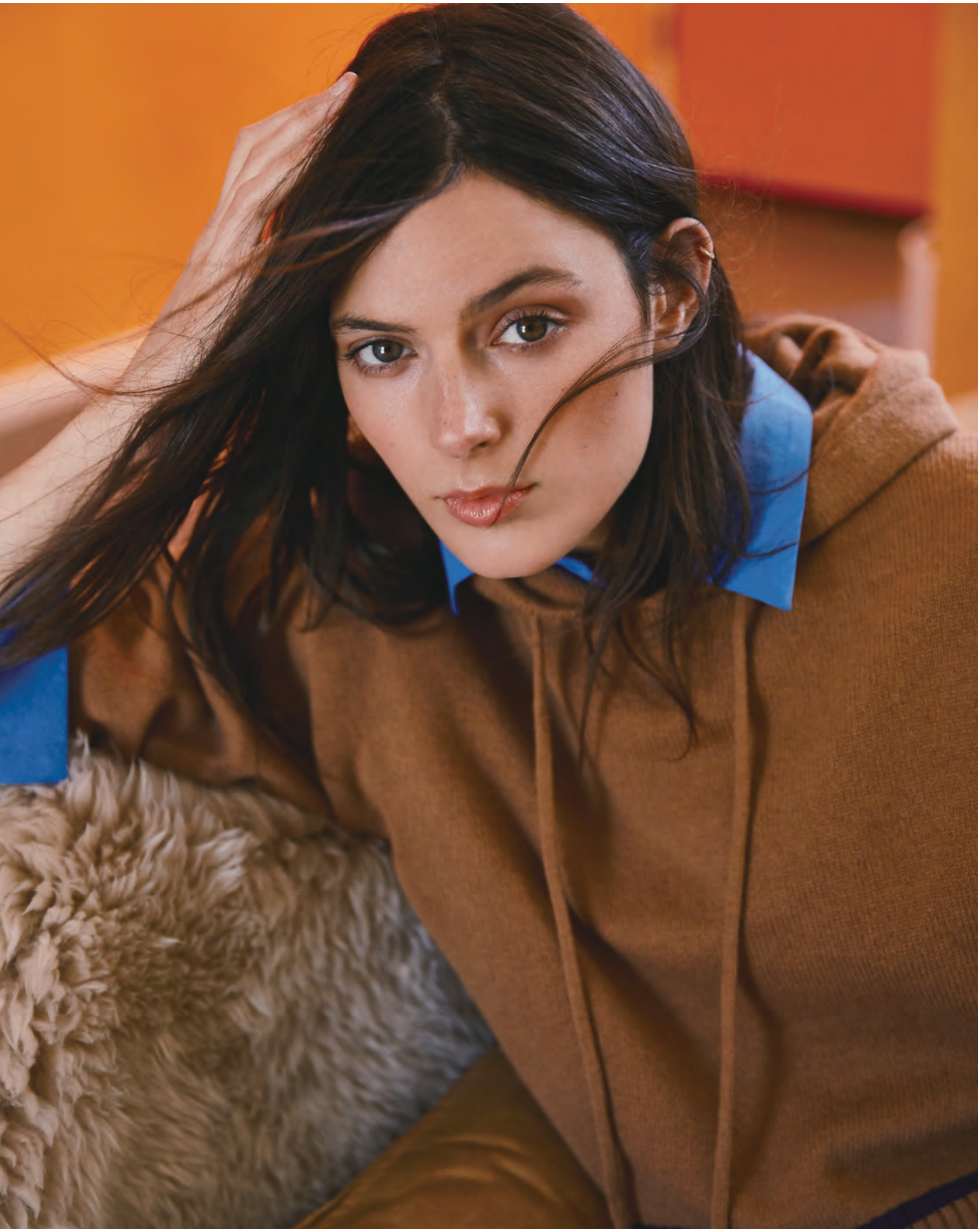
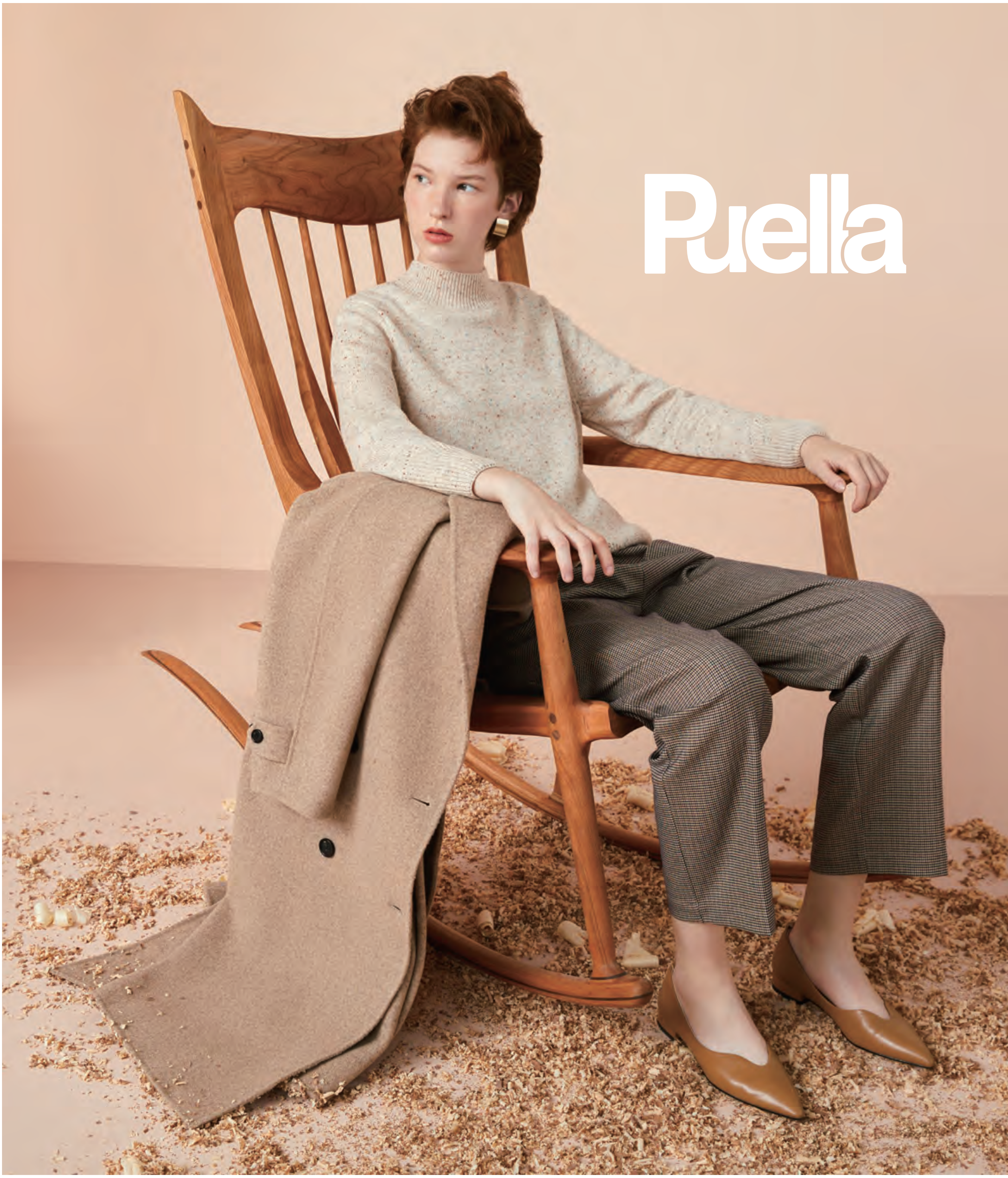

Candie's

La babité




Puella


Puella

CORPORATE INFORMATION

REGISTERED CHINESE NAME

新疆拉夏貝爾服飾股份有限公司

ENGLISH NAME

Xinjiang La Chapelle Fashion Co., Ltd.

HEADQUARTERS

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

REGISTERED OFFICE IN THE PRC

Room 2008, 20/F, Tower D,
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Urumqi, Xinjiang, PRC

PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTOR

Executive Director

Ms. Zhang Danling

Non-executive Directors

Mr. Duan Xuefeng *(Chairman)*
Mr. Yin Xinzai
Ms. Zhang Yujing

Independent Non-executive Directors

Mr. Xing Jiangze
Ms. Xiao Yanming
Mr. Zhu Xiaozhe

AUDIT COMMITTEE

Mr. Xing Jiangze *(Chairman)*
Ms. Zhang Yujing
Ms. Xiao Yanming

NOMINATION COMMITTEE

Mr. Duan Xuefeng *(Chairman)*
Mr. Zhu Xiaozhe
Mr. Xing Jiangze

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Xing Jiangze *(Chairman)*
Mr. Yin Xinzai
Mr. Zhu Xiaozhe

BUDGET COMMITTEE

Mr. Yin Xinzai *(Chairman)*
Mr. Duan Xuefeng
Ms. Zhang Danling
Ms. Zhang Yujing
Mr. Xing Jiangze

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. Duan Xuefeng *(Chairman)*
Mr. Yin Xinzai
Ms. Zhang Danling
Ms. Zhang Yujing
Mr. Zhu Xiaozhe
Ms. Xiao Yanming

SUPERVISORS

Mr. Ma Yuanbin *(Chairman)*
Mr. Shi Xiaofeng
Mr. Wu Jinying

COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

Mr. Yin Xinzai *(appointed on 8 May 2020)*
Ms. Wong Wai Ling *(appointed on 25 February 2020)*
Mr. Xing Jiaxing *(resigned on 3 February 2020)*
Mr. Yu Qiang *(resigned on 25 February 2020)*
Mr. Wang Wenke *(appointed on 18 December 2019 and resigned on 8 May 2020)*

LEGAL ADVISERS

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

AUDITOR

Ernst & Young Hua Ming LLP

H SHARE REGISTRAR

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

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

STOCK CODE

6116

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2020 **RMB'000** **(unaudited)**	2019 RMB'000 (unaudited)	Increase/ (decrease) %
Financial highlights			
Revenue	**1,434,574**	3,950,645	(63.69%)
Gross profit	**692,338**	2,405,081	(71.21%)
Operating loss	**(891,251)**	(718,119)	24.11%
Loss before income tax	**(898,102)**	(718,251)	25.04%
Income tax expenses	**(182,583)**	(153,564)	18.90%
Loss for the period	**(715,519)**	(564,687)	26.71%
Basic and diluted (losses)/earnings per share (RMB)	**(1.30)**	(0.91)	42.86%
Financial Ratios			
Gross profit margin	**48.26%**	60.88%	
Operating loss margin	**(62.13%)**	(18.18%)	
Loss margin for the period	**(49.88%)**	(14.29%)	

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

During the reporting period, the sudden outbreak of the COVID-19 pandemic had brought unprecedented impacts on the industry. According to data from the National Bureau of Statistics, total consumer goods retail sales for the first half of 2020 reached RMB17,225.6 billion, representing a period-on-period decrease of 11.4%. Among which, the retails sales of apparel, shoes, hats and textiles reached RMB512 billion, representing a period-on-period decrease of 19.6%. Sales of retail units above certain amount (department stores, specialty stores and standalone retail outlets) decreased by 23.6%, 14.1% and 14.4% respectively. At present, under the conditions of pandemic, prevention and control becoming a norm in the PRC, consumption activities in the form of clustering and physical contact are still largely restricted and the loss brought by the pandemic has yet to be recovered. Affected by changes in the external industry environment and many internal factors, the Company faced difficulties of significant decline in operating income, high cost and expense ratio, high liquidity pressure and low profitability, while its operating conditions are yet to be improved.

Affected by factors such as the outbreak of the COVID-19 pandemic, closure of offline channels of the Company, and the decrease in product procurement, the Company recorded operating income of RMB1.435 billion in the first half of 2020, representing a period-on-period decrease of RMB2.516 billion or 63.7% as compared with RMB3.951 billion in the same period of last year. The overall gross profit margin of the Company decreased to 48.3% due to the increase in proportion of off-season products. As the Company had to bear the fixed rental expenses and staff costs and overheads, recognition of the one-off amortization charges for the closure of outlets and increase in depreciation of fixed assets during the pandemic, the decrease in the Company's sales costs and management expenses were smaller than the decrease in revenue. As Jack Walk and Naf Naf SAS, former subsidiaries, entered liquidation, the Company further realised the investment loss. Accordingly, the Company incurred a net loss attributable to the shareholders of the parent of RMB708 million, representing a period-on-period loss increase of 42.1%.

FINANCIAL REVIEW

For the six months ended 30 June 2020, the Group's revenue and operating loss reached RMB1,434.6 million and RMB891.3 million respectively, representing a decrease of 63.7% from its revenue and a loss increase of 24.1% from its operating loss, respectively, as compared with the corresponding period of last year. The loss for the first half of 2020 amounted to RMB715.5 million, representing a loss increase of 26.7% as compared with a loss for the corresponding period of last year.

Revenue

The revenue of the Group in the first half of 2020 decreased from RMB3,950.6 million in the first half of 2019 to RMB1,434.6 million, representing a decrease of 63.7%.

The decrease in revenue was mainly due to the active contraction strategy for the Group's offline business outlets and the impact of COVID-19 home and abroad. The number of retails points of the Group in China decreased from 5,464 as at 31 December 2019 to 3,667 as at 30 June 2020.

Revenue by distribution channel

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

	Six months ended 30 June					
	2020			2019		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point(s))
Concessionaire counters	509,184	35.5	52.2	1,683,877	42.6	(13.5)
Standalone retail outlets	495,718	34.6	47.2	1,645,122	41.6	(13.5)
Online platform	265,498	18.5	43.6	527,392	13.4	(4.0)
Others Note 1	164,174	11.4	46.8	94,254	2.4	(4.4)
Total	1,434,574	100.0	48.3	3,950,645	100.0	(12.6)

The revenue from concessionaire counters decreased from RMB1,683.9 million in the first half of 2019 to RMB509.2 million in the first half of 2020, representing a decrease of 69.8%. The revenue from retail outlets decreased from RMB1,645.1 million in the first half of 2019 to RMB495.7 million in the first half of 2020, representing a decrease of 69.6%. The decreases in revenue from concessionaire counters and retail outlets were mainly due to the decrease in numbers of retail outlets which caused by the active contraction strategy implemented by the Group. The numbers of retail outlets for concessionaire counters and standalone retail outlets decreased approximately 18% and 38%, respectively, as compared with the number of retail outlets at the end of 2019. In addition, the impact of the COVID-19 home and abroad caused the decrease of same-store sales. The revenue from retail outlets accounted for 34.6% of the total revenue of the Group in the first half of 2020, representing a period-on-period decrease of 71 percentage points. The revenue from online platform reached RMB265.5 million, which accounted for 18.5% of the total revenue, representing a period-on-period decrease of 5.2 percentage point.

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

Revenue by brand

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

	Six months ended 30 June					
	2020			2019		
	Revenue (RMB'000)	% of total	Gross Profit Margin	Revenue (RMB'000)	% of total	Gross profit margin increase or decrease compared to the same period of last year (percentage point)
La Chapelle	268,307	18.7	54.9	893,809	22.6	(13.4)
Puella	211,530	14.7	51.9	703,217	17.8	(13.3)
7 Modifier	190,841	13.3	47.5	634,943	16.1	(15.9)
La Babité	172,303	12.0	46.8	550,191	13.9	(15.7)
Candie's	130,125	9.1	52.0	363,254	9.2	(7.1)
Men's wear brands	44,180	3.1	12.9	225,757	5.7	(38.0)
8ém	28,752	2.0	47.3	86,185	2.2	(16.1)
Naf Naf	352,919	24.6	48.5	139,318	3.5	(9.8)
Other brands	35,617	2.5	16.0	353,971	9.0	(19.1)
Total	1,434,574	100.0	48.3	3,950,645	100.0	(12.6)

Note: 1. Menswear brands comprise JACK WALK, Pote and MARC ECKŌ brands. 2. Naf Naf SAS, a former wholly-owned subsidiary of the Company, has ceased to be included in the consolidated financial statements since May 15, 2020. From January 1, 2020 to May 15, 2020, Naf Naf SAS recorded operating income of RMB 352,919 thousand. 3. Affected by the COVID-19 pandemic, the significant decrease in the number of offline outlets, and the lower procurement volume of the Company, the revenue of various brands during the Reporting Period decreased significantly compared with the same period last year.

As affected by the decrease in numbers of retail outlets and the decrease in same store revenue, the revenue of the Group for the first half of 2020 had an overall decrease of 63.7%. The revenue from each of the major brands decreased, in which revenue from women's wear brands decreased by 69.1%, and revenue from men's wear brands decreased by 80.4%. At the same time, as the proportion of off-season products to total products increased, the overall gross profit margins of the Group also decreased, in which gross profit margin of women's wear decreased by 13.6%, and gross profit margin of men's wear decreased by 38.0%.

Revenue by tier of cities

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

	Six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
First-tier cities	**116,965**	**8.2**	716,592	18.1
Second-tier cities	**462,222**	**32.2**	1,600,140	40.5
Third-tier cities	**268,145**	**18.7**	778,749	19.7
Other cities	**234,323**	**16.3**	715,846	18.1
Overseas region	**352,919**	**24.6**	139,318	3.6
Total	**1,434,574**	**100.0**	3,950,645	100.0

Note: 1. For the classification of domestic cities in various tiers, please refer to the prospectus disclosed by the Company on 24 September 2014.
2. Operating income in overseas regions was realized by the Company's former wholly-owned subsidiary Naf Naf SAS, which was no longer included in the consolidated financial statements of the Company at the end of the Reporting Period.

In the first half of 2020, the Group's revenue decreased in all cities, mainly due to the decrease in the number of retail outlets and impact of the COVID-19.

Revenue by product type

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

	Six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
Tops	**977,495**	**68.1**	2,644,104	66.9
Bottoms	**133,727**	**9.3**	447,870	11.3
Dresses	**312,954**	**21.8**	839,564	21.3
Accessories and others	**10,398**	**0.8**	19,107	0.5
Total	**1,434,574**	**100.0**	3,950,645	100.0

In the first half of 2020, revenue from sales of different products of the Group recorded a decrease, which was attributed to the decrease in purchase volume and sales volume period-on-period. For the revenue contribution from sales of different products as compared with last year, revenue contribution from sales of tops increased by 1.2%, revenue contribution from sales of bottoms decreased by 2.0% and revenue contribution from sales of dresses increased by 0.6%.

Cost of Sales

The cost of sales of the Group decreased by 52.0% from RMB1,545.6 million in the first half of 2019 to RMB742.2million in the first half of 2020.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB2,405.1 million in the first half of 2019 to RMB692.3million in the first half of 2020, representing a decrease of 71.2%, mainly attributable to an increase in proportion of sales of off-season products for the Reporting Period resulting in a lower decrease in cost comparing to a higher decrease in revenue.

The overall gross profit margin of the Group decreased to 48.3% in the first half of 2020 from 60.9% in the first half of 2019, mainly due to an increase in proportion of sales of off-season products in the first half of 2019, resulting in a slight period-on-period decrease in actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in the first half of 2020 amounted to RMB1,067.0 million (the first half of 2019: RMB2,728.3 million), consisting primarily of sales staff salaries and benefits, concession expenses relating to retail points and online stores, depreciation of store lease assets, amortisation of store decoration expenses, rental expenses and shopping mall expenses. Expressed as a percentage, selling and distribution expenses in the first half of 2020 as a percentage of total revenue in the first half of 2020 was 74.4% (the first half of 2019: 69.1%), the ratio of selling and distribution expenses of certain fixed nature (such as salary and welfare expenses, depreciation of store lease assets, amortization of store decoration expenses, shopping mall expenses, etc.) to revenue for the Reporting Period decreased from the corresponding period of last year, and the ratio of selling and distribution expenses to revenue in relation to Naf Naf SAS increased from the corresponding period of last year. General and administrative expenses in the first half of 2020 amounted to RMB179.3 million (the first half of 2019: RMB231.5 million), consisting primarily of administrative employee salaries and benefit expenses, rental expenses for offices, amortization of fixed assets, sample expenses and consulting service fees. Expressed as a percentage, general and administrative expenses as a percentage of total revenue in the first half of 2020 were 12.5% (the first half of 2019: 5.9%).The contribution of administrative staff salaries and benefits, rental fees, and depreciation of fixed assets to our revenue for the Reporting Period has increased from the corresponding period of last year.

Asset Impairment Loss

The asset impairment loss for the first half of 2020 was RMB173.6 million (the first half of 2019: RMB206.6 million), which was provided for impairment of inventories.

Other Income – Net

The Group's other income amounted to RMB9.8 million (the first half of 2019: RMB84.3 million) in the first half of 2020, mainly due to the receipt of financial subsidies of RMB9.8 million in the first half of 2020.

Finance Expenses/Income – Net

The Group's net finance expenses were RMB109.3 million in first half of 2020 (the first half of 2019: net financial expenses of RMB118.6 million). The decrease in the net financial expenses is mainly due to the year-on-year decrease in interest expenses on lease liabilities resulting from further closure of stores under the new lease standard.

Loss before Income Tax

Loss before income tax of the Group increased from RMB718.3 million in the first half of 2019 to a loss before income tax of RMB898.1 million in the first half of 2020, representing an increase of 25.0% from the corresponding period of last year. The increase in total loss was mainly due to the decrease in sales income and gross profit margin.

Income Tax Expense

Income tax expense amounted to RMB(182.6) million in the first half of 2020 (the first half of 2019: RMB(153.6) million). The effective income tax rate in the first half of 2020 was 20.3% (the first half of 2019: 21.4%).

Loss for the period and Loss Margin for the period

As a result of the foregoing, net loss for the period of the Group in the first half of 2020 amounted to RMB715.5 million, representing an increase by 26.7% from the net loss for the period of RMB564.7 million in the first half of 2019. In particular, net loss for the period attributable to the owner of the Group was RMB707.6 million, representing an increase by 42.1% from the net loss for the period attributable to the owner of the Group for the period of RMB498.1 million in the first half of 2019. Loss margin for the period of the Group was 49.9% in the first half of 2020, compared to a profit margin of 14.3% in the first half of 2019.

Capital Expenditure

Capital expenditure of the Group primarily consisted of the amounts and deposits paid for the purchase of properties, warehouses, equipment, intangible assets and land use right. In the first half of 2020, the capital expenditure incurred by the Group was RMB 63.7 million (the first half of 2019: RMB474.9 million).

Cash and Cash Flow

In the first half of 2020, net cash generated from operating activities amounted to an inflow of RMB 186.3 million (first half of 2019: inflow of RMB1,157.5 million). The decrease in the net cash inflow from operating activities was mainly due to the decrease in sales receivable brought by the pandemic during the reporting period.

In the first half of 2020, net cash used in investing activities amounted to a net outflow of RMB111.4 million (the first half of 2019: net outflow of RMB687.9 million). In particular, the major investment activities in the first half of 2020 were: 1) the net cash outflow of RMB41.6 million for disposal of subsidiaries; 2) the net cash outflow for purchase of properties, warehouses and equipment of RMB63.7 million; and 3) net cash outflow relating to other investing activities activities amounted to RMB6.1 million.

In the first half of 2020, net cash used in financing activities amounted to an outflow of RMB211.9 million (the first half of 2019: net inflow of RMB627.9 million). Major financing activities in the first half of 2020 were: 1) obtaining bank loans resulting in net cash inflow of RMB270 million; 2) repayment of bank loans and interests resulting in net cash outflow of RMB289.7 million; and 3) payment relating to other financing activities Company resulting in net cash outflow of RMB 192.3 million.

As at 30 June 2020, the Group held cash and cash equivalents in the total amount of RMB48.1 million. (31 December 2019: RMB175.5 million), mainly due to the decrease in net cash flows from operating activities compared with the corresponding period of last year.

In the first half of 2020, the average inventory turnover of the Group was 312.6 days (the first half of 2019: 313.1 days), and the average receivables turnover was 52.4 days for the first half of 2020 (the first half of 2019: 40.2 days). The decrease in accounts receivable turnover was mainly due to the decrease in sales receivable brought by the pandemic during the reporting period.

As at 30 June 2020, net current liabilities of the Group amounted to RMB2,682.5 million. Total assets less current liabilities amounted to RMB884.5 million, and gearing ratio (the formula is used in gearing ratio: total liabilities/total assets) was 90.56%. Taking away the impact on the New Standards on Leases, the Company's gearing ratio was 88.58%.

As the Group carries out its businesses in mainland China, most of the transactions are settled in Renminbi. The Group has a portion of term deposits and cash and cash equivalents denominated in Hong Kong dollars. In addition, the Group has a portion of cash and short-term borrowings denominated in euros. The Group also pays dividends to holders of H Shares in Hong Kong dollars. The Group manages foreign exchange risk by monitoring foreign exchange rates on a regular basis.

Bank loans and other borrowings

As at 30 June 2020, bank borrowings of the Group amounted to RMB1,833.2 million (31 December 2019: RMB1,842.7 million for balance of borrowings), which was mainly mortgage, pledge and guarantee loan within one year.

Pledge of assets

(a) As at 30 June 2020, the book value of house and buildings was RMB1,349.6 million (December 31, 2019: RMB1,384.4 million) used for obtaining bank loan collateral.

(b) As at 30 June 2020, the project under construction with a book value of RMB69.2 million (December 31, 2019: RMB69.2 million) was used to obtain bank loan collateral.

(c) As at 30 June 2020, the book value of the land use right of RMB145.7 million (December 31, 2019: RMB142.8 million) was used to obtain the bank loan mortgage. The amortization amount of the land use right in the first half of 2020 was RMB1.6 million (December 31, 2019: RMB3.2 million)

Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

BUSINESS REVIEW

Retail Network

For the six months ended 30 June 2020, the number of domestic retail outlets of the Group was 3,667, decreasing from 5,464 as at 31 December 2019, which were situated at approximately 1,356 physical locations. In addition, due to the initiation of rehabilitation proceedings of Naf Naf in overseas regions, the number of retail outlets decreased by 586. The number of retail points was counted on the basis used for that as at 31 December 2015.

The table below sets out the distribution of the Group's retail points as at 30 June 2020 and as at 31 December 2019 by tier of cities in the PRC and in overseas region:

	As at 30 June 2020		As at 31 December 2019	
	Number of retail points	**% of total**	Number of retail points	% of total
First-tier cities	**300**	**8.18**	443	8.11
Second-tier cities	**1,421**	**38.75**	1,909	34.94
Third-tier cities	**1,020**	**27.82**	1,296	23.72
Other cities	**926**	**25.25**	1,230	22.51
Overseas region			586	10.72
Total	**3,667**	**100.00**	5,464	100.00

Note: 1. In respect of the classification of the tier of cities, please refer to the Prospectus. 2. Overseas region refers to the stores of Naf Naf, a former wholly-owned subsidiary of the Group, which has no longer been included in the Group's consolidated financial statements at the end of the Reporting Period.

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2020 and as at 31 December 2019 by type of the retail points:

	As at 30 June 2020		As at 31 December 2019	
	Number of retail points	**% of total**	Number of retail points	% of total
Concessionaire counters	**2,124**	**57.92**	2,584	47.29
Standalone retail outlets	**1,319**	**35.97**	2,123	38.85
Franchise/Associate	**224**	**6.11**	757	13.86
Total	**3,667**	**100.00**	5,464	100.00

The table below sets out the distribution of the Group's retail points in the PRC as at 30 June 2020 and as at 31 December 2019 by brands:

	As at 30 June 2020		As at 31 December 2019	
	Number of retail points	**% of total**	Number of retail points	% of total
La Chapelle	**938**	**25.58**	1,204	22.04
Puella	**792**	**21.60**	1,033	18.91
7 Modifier	**740**	**20.18**	958	17.53
La Babité	**571**	**15.57**	767	14.04
Candie's	**458**	**12.49**	593	10.85
Menswear	**108**	**2.94**	216	3.95
8ém	**48**	**1.31**	94	1.72
Naf Naf	**–**	**–**	586	10.72
Other brands	**12**	**0.33**	13	0.24
Total	**3,667**	**100.00**	5,464	100.00

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

The table below sets out the distribution of the Group's net retail points closure in the PRC in the first half of 2020 by brands:

	For the six months ended 30 June	
	Number of net retail points closure	**% of total**
La Chapelle	**266**	**14.80**
Puella	**241**	**13.41**
7 Modifier	**218**	**12.13**
La Babité	**196**	**10.91**
Candie's	**135**	**7.51**
Menswear	**108**	**6.01**
8ém	**46**	**2.56**
Other brands	**1**	**0.06**
Naf Naf	**586**	**32.61**
Total	**1,797**	**100**

In the first half of 2020, the number of retail outlets of the group's major brands declined. In addition, in the first half of 2020, Naf Naf went into the compulsory liquidation. As a result, Naf Naf ceased to be included in the Group's consolidated financial statements on 15 May 2020, and retail outlets of the brand were no longer included in the retail points of the Group.

Same store sales

Due to the adjustments of market structure, some customers of department stores and shopping centers moved to rapidly emerging online shopping platforms, causing reduction in same store sales of traditional clothing enterprises that relied on department stores as primary distribution channel. Regardless of our Group's continuous strategy of reducing the reliabllity on income from department stores, proportion of sales from concessionaire counters is currently still at 39.5%. On the other hand, due to the insignificant recovery of consumption market and the impact of the COVID-19, same store sales of retail shops in first half of 2020 decreased by 61.7%, compared to that of 2019.

Closing loss-making stores, expanding the new online retail model

During the reporting period, the Company further closed its low-efficiency and loss-making direct outlets. At the end of the Reporting Period, the total number of domestic operating outlets of the Company was 3,667, representing a decrease of 1,797 as compared with the same period of 2019. As a result, fixed costs such as salary and rent incurred in direct sales channels were effectively reduced. Meanwhile, as the pandemic brought greater impacts on the Company's offline terminal channels, the Company made more efforts in the expansion of its online business and continued to explore new retail channels, including WeChat marketing, Taobao live broadcast, live streaming with KOLs, member marketing, etc. As a result, new retail channels have enabled seamless connections with customers.

Revitalizing long-term stock assets, commencing debt payable restricting

The Company intended to dispose of its asset, the Taicang property, at a transaction consideration of approximately RMB725 million, and is currently actively negotiating with its entrusted loan creditors about specific plans to release the underlying equity and asset mortgages and pledges. Meanwhile, the Company actively negotiated with suppliers on debt restructuring in the first half of the year for payment discounts or payment cycle adjustment, and has made certain progress.

Future Prospects

2020 is a critical year for the transformation and development of the Company. In the second half of the year, the Company will carefully devise corresponding strategies and carry out internal and external reforms as well as innovations for consumer needs. The Company will actively adopt key measures such as asset disposal and debt restructuring. In the second half of 2020, the Company will continuously advance the following work:

1. The Company will continuously optimize its offline channels, close those inefficient and loss-making stores, reduce its fixed costs, and avoid ineffective capital investment.

2. The Company will continuously proceed with the disposal of property assets and business optimization and reorganization, focus on improving profits, divest those businesses which do not match with the strategies of the Company, and provide financial support to its core business development. At the same time, the Company will actively commence debt restructuring of accounts payable with suppliers, and further optimize its asset-liability structure through combination of operating burden reduction and income boost restructuring.

3. The Company will actively maintain and seek external financing resources to ease its liquidity pressure. In order to ensure the smooth implementation of the Company's transformation and adjustment and avoid the negative impact of concentrated debt payment on the Company, on the one hand, the Company will actively maintain the sustainability of the existing financing scale; on the other hand, it will also strive to seek support in respect of policies, business resources, credit loans and funds from external strategic investors and local governments in order to restore and improve the Company's reputation and strength. As a result, the Company can return to the track of healthy development.

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

As at 30 June 2020, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Name of chief executive	Nature of interest and capacity	Number of shares interested [7]	Approximate percentage of shareholding A shares as at 30 June 2020	Approximate percentage of shareholding in the total issued share capital of the Company as at 30 June 2020
Xing Jiaxing	Beneficial owner	141,874,425[1,4] A Shares (L)	42.62%	25.91%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	45,204,390[1,4,5] A Shares (L)	13.58%	8.25%
	Beneficial owner	141,600,000[2,6] A Shares (S)	42.54%	25.85%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO , deemed interest pursuant to section 318 of the SFO	45,200,000[3,5] A Shares (S)	13.58%	8.25%

Notes:

1. Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.91% of the total issued share capital of the Company as at 30 June 2020.

   In addition, Mr. Xing Jiaxing and Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**") entered into a new Acting- in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares held by Shanghai Hexia, which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2020).

2. Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017 and 7 December 2017 and 19 September 2018 and 18 October 2018 and 1 February 2019 and10 June 2019, respectively, pursuant to which 141,600,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing of a share repurchase transaction.

   Among such A Shares, 68,400,000 A Shares and 73, 200,000 A Shares will be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 25.85% of the total issued capital of the Company as at 30 June 2020.

   As disclosed in the announcement dated 6 August 2019 of the Company, the collateral coverage ratio of the 68,400,000 A Shares and the 73,200,000 A Shares (which would be repurchased on 27 November 2020 and 4 December 2020 respectively) pledged by Mr. Xing Jiaxing had fallen below the lowest collateral coverage ratio, constituting breaches of the share pledge agreements, and Haitong Securities had issued a written notice of breach in respect of the share pledge agreements. Mr. Xing Jiaxing had proactively communicated with Haitong Securities intending to resolve the breach of contract through providing supplementary collateral or additional deposit, or repurchasing the pledged A Shares in advance.

3. Shanghai Hexia entered into share pledge agreements with CITIC Securities Company Limited ("**CITIC Securities**"), on 8 May 2018 and 18 October 2018 and 1 February 2019 and 5 August 2019 and 8 April 2020, pursuant to which 45,200,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing of a share repurchase transaction. The 45,200,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represented approximately 8.25% of the total issued capital of the Company as at 30 June 2020.

4. As disclosed in the announcement dated 12 July 2020 of the Company, a total of 187,078,815 A Shares (comprising 141,874,425 A Shares held by Mr. Xing Jiaxing and 45,204,390 A Shares held by Shanghai Hexia), which represented 34.16% of the total issued Share capital of the Company and 56.20% of the total A Share capital of the Company as at 30 June 2020, have been judicially frozen for a period starting from 10 July 2020 to 9 July 2022.

5. As disclosed in the Company's announcement dated 16 July 2020 , the 45,204,390 A Shares held by Shanghai Hexia, which represented approximately 8.25% of the total issued Share capital of the Company as at 30 June 2020, were subject to a subordinated freezing order. The Company was informed that such subordinated freezing order related to the 45,204,390 A Shares pledged by Shanghai Hexia to CITIC Securities which Shanghai Hexia failed to repurchase in advance or adopt security measures alternatively, which resulted in CITIC Securities applying to the Shanghai Financial Court* (上海金融法院) for such subordinated freezing order.

6. As disclosed in the Company's announcement dated 17 August 2020 , the 141,600,000 A Shares held by Mr. Xing Jiaxing, which represented approximately 25.85% of the total issued Share capital of the Company as at 30 June 2020, were subject to a subordinated freezing order. The Company was informed that such subordinated freezing order related to the 141,600,000 A Shares pledged by Mr. Xing Jiaxing to Haitong Securities which Mr. Xing Jiaxing failed to repurchase or adopt security measures alternatively, which resulted in Haitong Securities applying to the Shanghai Financial Court* (上海金融法院) for such subordinated freezing order.

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

Save as disclosed above, as at 30 June 2020, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2020, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 30 June 2020, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest and capacity	Number of shares interested[8]	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2020	Approximate percentage of shareholding in the total issued share capital of the Company as at 30 June 2020
Shanghai Hexia [1]	Beneficial owner	45,204,390 A Shares (L)	13.58%	8.25%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,874,425 A Shares (L)	42.62%	25.91%
	Beneficial owner	45,200,000 A Shares (S)	13.58%	8.25%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,600,000 A Shares (S)	42.54%	25.85%
The Goldman Sachs Group, Inc. [2]	Interest in controlled corporation	16,593,935 A Shares (L)	4.98%	3.03%
Haitong Securities Co., Ltd.	Person having a security interest in shares	141,600,000 A Shares (L)	42.54%	25.85%

Name of shareholder	Nature of interest and capacity	Number of shares interested[8]	Approximate percentage of shareholding in the relevant class of shares as at 30 June 2020	Approximate percentage of shareholding in the total issued share capital of the Company as at 30 June 2020
CITIC Securities Company Limited	Person having a security interest in shares	45,200,000 A Shares (L)	13.58%	8.25%
China Merchants Asset Management, Construction and Investment Overseas No. 1 Overseas Single Asset Management Plan* (招商資管建投海外1號海外單一資產管理計劃)	Others	11,400,000 H Shares (L)	5.31%	2.08%
China Cinda Asset Management Co., Ltd. [3]	Interest in controlled corporation	49,597,132 H Shares (L)	23.09%	9.06%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)* (寧波梅山保税港區金信昌泰投資有限合夥) [4]	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%
Gabriel Li [5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Lam Lai Ming [5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司) [6]	Interest in controlled corporation	22,236,800 H Shares (L)	10.35%	4.06%
Senda International Capital Limited [6]	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%
Wang Shenghong [7]	Beneficiary of a trust	10,345,400 H Shares (L)	4.82%	1.89%

Notes:

1. Shanghai Hexia was the beneficial owner of 45,204,390 A Shares, which represented approximately 8.25% of the total issued Share capital of the Company as at 30 June 2020. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's Shares/short positions in which Mr. Xing Jiaxing is interested (being the 141,874,425 A Shares (L) and 141,600,000 A Shares (S) held by Mr. Xing Jiaxing, which represented approximately 25.91% and 25.85% of the total issued share capital of the Company as at 30 June 2020).

   Shanghai Hexia entered into share pledge agreements with CITIC Securities, on 8 May 2018, 18 October 2018, 1 February 2019, 5 August 2019 and 8 April 2020, pursuant to which, the 45,200,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing of a share repurchase transaction, which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2020. The repurchase trading date of such pledged A Shares is 8 October 2020.

   As disclosed in the Company's announcement dated 16 July 2020, the 45,204,390 A Shares held by Shanghai Hexia, which represented approximately 8.25% of the total issued share capital of the Company as at 30 June 2020, were subject to a subordinated freezing order. The Company was informed that such subordinated freezing order related to the 45,204,390 A Shares pledged by Shanghai Hexia to CITIC Securities which Shanghai Hexia failed to repurchase in advance or failed to adopt security measures alternatively, which resulted in CITIC Securities applying to the Shanghai Financial Court* (上海金融法院) for such subordinated freezing order.

2. The Goldman Sachs Group, Inc. is a company listed on the New York Stock Exchange. The Goldman Sachs Group, Inc., through its various entities, controls Beijing Kuanjie Bohua 2011 Investment Centre (Limited Partnership), which was beneficially interested in 16,593,935 A Shares as at 30 June 2020 and the Goldman Sachs Group, Inc was deemed to be interested in such A Shares by virtue of the SFO.

3. China Cinda Asset Management Co., Ltd. was deemed to be interested in an aggregate of 49,597,132 H Shares by virtue of the SFO. Those interests held through Cinda Investment Co., Ltd., Hainan Jianxin Investment Management Co., Ltd. and Jinxin Changtai Investment Partnership in Meishan Bonded Port Area, Ningbo (Limited Partnership).

4. Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership) invested in H Shares as an asset principal through China Merchants Asset Management, Construction and Investment Overseas No. 1 Single Asset Management Plan* (招商資管建投海外1號海外單一資產管理計劃).

5. Mr. Gabriel Li was deemed to be interested in an aggregate of 9,531,600 H Shares by virtue of the SFO. Those interests held through Areo Holdings Limited comprised deemed interests in 9,026,600 H Shares held by Orchid Asia V Group, Limited through its various entities, namely Orchid Asia V Group Management, Limited, Orchid Asia VI GP, Limited, Oavi Holdings, L.P., Orchid Asia VI, L.P. and 505,000 H Shares held by Orchid Asia V Co-Investment, Limited. As a spouse of Mr. Gabriel Li, Ms. Lam Lai Ming was deemed to be interested in an aggregate of 9,531,600 H Shares held by Mr. Gabriel Li by virtue of the SFO.

6. These H Shares were held by Senda International Capital Limited and Well Prospering Limited, wholly-owned subsidiaries of Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司), which held 16,630,800 and 5,606,000 H Shares respectively as at 30 June 2020.

7. Mr. Wang Shenghong was deemed to be interested as a beneficiary of a trust in 10,345,400 H Shares held by TTCO Trust Corporation Limited (西藏信託有限公司) as trustee.

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

Other than as disclosed above, as at 30 June 2020, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2020, the Company repurchased 1,691,400 A shares of the Company on the Shanghai Stock Exchange for a total consideration of RMB9,844,599 (before transaction cost).

Details of the repurchase of A shares by the Company are as follows:

Month of repurchase	Number of shares repurchased	Highest price per share (RMB)	Lowest price per share (RMB)	Total amount of repurchase (RMB)
January 2020	1,691,400 A shares	5.99	5.70	9,844,599

Such shares have not been cancelled completely during the six months ended 30 June 2020.

According to the A share repurchase mandate of the Company, the repurchase of shares shall be for the purpose of providing safeguard to the value of the Company and the rights and interests of the Shareholders and for the purpose of equity incentive granted to specified persons and employee shareholding scheme. Please refer to the circulars both dated 30 August 2019 and 3 April 2020 of the Company for details of the A share repurchase mandate.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the code provisions (the "**Code Provision(s)**") of the Corporate Governance Code as contained in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended 30 June 2020 and as at the latest practicable date before printing this report, save as to the deviation from the Code Provision A.1.8, paragraph A.2 and paragraph A.3.

Under Code Provision of A.1.8, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Currently, the Company does not have insurance cover for legal action against its Directors. The Board believes that with the current risk management and internal control systems and the close supervision of the management, the Directors' risk of being sued or getting involved in litigation in the capacity as Directors is relatively low. Benefits to be derived from taking out insurance may not outweigh the cost.

Under paragraph A.2 of CG Code, the chairman and chief executive officer in the Company should have a balanced power and authority. On 25 February 2020, Mr. Yu Qiang resigned as director, president, acting chairman and all positions within the Group. Following the resignation of Mr. Yu Qiang, the Company did not have a chairman of the Board during the period from 25 February 2020 to 8 May 2020. The Company had been looking for suitable candidate(s) to fill the the position of president. On 14 August 2020, Mr. Yin Xinzai ("**Mr. Yin**") resigned as president and re-designated from an executive director to a non-executive Director. Following the resignation of Mr. Yin Xinzai, the president position of the Company has been vacant since 14 August 2020. The Company is in the process of identifying suitable candidates(s) to fill the position of president. The Company will make further announcement(s) pursuant to the Listing Rules as and when appropriate.

Under paragraph A.3 of CG Code, the board should have a balanced composition of executive and non-executive directors (including independent non-executive directors). Following the resignation of Mr. Yu Qiang with effect from 25 February 2020, the Board did not have any executive Director during the period from 25 February 2020 to 8 May 2020. With effect from 14 August 2020, Mr. Yin Xinzai was re-designated from an executive Director to a non-executive Director. Therefore, from 14 August 2020 until now, the Board comprises one executive Director, three non-executive Directors and three independent non-executive Directors. The Board, in concurrence with the nomination committee of the Board, is of the view that the Company had in place a senior management team (including Mr. Xing, who had been re-appointed as president of the Company on 25 February 2020; and on 20 April 2020 Mr. Yin was appointed as the Company's president to replace his predecessor Mr. Xing.) to continue leading the day-to-day management of the Company. Given the vast, knowledgeable and comprehensive team of senior management members, the Board and the Nomination Committee believe that the senior management team will be able to provide sufficient information to the Board so as to make informed decisions and the Board can thereby function effectively. The Board will be responsible for formulating high-level strategy and management guidelines and monitoring the Company's general performance, in order to ensure the proper and efficient administration and management of the Group.

Save as disclosed above, there has been no deviation from the Code Provisions of the Corporate Governance Code as set forth in the Appendix 14 to the Listing Rules for the six months ended 30 June 2020.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made to all the Directors and the Supervisors by the Company and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code for the six months ended 30 June 2020.

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

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

Mr. Yin tendered his resignation as the president of the Company and was re-designated from an executive Director to a non-executive Director with effect from 14 August 2020. For details , please refer to the announcement dated 14 August 2020.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the unaudited interim results of the Group for the six months ended 30 June 2020 and has discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee currently comprises one non-executive Director, namely Ms. Zhang Yujing, and two independent non-executive Directors, namely Mr. Xing Jiangze and Ms. Xiao Yanming.

EVENT AFTER REPORTING PERIOD

(1) The Company proposed to reappoint Ernst & Young Hua Ming as the domestic and overseas auditor for one year, which has been approved by the Company's shareholders by way of ordinary resolution at the 2019 annual general meeting held on 30 July 2020. For further information, please refer to the Company's circular date 30 June 2020.

(2) The Company has completed the registration of the change in Company name from "Shanghai La Chapelle Fashion Co., Ltd. (上海拉夏貝爾服飾股份有限公司)" to "Xinjiang La Chapelle Fashion Co., Ltd. (新疆拉夏貝爾服飾股份有限公司)", and has received the new business licence from Xinjiang Uygur Autonomous Region Market Supervision and Administration Bureau (新疆維吾爾自治區市場監督管理局) on 8 July 2020. For further information, please refer to the Company's announcement date 8 July 2020.

(3) On 10 July 2020, the Company received the "Notice of Judicial Freezing and Judicial Transfer of Shares" and the "Notice for Assistance in Freezing". The Company is informed that,a total of 187,078,815 restricted A shares of the Company held by Mr. Xing Jiaxing, controlling shareholder and de facto controller of the Company, and Shanghai Hexia, the party acting in concert with Mr. Xing Jiaxing, have been judicially frozen for a period starting from 10 July 2020 to 9 July 2022.

(4) On 16 July 2020, the Company received the "Notice of Judicial Freezing and Judicial Transfer of Shares" and the "Notice for Assistance in Enforcement" and understood that the 45,204,390 restricted A shares of the Company held by Shanghai Hexia, the concert party of Mr. Xing Jiaxing, controlling shareholder and de facto controller of the Company, are subject to a subordinated freezing order.

(5) Mr. Yin tendered his resignation as the president of the Company and was re-designated from an executive Director to a non-executive Director with effect from 14 August 2020. For details, please refer to the Company's announcement dated 14 August 2020.

(6) On 17 August 2020, the Company received the "Notice of Judicial Freezing and Judicial Transfer of Shares" and the "Notice for Assistance in Enforcement" and understood that the 141,600,000 restricted A shares of the Company held by Mr. Xing Jiaxing, controlling shareholder and de facto controller of the Company, are subject to a subordinated freezing order.

(7) On 1 September 2020, the Board proposed to adjust the online business operating model of the company. The proposal is subject to the approval of the shareholders of the Company by way of an ordinary resolution to be passed at the 2020 third EGM. For further information, please refer to the Company's circular date 1 September 2020.

(8) On 9 September 2020, the Board approved the proposal in relation to the proposed change of Company name and business scope and proposed amendments to the articles of association of the Company. The proposal is the additional resolution to be passed at the 2020 third EGM by way of a special resolution. For details, please refer to the supplemental circular dated 10 September 2020.

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

APPRECIATION

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

By Order of the Board
Xinjiang La Chapelle Fashion Co., Ltd.
Mr. Duan Xuefeng
Chairman

Shanghai, the PRC, 24 September 2020

Interim Consolidated Balance Sheet

As at 30 June 2020

(All amounts in RMB'000 unless otherwise stated)

ASSETS	Notes V	30 June 2020	31 December 2019
Current assets			
Cash at bank and on hand	1	**236,914**	357,684
Financial assets held for trading	2	**–**	–
Accounts receivable	3	**236,625**	587,123
Advances to suppliers	4	**63,861**	101,679
Other receivables	5	**130,680**	174,643
Inventories	6	**813,920**	1,728,645
Non-current assets due within one year	7	**26,286**	25,588
Other current assets	8	**16,679**	224,559
Total current assets		**1,524,965**	3,199,921
Non-current assets			
Debt investment	9	**–**	–
Long-term receivables	10	**92,280**	189,020
Long-term equity investments	11	**187,751**	193,216
Other equity instruments investment	12	**11,646**	11,646
Other non-current financial assets	13	**93,733**	97,777
Fixed asset	14	**1,619,656**	1,678,939
Construction in progress	15	**142,195**	141,787
Right-of-use assets	16	**451,858**	1,609,398
Intangible assets	17	**174,353**	183,554
Goodwill	18	**78,231**	78,231
Long-term prepaid expenses	19	**182,908**	274,241
Deferred tax assets	20	**517,742**	335,914
Other non-current assets	21	**14,613**	17,879
Total non-current assets		**3,566,966**	4,811,602
TOTAL ASSETS		**5,091,931**	8,011,523

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

Interim Consolidated Balance Sheet

As at 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

LIABILITIES AND EQUITY	Notes	30 June 2020	31 December 2019
Current liabilities			
Short-term borrowings	23	**1,478,451**	1,481,107
Notes payable	24	**10,177**	255,476
Accounts payable	25	**1,253,020**	1,721,205
Advance from customers	26	**745**	2,489
Contract liabilities	27	**5,655**	52,268
Employee benefits payable	28	**112,161**	190,991
Taxes payable	29	**59,809**	227,208
Other payables	30	**725,078**	754,676
Current portion of non-current liabilities	31	**562,390**	799,667
Total current liabilities		**4,207,486**	5,485,087
Non-current liabilities			
Long-term borrowings	32	**–**	–
Lease liabilities	33	**384,865**	1,300,452
Accrued liabilities	34	**197**	35,299
Deferred tax liabilities	20	**1,915**	37,517
Other non-current liabilities	35	**16,886**	26,972
Total non-current liabilities		**403,863**	1,400,240
Total liabilities		**4,611,349**	6,885,327
Equity			
Share capital	36	**547,672**	547,672
Capital surplus	37	**1,910,804**	1,910,800
Less: treasury share	38	**20,010**	10,165
Other comprehensive (losses)/income	39	**(36,075)**	(39,958)
Surplus reserve	40	**246,788**	246,788
Accumulated losses/undistributed profits	41	**(2,122,319)**	(1,414,703)
Total equity attributable to Shareholders of the Company		**526,860**	1,240,434
Minority interests		**(46,278)**	(114,238)
Total equity		**480,582**	1,126,196
TOTAL LIABILITIES AND EQUITY		**5,091,931**	8,011,523

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Company Balance Sheet

As at 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

ASSETS	Notes	30 June 2020	31 December 2019
Current assets			
Cash at bank and on hand		**166,597**	144,399
Accounts receivable	1	**2,492,365**	2,242,671
Advances to suppliers		**36,930**	24,417
Other receivables	2	**413,013**	584,616
Inventories	3	**745,124**	1,269,526
Non-current assets due within one year		**26,286**	25,588
Other current assets		**7,845**	88,696
Total current assets		**3,888,160**	4,379,913
Non-current assets			
Long-term receivables		**59,992**	60,569
Long-term equity investments	4	**651,308**	680,078
Other non-current financial assets		**22,777**	22,777
Fixed asset		**15,532**	21,732
Construction in progress		**4,387**	4,387
Right-of-use assets		**5,278**	31,044
Intangible assets		**23,323**	24,666
Long-term prepaid expenses		**39,302**	50,743
Deferred tax assets		**163,200**	74,126
Total non-current assets		**985,099**	970,122
TOTAL ASSETS		**4,873,259**	5,350,035

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

Interim Company Balance Sheet

As at 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

LIABILITIES AND EQUITY	Notes	30 June 2020	31 December 2019
Current liabilities			
Short-term borrowings		**630,400**	737,400
Notes payable		**135**	165,594
Accounts payable		**1,493,198**	1,518,460
Deposit received		**–**	167
Contractual liability		**–**	88,495
Employee benefits payable		**26,886**	31,397
Taxes payable		**48,401**	60,413
Other payables		**1,309,101**	1,076,630
Current portion of non-current liabilities		**15,407**	32,648
Total current liabilities		**3,523,528**	3,711,204
Non-current liabilities			
Lease liabilities		**13,525**	25,327
Accrued liabilities		**20**	206
Other non-current liabilities		**–**	49
Total non-current liabilities		**13,545**	25,582
Total liabilities		**3,537,073**	3,736,786
Equity			
Share capital		**547,672**	547,672
Capital surplus		**1,897,268**	1,897,265
Less: Treasury share		**20,010**	10,165
Surplus reserve		**246,788**	246,788
Accumulated losses/undistributed profits		**(1,335,532)**	(1,068,311)
Total equity		**1,336,186**	1,613,249
TOTAL LIABILITIES AND EQUITY		**4,873,259**	5,350,035

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Consolidated Income Statements

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

	Note V	30 June 2020	30 June 2019
Revenue	42	**1,434,574**	3,950,645
Less: Cost of sales	42	**742,236**	1,545,564
Taxes and surcharges	43	**16,980**	15,325
Selling and distribution expenses	44	**1,066,957**	2,728,253
General and administrative expenses	45	**179,286**	231,507
Financial expenses	46	**109,320**	118,561
Including: interest expenses		**110,891**	136,954
interest income		**5,228**	13,323
Add: Other income	47	**9,789**	84,291
Investment income	48	**315,790**	67,805
Including: investment income of associates and a joint venture		**(170)**	77,874
Loss on fair value changes	49	**(4,044)**	–
Credit impairment losses	50	**(359,834)**	10,155
Asset impairment losses	51	**(173,561)**	(206,613)
Gains/(losses) on disposals of assets	52	**814**	14,808
Operating (loss)/profit		**(891,251)**	(718,119)
Add: Non-operating income	53	**1,179**	5,717
Less: Non-operating expenses	54	**8,030**	5,849
(Loss)/profit before tax		**(898,102)**	(718,251)
Less: Income tax expenses	56	**(182,583)**	(153,564)
Net (loss)/profit		**(715,519)**	(564,687)
Classified by continuity of operations			
Net (loss)/profit from continuing operations		**(611,277)**	(564,687)
Net (loss)/profit from discontinued operations		**(104,242)**	–
Classified by ownership of the equity			
Attributable to shareholders of the Company		**(707,616)**	(498,134)
Attributable to minority interests		**(7,903)**	(66,553)
Other comprehensive income/after tax	39	**3,883**	15,308
Attributable to shareholders of the Company/after tax		**3,883**	15,308
Other comprehensive losses that cannot be reclassified into profit and loss			
Changes in fair value of other equity instrument investments		**(514)**	–
Other comprehensive income reclassified to profit or loss			
Translation differences on translation of foreign currency financial statements		**4,397**	15,308
Total comprehensive (loss)/income		**(711,636)**	(549,379)
Including:			
Attributable to shareholders of the Company		**(703,733)**	(482,826)
Attributable to minority interests		**(7,903)**	(66,553)
Losses per share			
Basic losses per share (RMB)	57	**(1.30)**	(0.91)
Diluted losses per share (RMB)	57	**(1.30)**	(0.91)

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Company Income Statements

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

	Notes	**30 June 2020**	30 June 2019
Revenue	5	**563,542**	1,963,388
Less: Cost of sales		**500,750**	1,285,115
Taxes and surcharges		**4,531**	325
Selling and distribution expenses		**177,907**	554,681
General and administrative expenses		**52,242**	118,715
Financial expenses		**9,093**	31,088
Including: interest expenses		**13,363**	36,460
interest income		**5,494**	11,162
Add: Other income		**1,585**	33,375
Investment (loss)/income	6	**(8,068)**	(20,647)
Including: investment income of associates and a joint venture		**–**	–
Asset impairment losses		**(167,038)**	(158,016)
Gains on disposals of assets		**(317)**	68
Operating (loss)/profit		**(354,819)**	(171,756)
Add: Non-operating income		**23**	2,441
Less: Non-operating expenses		**2,000**	4,110
(Loss)/profit before tax		**(356,796)**	(173,425)
Less: Income tax expenses		**(89,074)**	(43,569)
Net (loss)/profit		**(267,722)**	(129,856)
Classified by continuity of operations			
Net (loss)/profit from continuing operations		**(267,722)**	(129,856)
Other comprehensive (loss)/income, net of tax			
Total comprehensive (loss)/income		**(267,722)**	(129,856)

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Consolidated Cash Flow Statements

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

		Note V	30 June 2020	30 June 2019
1.	**Cash flows from operating activities**			
	Cash received from sales of products or rendering of services		**1,590,521**	4,626,370
	Cash received relating to other operating activities	58	**56,987**	121,084
	Sub-total of cash inflows		**1,647,508**	4,747,454
	Cash paid for goods and services		**(892,302)**	(1,951,354)
	Cash paid to and on behalf of employees		**(331,540)**	(1,126,751)
	Payments of taxes and surcharges		**(85,037)**	(144,066)
	Cash paid relating to other operating activities	58	**(152,352)**	(367,832)
	Sub-total of cash outflows		**(1,461,231)**	(3,590,003)
	Net cash flows from/(used in) operating activities	58	**186,277**	1,157,451
2.	**Cash flows used in investing activities**			
	Net cash received from disposals of fixed assets, intangible assets and other long-term assets		**567**	1,281
	Net cash received from disposal of subsidiaries and other business units	58	**–**	162,976
	Cash received relating to other investing activities	58	**–**	82,287
	Sub-total of cash inflows		**567**	246,544
	Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(63,682)**	(474,890)
	Net cash paid to acquire a subsidiary and other business units	58	**–**	(304,670)
	Cash paid relating to other investing activities	58	**(48,320)**	(154,866)
	Sub-total of cash outflows		**(112,002)**	(934,426)
	Net cash flows used in investing activities		**(111,435)**	(687,882)

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

Interim Consolidated Cash Flow Statements

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

	Notes	**30 June 2020**	30 June 2019
3. Cash flows from financing activities			
Cash received from borrowings		**270,000**	748,270
Cash received relating to other financing activities		**–**	–
Sub-total of cash inflows		**270,000**	748,270
Cash repayments of borrowings		**(233,864)**	(1,044,813)
Cash payments for distribution of dividends, profits or interest expenses		**(55,805)**	(70,121)
Cash payments relating to other financing activities	58	**(192,269)**	(261,247)
Sub-total of cash outflows		**(481,938)**	(1,376,181)
Net cash flows (used)/from financing activities		**(211,938)**	(627,911)
4. Effect of foreign exchange rate changes on cash and cash equivalents		**9,650**	(1,312)
5. Net (decrease)/increase in cash and cash equivalents		**(127,446)**	(159,654)
Add: Cash and cash equivalents at beginning of the period		**175,549**	449,863
6. Cash and cash equivalents at end of the period		**48,103**	290,209

Legal representative: **Duan Xuefeng**

Accountant in charge: **Hu Zhiguo**

Accounting Agencies: **Hu Zhiguo**

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

Interim Company Cash Flow Statements

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

		30 June 2020	30 June 2019
1.	**Cash flows from operating activities**		
	Cash received from sales of products or rendering of services	**558,313**	1,633,927
	Cash received relating to other operating activities	**25,268**	1,149,192
	Sub-total of cash inflows	**583,581**	2,783,119
	Cash paid for products and services	**(236,779)**	(1,559,906)
	Cash paid to and on behalf of employees	**(104,571)**	(277,891)
	Payments of taxes and surcharges	**(30,795)**	(6,966)
	Cash paid relating to other operating activities	**(44,660)**	(329,098)
	Sub-total of cash outflows	**(416,805)**	(2,173,861)
	Net cash flows from/(used)operating activities	**166,776**	609,258
2.	**Cash flows used in investing activities**		
	Net cash received from disposals of fixed assets, intangible assets and other long-term assets	**213**	67
	Net cash received from disposal of subsidiaries and other business units	**–**	80,000
	Cash received relating to other investing activities	**–**	–
	Sub-total of cash inflows	**213**	80,067
	Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(13,397)**	(64,969)
	Net cash paid to acquire an associate and a joint venture	**–**	(3,000)
	Cash paid relating to other investing activities	**(3,661)**	–
	Sub-total of cash outflows	**(17,058)**	(67,969)
	Net cash flows from/(used) in investing activities	**(16,845)**	12,098

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

(All amounts in RMB'000 unless otherwise stated)

		30 June 2020	30 June 2019
3.	**Cash flows from financing activities**		
	Cash received from borrowings	**120,000**	280,000
	Sub-total of cash inflows	**120,000**	280,000
	Cash repayments of borrowings	**(227,000)**	(1,059,789)
	Cash payments for distribution of dividends, profits or interest expenses	**(13,656)**	(47,334)
	Cash payments relating to other financing activities	**(25,312)**	(17,262)
	Sub-total of cash outflows	**(265,968)**	(1,124,385)
	Net cash flows from financing activities	**(145,968)**	(844,385)
4.	**Effect of foreign exchange rate changes on cash and cash equivalents**	**3**	–
5.	**Net (decrease)/increase in cash and cash equivalents**	**3,966**	(223,029)
	Add: Cash and cash equivalents at beginning of the period	**175,549**	284,879
6.	**Cash and cash equivalents at end of the period**	**179,515**	61,850

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Consolidated Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

For the 6 months ended 30 June 2020

	Attributable to shareholders of the Company								
	Share Capital	Capital surplus	Less: Treasury share	Other comprehensive income/(loss)	Surplus reserves	Undistributed profits/ (accumulated losses)	Subtotal	Minority interests	Total shareholders' equity
1. Balance at 31 December 2019	547,672	1,910,800	10,165	(39,958)	246,788	(1,414,703)	1,240,434	(114,238)	1,126,196
2. Movements for the period ended 30 June 2020									
(1) *Total comprehensive income*	-	-	-	3,883	-	(707,616)	(703,733)	(7,903)	(711,636)
(2) *Capital contribution and withdrawal by shareholders*									
i Amount recorded in shareholders' equity arising from share-based payment arrangements	-	4	-	-	-	-	4	-	4
ii Minority interests reduced due to subsidiary disposal	-	-	-	-	-	-	-	75,863	75,863
iii Shareholders' equity reduced by share repurchase	-	-	9,845	-	-	-	(9,845)	-	(9,845)
3. Balance at 30 June 2020	547,672	1,910,804	20,010	(36,075)	246,788	(2,122,319)	526,860	(46,278)	480,582

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

Interim Consolidated Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

For the 6 months ended 30 June 2019

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

Legal representative:	Accountant in charge:	Accounting Agencies:
Duan Xuefeng	**Hu Zhiguo**	**Hu Zhiguo**

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

Interim Company Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2020
(All amounts in RMB'000 unless otherwise stated)

For the 6 months ended 30 June 2020

	Share Capital	Capital surplus	Less: Treasury share	Surplus reserves	Undistributed profits/ (accumulated) losses)	Total Shareholders' equity
1. Balance at 31 December 2019	**547,672**	**1,897,265**	**10,165**	**246,788**	**(1,068,311)**	**1,613,249**
2. Movements for the period ended 30 June 2020						
(1) *Total comprehensive income*	–	–	–	–	**(267,221)**	**(267,221)**
(2) *Capital contribution and withdrawal by shareholders*	–	–	–	–	–	–
i Amount recorded in shareholders' equity arising from share-based payment arrangements	–	**3**	–	–	–	**3**
ii Shareholders' equity reduced by share repurchase	–	–	**9,845**	–	–	**(9,845)**
3. Balance at 30 June 2020	**547,672**	**1,897,268**	**20,010**	**246,788**	**(1,335,532)**	**1,336,186**

For the 6 months ended 30 June 2019

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

Legal representative: **Duan Xuefeng**

Accountant in charge: **Hu Zhiguo**

Accounting Agencies: **Hu Zhiguo**

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

I. GENERAL INFORMATION

Xinjiang La Chapelle Fashion Co., Ltd. (the "**Company**"), initially known as Shanghai Xuhui La Chapelle Fashion Limited (上海徐匯拉夏貝爾服飾有限公司), which is a limited liability company incorporated in Xuhui on 14 March, is a limited liability company incorporated in Shanghai, the People's Republic of China ("**PRC**") on 14 March 2001.On 26 February 2004, the Company changed its name to Shanghai La Chapelle Fashion Limited (上海拉夏貝爾服飾有限公司). On 23 May 2011, the Company changed its name to Shanghai La Chapelle Fashion Co., Ltd. (上海拉夏貝爾服飾股份有限公司) and was officially converted into a joint stock company with limited liabilities according to the overall plan approved by the original board of director and the provisions of the company's sponsor agreement. The RMB-denominated ordinary shares ("**A Shares**") and the H shares issued by the company of were listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited (**Hong Kong Stock Exchange**). The registered office of the Company is in Room 3300, Block 1, Level 3, 270 Cao Xi Road, Shanghai, the PRC. On 8 July 2020, the Company changed its name to Xinjiang La Chapelle Fashion Co., Ltd. and the registered office of the Company was changed to Room 2008, 20 F, Tower D, Chuangxin Square, Si Ping Road, Xin Shi District, Urumqi, Xinjiang, the PRC.

The Company and its subsidiaries (together the "**Group**") are principally engaged in designing, marketing and selling apparel products in the PRC.

The ultimate controller of the Group is Mr. Xing Jiaxing.

The unaudited interim financial statements have been approved and authorised for issue by the Company's Board of Directors on 28 August 2020.

The consolidation scope of these consolidated financial statements shall be determined on the basis of control. Refer to Note VI for the change of scope for the period.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

Save for Naf Naf SAS has initiated rehabilitation proceedings to discontinue its operation on 15 May 2020, the unaudited interim financial statements are prepared on a going concern basis.

The net loss attributed to the parent of the Group for the 6 months period ended 30 June 2020 is RMB707,616 thousand (in the 6 months period ended 30 June 2019: RMB498,134 thousand). As at 30 June 2020, the Group's net current liabilities were RMB2,682,521 thousand (31 December 2019: net current liabilities RMB2,285,166 thousand), which includes loans repayable within one year of RMB1,833,201 thousand, accounts payable of RMB1,253,020 thousand. These events and conditions, together with other matters as set out below, indicate that material uncertainty exists that may cast significant doubt on the ability of the Group to continue as going concern. The board of directors of the Company is taking active measures to ensure the Company's continuous operation ability based on current actual operation situation. The main plans are as follows:

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

1. To increase the financing resource, the Company plans to renew the existing loan contracts or obtain additional loan facilities. As of the date of this report, the Group has the successfully renewed existing loan contracts or obtained new loan facilities which in aggregate amounted to approximately RMB1 billion which will be due after 31 December 2020.

2. To generate additional working capital, the Company plans to dispose of the Company's long-term assets. The Company has held the third meeting of the Fourth Board of directors and the second meeting of the Fourth Board of supervisors on 19 June 2020 pursuant which the directors of the Group approved to dispose of its 100% equity of the wholly-owned subsidiary Taicang Xiawei Storage Co., Ltd. for a total consideration of RMB725 million. Upon the disposal, after deducting the estimated outgoing and the repayment RMB550 million of the loan pledged by this property, the Group estimated a net cash inflow of RMB90 million can be generated.

3. To negotiate with the Group's suppliers for debt restructuring to obtain concessions or deferral of payment.

4. To respond to the development strategy of the "one belt and one road" and "western development", the company actively take the advantage of the resources and policies of Xinjiang in textile and garment industry, which will enhance the influence of the Company in the women's clothing industry, give full play to the competitiveness of the brand and channel, further enhance the integration and coordination of the Company and the upstream industry chain, and implement the Company's "innovation development and reduction of the original growth". Meanwhile, the government of Urumqi high tech Zone (new urban area) in Xinjiang Uygur Autonomous Region actively coordinates the resources of local government and financial institutions to provide the Company with financing channels and other government supports, which will relieve the Company's liquidity pressure. Therefore, the Company plans to move to Xinjiang to obtain more financing support and government support. After the Company moved to Urumqi high tech Zone (new urban area), a comprehensive credit line around RMB800 million to 1 billion is expected to be provide by local financial institutions to the Company, and preliminary intention has been reached at present. Meanwhile, the Company has negotiated a new unified procurement supplier in Xinjiang, which promises to provide the Company with a total credit line of RMB600 million for supply chain procurement projects.

5. Diversify the sales channel by further enhancing the online sales platforms, and strive to expand membership marketing, WeChat marketing, social e-commerce, network broadcast and other emerging retail formats to complement the traditional e-commerce platform which has already been placed.

6. Exercise tighter cost control to maximize the gross margin and profit margin of the Group. Promoting inventory turnover and capital turnover efficiency. Reducing fixed costs and unreasonable expenditures.

The board of directors of the Company is in the opinion of the above measures which will contribute to the Group's ability to remain a going concern and there are no material obstacles to their implementation. So it is appropriate to prepare the financial statements on a going concern basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group formulated specific accounting policies and accounting estimates according to the characteristics of its actual production and operation, which are mainly embodied in the bad debt provision of receivables, method of inventory valuation, depreciation of fixed asset, measurement of right-of-use assets and leasing liabilities etc.

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

The financial statements have been prepared in accordance with ASBE, and presented the Company's and the Group's financial position as on 30 June 2020, and the operating results and cash flows for the 6 months ended 30 June 2020 truly and completely.

2. Accounting period

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

3. Functional currency

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

The subsidiaries, Joint ventures, Associates of the Group determine their functional currencies according to the main economic environment where they operate and convert to RMB when preparing financial statements.

4. Business combination

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

Business combinations involving enterprises under common control

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations involving enterprises not under common control

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statement

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

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

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

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

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

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

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

6. Classification of joint arrangements and joint ventures

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Cash and cash equivalent

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument

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

Recognition and derecognition of financial instruments

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

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

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

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

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

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

Classification and measurement of financial assets

On initial recognition, the Group's financial assets are classified based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

Financial assets are initially recognized at fair value. However, if the initial recognition of accounts receivable or notes receivable arising from sale of goods or provision of services does not include significant financing components or does not consider financing components not exceeding one year, it shall be recognized as the transaction price.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Classification and measurement of financial assets (continued)

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

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

Debt instrument investment measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to collect contractual cash flows; and the contractual terms of the financial asset set that the cash flows on specified dates are solely payments of principal and the interest based on the outstanding amount of principal. The interest income from such financial asset is recognized using the effective interest method, and gains or losses arising from its derecognition, revision or impairment is recognized in profit or loss for the current period.

Debt instrument investment at fair value through other comprehensive income

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

Equity instrument investment at fair value through other comprehensive income

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

Financial assets at fair value through profit or loss

The financial assets other than those measured at amortized cost and at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. For such financial assets, fair value is used for subsequent measurement, and all changes in fair value are recognized in profit or loss for the current period.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Classification and measurement of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial liabilities) and financial liabilities designated upon initial recognition as at fair value through profit or loss. For financial liabilities held for trading (including derivative financial liabilities), it is subsequently measured at fair value, and all will be recognized in current profit or loss. For such financial liabilities, the subsequent measurement is based on fair value. Except for changes in fair value arising from changes in the Group's own credit risk, other changes in fair value are recognized in profit or loss. The Group changes all fair value changes (including the impact of changes in its own credit risk) to the current profit and loss, if the changes in fair value of the Group's own credit risk are included in other comprehensive income.

Other financial liabilities

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Impairment of financial instrument

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

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

Besides the above the simplified measurement method of financial assets, the Group at each balance sheet date to assess their credit risk since the initial confirmation whether has increased significantly, if not significantly increased after the initial recognition since the credit risk, in the first stage, the Group according to the equal to the sum of the expected over the next 12 months credit losses measuring loss, and according to the book balance calculation of interest income and real interest rates. If the credit risk has significantly increased since the initial recognition but no credit impairment has occurred, the Group is in the second stage. The group shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration and calculate the interest income according to the book balance and the actual interest rate. If a credit impairment occurs after the initial recognition, it is in the third stage, the Group shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration, and calculate the interest income according to the amortized cost and the actual interest rate. For financial instruments with only low credit risk on the balance sheet date, the Group assumes that the credit risk has not increased significantly since the initial recognition.

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Impairment of financial instrument (continued)

Refer to Note VIII. 2 for disclosures including the Group's criteria for judging the significant increase of credit risk, definition of credit-impaired assets and assumption of expected credit loss measurement.

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

10. Inventories

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

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

The inventory system is a perpetual inventory system.

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

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

11. Long-term equity investments

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

12. Fixed assets

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Construction in progress

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

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

14. Borrowing costs

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

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

Borrowing costs may be capitalized only when:

(1) Expenditures for such asset are incurred;

(2) Borrowing costs are incurred;

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Borrowing costs (continued)

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

15. Right-of-use assets (applicable starting from 1 January 2019)

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

Right-of-use assets are recognised at the commencement date of the lease, including:

(1) the amount of lease liabilities initially recognised;

(2) lease payments made at or before the commencement date less any lease incentives received (if applicable);

(3) Initial direct costs incurred;

(4) The cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

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

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

16. Intangible assets

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets (continued)

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

	Useful life
Land use rights	50 years
Trademark	8-10 years
Purchased software	2-10 years
Brands	8-12 years
Favorable contracts	8 years

Land use rights that are purchased by the Group are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and relevant land use rights are accounted for as fixed assets and intangible assets, respectively.

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

17. Impairment of Assets

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Impairment of assets (continued)

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

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

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

18. Long-term prepaid expenses

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

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

19. Employee benefits

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

Short-term Employee Benefits

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Employee benefits (continued)

Post-Employment Benefits (Defined Contribution Plans)

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

20. Lease liabilities (applicable starting from 1 January, 2019)

On the commencement date of the lease term, the Group recognized the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and leases of low-value assets. In calculating the present value of lease payments, the Group uses its implicit rate at the lease commencement date as discount rate. If the implicit rate in the lease is not readily determinable, the Group uses its incremental borrowing rate as discount rate. The Group calculates the interest expense of the lease liability in each period of the lease term according to the fixed periodic interest rate, and is included in the current profit and loss, unless otherwise required to be included in the cost of relevant assets. The amount of variable lease payments not included in the measurement of lease liabilities shall be included in the current profits and losses when they are actually incurred, unless otherwise required to be included in relevant costs of assets.

After the commencement date of the lease term, when the Actual fixed payment amount changes, the expected amount of the guarantee residual value changes, the index or ratio used to determine the lease payment changes, or the assessment results or actual exercise of the purchase option, the renewal option or the termination option change, the Group re-measures the lease liability based on the present value of the changed lease payments.

21. Accrued liability

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Share-based payments

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue

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

(a) Sale of goods – retail

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

(b) Sale of goods – wholesale

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

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

Sales return clause

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

Reward points program

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

Primary responsible/agent

For the Group's retail model of department store counters, the Group is able to control the goods before transferring the goods to the customers. Therefore, the Group is the main responsible person and recognizes the income according to the total amount received or receivable.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Contract liabilities

Contract liabilities are the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer, such as payments received by the enterprise prior to the transfer of the promised goods.

25. Government grants

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

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

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

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

26. Income tax

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

The Group measures a current income tax asset or liability arising from the current and prior period based on the amount of income tax expected to be paid by the Group or retured by the tax authority calculated by related tax laws.

For temporary differences on the balance sheet date between the tax bases of assets and liabilitys and their book value, and temporary differnces between the book value and the tax bases of items, the tax bases of which can be determined for tas purposes, but which have not been recognized as assets and liabilities according to the tax law, deferred income taxes are provided using the liability method.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (continued)

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

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

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

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

Identification of lease

On the commencement date of the contract, the Group assesses whether the contract is a lease or includes a lease, and if a party to the contract transfers the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract is a lease or includes a lease. In order to determine whether the contract has transferred the right to control the use of the identified assets within a certain period of time, the Group assesses whether the customers in the contract are entitled to substantially all the economic benefits arising from the use of the identified assets during the period of use and have the right to lead the use of identified assets during this period of use.

Separate leases identification

Where the contract contains multiple separate leases, the Group will split the contract and separate the leases for accounting treatment. The right to use the identified assets constitutes a separate lease in the contract if the following conditions are met:

(1) The lessee may benefit from using the asset alone or in conjunction with other resources that are readily available;

(2) The asset is not highly dependent or highly correlated with other assets in the contract.

The split of the leased and non-leased parts

If the contract contains both the leased and non-leased parts, the Group, as the lessor, shall conduct accounting treatment after splitting the leased and non-leased parts; while the Group will not divide the lease assets as the lessee, and the leased parts and related non-leased parts will be treated into leases as a whole.

Assessment of lease term

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

As lessee

For the general accounting treatment of the Group as a lessee, please refer to Note III 15 and Note III 20.

Lease modification

The lease modifications refer to the change of lease scope, lease consideration, and lease term outside the original contract terms, including the addition or termination of the use right of one or more lease assets. It also includes the extension or shortening of the lease term stipulated in the contract.

If the lease modifications have met the following conditions simultaneously, the Group will account for the lease modifications as a separate lease:

(1) The lease modifications expand the scope of the lease by adding the rights of use of one or more leased assets;

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

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability on the effective date of the lease modification by discounting the revised lease payments using a revised discount rate. When calculating the present value of the lease payment after the modification, revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the lease's Incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

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

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

(2) Making a corresponding adjustment to the book vale of right-of-use asset fro all other lease modifications.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

As lessee (continued)

Short-term lease and low-value asset lease

The Group recognizes the lease whose lease term is not more than 12 months and the lease does not include the purchase option on the commencement date of the lease term as a short-term lease. The Group recognizes the lease, that with a value of not more than RMB35,000 while the single leased asset is a new, as a low value lease. If the Group subleases or expects to sublease the leased assets, the original lease is not recognized as a low-value asset lease. The Group does not recognize the right-of-use assets and lease liabilities for short-term leases and low-value asset leases. During each period of the lease term, the related asset costs or profit or loss for the current period are included by using the straight-line method.

As lessor

On the commencement date of the lease term, all leases with risks and rewards incident to the ownership of the leased assets are substantially transferred into finance leases, and all other leases are operating leases. When the Group is an intermediate lessor, the sublease is classified with reference to the right-of-use assets arising from the head lease.

28. Repurchase of shares

Consideration and transaction costs paid for the repurchase of the Company's own equity instruments are charged against shareholders' equity. The issuance (including refinancing), repurchase, sale or cancellation of its own equity instruments is treated as change in equity.

29. Distribution of profits

Cash dividends in this company was recognized as liabilities after the approval of general meeting of shareholders.

30. Fair value measurement

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

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Fair value measurement (continued)

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

31. Significant accounting judgments and estimates

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

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

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

Judgments

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

Business Model

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

Contractual cash flow characteristics

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgments and estimates (continued)

Judgments (continued)

Lease period – Lease contract with renewal/cease option

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

Deferred income tax assets

Deferred income tax assets shall be recognized for all deductible losses unused within the limit of likely sufficient taxable income available for deduction of deductible losses. It requires the management to use massive judgements to estimate time and amount of taxable income to be obtained in the future and then to determine the value of deferred tax asset in combination with tax planning strategies.

Estimation uncertainty

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

Impairment of financial instruments

The group uses the expected credit loss model to evaluate the impairment of financial instruments. The application of the expected credit loss model requires a significant judgment and estimation, and all reasonable and valid information, including forward-looking information, should be considered. In making these judgments and estimates. The group deduces the expected changes in the debtor's credit risk based on historical repayment data and combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the provision of impairment, and the provision of impairment may not be equal to the actual amount of impairment losses in the future.

Impairment of goodwill

The Group carries out tests for impairment of goodwill on an annual basis, which entails estimation of the present value of future cash flows of the asset groups or asset portfolios to which goodwill is allocated. When estimating the present value of future cash flows, the Group needs to estimate the cash flows generated by the future asset groups or asset portfolios, and select the appropriate discount rate to determine the present value of future cash flows. please refer to Note V 18.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

The fair value of an unlisted equity investment

The valuation of unlisted equity investments is the expected future cash flow discounted by the current discount rate of other financial instruments with similar contract terms and risk characteristics. This requires the Group to estimate the projected future cash flow, credit risk, volatility and discount rate, so the valuation of unlisted equity investments is uncertain.

Sales Return

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

Provision for impairment of inventories

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Lessee's incremental borrowing rate

For a lease with uncertain interest rate, the Group adopts the lessee's incremental borrowing rate as the discount rate to calculate the present value of the lease payment when determining the incremental borrowing rate, the observable interest rate is used as reference basis according to the economic environment in which it operates. Based on this, the interest rate as reference is adjusted to get applicable incremental borrowing rate, according to its own situation, the underlying asset situation, lease term, the amount of the lease liability and other specific conditions leasing business.

Long-term impairment losses

At the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. The recoverable amount of assets and asset groups is determined according to the calculation of use value, which requires certain assumptions and estimates.

Management estimates are required as below to assess whether to impair the assets: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business is higher than the net amount of the fair value of the carrying amount of asset less costs of disposal and which is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal; (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and the future cash flow projections, it may be necessary to take an impairment charge to the profit or loss.

(All amounts in RMB'000 unless otherwise stated)

IV. TAXES

Value-added tax (VAT)	–	(For general taxpayers) VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value. (For small-scale taxpayers) VAT is levied at 3% of the taxable value. The output tax of the taxable income of Naf Naf SAS is calculated at the tax rate of 20%, and the value-added tax is calculated and paid according to the difference after deducting the input tax allowed to be deducted in the current period.
Urban maintenance construction tax	–	Domestic company is levied at 1%, 3%, 7% on the turnover taxes paid.
Corporate income tax	–	The enterprise income tax of domestic companies within the scope of group merger shall be calculated and paid at 25% of the taxable income; the enterprise income tax of Lacha fashion I limited, a subsidiary within the scope of group merger shall be calculated and paid at 8.25% of the taxable income; the enterprise income tax of LaCha Apparel II Sàrl shall be calculated and paid at 15% of the taxable income; the enterprise income tax of NaF SAS shall be calculated and paid at 31% of the taxable income.
Educational surcharge	–	Domestic company is levied at 3% on the turnover taxes paid.
Local educational surcharges	–	Domestic company is levied at 2% on the turnover taxes paid.
Property tax	–	The real estate tax of domestic companies shall be calculated and paid at 1.2% of the residual value after deducting 30% of the original value of the real estate or 12% of the rental income.
Tax preference	–	The corporate income tax of Lacha Fashion I limited, a subsidiary within the scope of group consolidation, is calculated at 8.25%, and is further reduced by 75%, with the upper limit of reduction being HK$20,000.

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Cash at bank and on hand

	30 June 2020	31 December 2019
Cash on hand	**2,241**	6,763
Bank deposits	**45,862**	168,786
Other cash and bank	**188,811**	182,135
	236,914	357,684

As at 30 June 2020, the restricted cash and bank refer to Note V 59.

As at 30 June 2020, the Group's monetary capital deposited overseas was RMB3,685,000 (31 December 2019: RMB76,030,000).

(All amounts in RMB'000 unless otherwise stated)

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

1. Cash at bank and on hand (continued)

The bank's demand deposit obtains interest income according to the interest rate of the bank's demand deposit.

2. Financial assets held for trading

	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss		
Debt instrument investments	**93,733**	97,777
Debt instrument investments classified as other non-current financial assets	**(93,733)**	(97,777)
	–	–

As at 30 June 2020, there is no financial assets at fair value through profit or loss designated, the credit risk exposure faced is RMB0 (31 December 2019: Nil)

3. Accounts receivable

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

Aging analysis of the accounts receivable is as follows

	30 June 2020	31 December 2019
Within 90 days	**193,357**	528,954
90 days to 1 year	**58,373**	77,813
1 to 2 years	**29,788**	14,016
2 to 3 years	**12,136**	15,121
Over 3 years	**33,112**	30,221
	326,766	666,125
Less: Provision for bad debts	**90,141**	79,002
	236,625	587,123

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts receivable (continued)

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

	Opening balance	Provision for the current period	Reversal for the current period	Disposal subsidiary	Closing Balance
For the 6 months ended 30 June 2020	79,002	11,971	–	(832)	90,141
For the year ended 31 December 2019	51,660	30,572	(1,575)	(1,655)	79,002

	30 June 2020				31 December 2019			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**(%)**	**Amount**	**(%)**	Amount	(%)	Amount	(%)
Individual bad debt provision	**75,037**	**23**	**75,037**	**100**	169,345	25	63,066	37
Bad debt provided by portfolio of credit risk	**251,729**	**77**	**15,104**	**6**	496,780	75	15,936	3
	326,766	**100**	**90,141**		666,125	100	79,002	

As at 30 June 2020, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Book balance	Bad debt provision	Expected credit Loss rate	Reason
Accounts receivables from related parties out of the consolidation	**4,284**	**4,284**	**100%**	**(i)**
Accounts receivables from shopping malls	**58,782**	**58,782**	**100%**	**(ii)**
Amount due from Naf Naf SAS	**11,971**	**11,971**	**100%**	**(iii)**
	75,037	**75,037**		

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts receivable (continued)

As at 31 December 2019, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Book balance	Bad debt provision	Expected credit Loss rate	Reason
Accounts receivables from related parties out of the consolidation	4,284	4,284	100%	(i)
Accounts receivables from shopping malls	165,061	58,782	36%	(ii)
	169,345	63,066		

(i) As at 30 June 2020, accounts receivables from related parties out of the consolidation is RMB 4,284,000, due to the poor operating conditions of the companies, there was a capital turnover problem, the Group considered that these receivables could not be collected, so it made full provision for bad debts.

(ii) As at 30 June 2020 and 31 December 2019, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions of the shopping malls, there was a capital turnover problem, and some shopping malls were closed. The Group considered that the receivables could not be collected, so it made partly provision for bad debts.

(iii) As at 30 June 2020, Naf Naf SAS was officially ruled by the local court of France to start the judicial reforming procedure on May 15, 2020. The Group considered that the amount due from Naf Naf SAS could not be collected and made full provision for dad debts.

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

	30 June 2020			31 December 2019		
	Estimated book balance for default	**Expected credit loss rate (%)**	**Expected credit loss for the entire life**	Estimated book balance for default	Expected credit loss rate (%)	Expected credit loss for the entire life
Within 90 days	**177,995**	**2**	**3,560**	424,655	2	8,494
90 days to 1 year	**52,156**	**5**	**2,608**	59,550	5	2,978
1 to 2 years	**15,306**	**30**	**4,592**	10,334	30	3,100
2 to 3 years	**4,820**	**60**	**2,892**	2,191	60	1,314
Over 3 years	**1,452**	**100**	**1,452**	50	100	50
	251,729		**15,104**	496,780		15,936

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts receivable (continued)

The provision for bad debts in the 6 months ended 30 June 2020 is RMB11,691,000 (year ended 2019: RMB30,572,000), and the provision for bad debts shall be recovered or transferred back to the tune of RMB0 (year ended 2019: RMB1,575,000).

The top five accounts receivable are analysed as follows:

	30 June 2020			31 December 2019		
	Book balance	**Provision of bad debts**	**% of total accounts receivable balance**	Book balance	Provision of bad debts	% of total accounts receivable balance
Total amount of the top five accounts receivable	**64,942**	**2,645**	**20%**	81,886	9,093	12%

4. Advances to suppliers

Aging analysis of the advances to suppliers is as follows:

	30 June 2020		31 December 2019	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**63,861**	**100**	88,091	87
1 to 2 years	**–**	**–**	13,588	13
	63,861	**100**	101,679	100

The top five advances to suppliers are analysed as follows:

	30 June 2020		31 December 2019	
	Book balance	**% of total advances to suppliers balance**	Book balance	% of total advances to suppliers balance
Total amount of the top five advances to suppliers	**42,068**	**67**	61,222	60

(All amounts in RMB'000 unless otherwise stated)

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

5. Other receivables

	30 June 2020	31 December 2019
Interest receivables	**–**	–
Other receivables	**130,680**	174,643
	130,680	174,643

Interest receivables

	30 June 2020	31 December 2019
Interest receivable on related party loans	**4,468**	3,314
Interest receivable on entrusted loans	**6,053**	–
Interest receivable on time deposits	**–**	–
	10,521	3,314
Less: provision for bad interest	**10,521**	3,314
	–	–

Other receivables

Aging analysis of other receivables is as follows:

	30 June 2020	31 December 2019
Within 1 year	**52,383**	70,563
1 to 2 years	**89,681**	37,331
2 to 3 years	**24,847**	26,636
Above 3 years	**13,617**	97,292
	180,528	231,822
Less: provision for bad debts	**49,848**	57,179
	130,680	174,643

(All amounts in RMB'000 unless otherwise stated)

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

5. Other receivables (continued)

Category by character of other receivables is as follows:

	30 June 2020	31 December 2019
Deposits	144,863	166,224
Tax return receivable	–	18,868
Refund of service charges	–	14,028
Staff advances	2,058	4,532
Others	33,607	7,707
Others – Naf Naf SAS	–	20,463
	180,528	231,822
Less: provision for bad debts	49,848	57,179
	130,680	174,643

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

For the 6 months ended 30 June 2020

	Stage 1	Stage 2	Stage 3	
	Expected credit losses in the next 12 months	Lifetime expected credit losses	Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	7,000	16,726	33,453	57,179
Opening balance in current period				
– Transfer to stage 2	–	–	–	–
– Transfer to stage 3	–	–	–	–
– Reverse to stage 2	–	–	–	–
– Reverse to stage 1	–	–	–	–
Provision during the period	10,178	8,843	2,610	21,631
Reversal during the period	(1,792)	–	(17,207)	(18,999)
Write-off during the period	–	–	–	–
Disposal of subsidiary	–	–	(11,755)	(11,755)
Exchange realignment	–	–	–	–
Current period reclassification (note1)	1,792	–	–	1,792
Closing balance	17,178	25,569	7,101	49,848

Note 1: For the current period, stores deposits that are expected to be recovered after one year were reclassified to long-term receivables.

(All amounts in RMB'000 unless otherwise stated)

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

5. Other receivables (continued)

For the year 2019

	Stage 1	Stage 2	Stage 3	
	Expected credit losses in the next 12 months	Lifetime expected credit losses	Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	26,168	–	1,291	27,459
Opening balance in current year				
– Transfer to stage 2	(4,156)	4,156	–	–
– Transfer to stage 3	(1,361)	–	1,361	–
– Reverse to stage 2	–	–	–	–
– Reverse to stage 1	–	–	–	–
Provision during the year	3,781	12,570	30,801	47,152
Reversal during the year	(11,725)	–	–	(11,725)
Write-off during the year	–	–	–	–
Disposal of subsidiary	(1,940)	–	–	(1,940)
Exchange realignment	14	–	–	14
Current year reclassification (note 1)	(3,781)	–	–	(3,781)
Closing balance	7,000	16,726	33,453	57,179

6. Inventories

	30 June 2020			31 December 2019		
	Book balance	**Impairment provision**	**Book value**	Book balance	Impairment provision	Book value
Raw materials	**32,713**	**–**	**32,713**	8,025	–	8,025
Finished goods	**1,105,777**	**(333,492)**	**772,285**	2,054,011	(342,606)	1,711,405
Low value consumables	**8,922**	**–**	**8,922**	9,215	–	9,215
	1,147,412	**(333,492)**	**813,920**	2,071,251	(342,606)	1,728,645

(All amounts in RMB'000 unless otherwise stated)

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

6. Inventories (continued)

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

For the 6 months ended 30 June 2020

	Opening balance	Accrual in the current period	Decrease in the current period			Exchange realignment	Closing balance
			Reverse or Resold	Write-off	Disposal of subsidiary		
Finished goods	**342,606**	**173,561**	**–**	**(156,449)**	**(26,226)**	**–**	**333,492**

For the year ended 31 December 2019

	Opening balance	Accrual in the current year	Decrease in the current year			Exchange realignment	Closing balance
			Reverse or Resold	Write-off	Disposal of subsidiary		
Finished goods	326,851	348,842	–	(312,698)	(20,595)	206	342,606

7. Non-current assets due within 1 year

	30 June 2020	31 December 2019
Equity disposal receivable	**26,286**	25,588
Debt investment	**7,464**	7,287
Less: Impairment provision for non-current assets due within 1 year	**7,464**	7,287
	26,286	25,588

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

7. Non-current assets due within 1 year (continued)

The change of bad debt provision for non-current assets due within 1 year in accordance with the expected credit loss of the entire duration are as follows:

For 6 months ended 30 June 2020

	Stage 1	Stage 2	Stage 3	
	Expected credit losses in the next 12 months	Lifetime expected credit losses	Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	–	–	7,287	7,287
Opening balance in current period				
– transfer to stage 1	–	–	–	–
– transfer to stage 2	–	–	–	–
– Reverse to stage 2	–	–	–	–
– Reverse to stage 1	–	–	–	–
Provision during the period	–	–	177	177
Reversal during the period	–	–	–	–
Write-off during the period	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	7,464	7,464

(All amounts in RMB'000 unless otherwise stated)

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

7. Non-current assets due within 1 year (continued)

The significant changes in the book balance of creditor's rights investment affecting the change of loss provision in the current period are as follows:

For 6 months ended 30 June 2020

	Stage 1	Stage 2	Stage 3	
	Expected credit losses in the next 12 months	Lifetime expected credit losses	Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	–	–	7,287	7,287
Opening balance in current period				
– Transfer to stage 2	–	–	–	–
– Transfer to stage 3	–	–	–	–
– Reverse to stage 2	–	–	–	–
– Reverse to stage 1	–	–	–	–
Increases during the period	–	–	177	177
Derecognition during the period	–	–	–	–
Write-off during the period	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	7,464	7,464

8. Other current assets

	30 June 2020	31 December 2019
Input VAT to be certified	**12,309**	89,094
Bank borrowings deposit	**–**	72,000
Prepaid income tax	**4,281**	63,967
Borrowings to related parties (note 1)	**40,000**	39,500
Entrusted loan (note 2)	**379,747**	42,400
Prepaid stock repurchase	**–**	8,858
Cost of returns receivable	**89**	4,106
Less: provision for bad debts	**419,747**	95,366
	16,679	224,559

(All amounts in RMB'000 unless otherwise stated)

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

8. Other current assets (continued)

Note1: As at 30 June 2020, the Group provided loan amounted to RMB 40,000,000 to its associate, Hongche Industry (Shanghai) Co., Ltd. ("Hongche") with interest rate of 6% (31 December 2019: RMB39,500,000).

Note 2: As at 18 December 2019, the Group entered into the Equity Transfer Agreement with Lanhu Investment Management Consulting (Shanghai) Co., Ltd. (藍湖投資管理諮詢(上海)有限公司), pursuant to which the Group agreed to acquire 60% equity held in Xingji at consideration of RMB1. As at 31 December 2019, Xingji was no longer included in the scope of consolidation. As at 31 December 2019, the borrowing balance provided by the Group to Xingji industrial (Shanghai) Co., Ltd amounted to RMB37,400,000 in total at a loan interest rate of 5.22% to 5.66%. The borrowing provided by the Group to Chengdu BeCool Technology Co., Ltd (成都必酷科技有限公司) amounted to RMB5,000,000 in total at a loan interest rate of 6.00%. On 15 May 2020, the French local court formally made a ruling that Naf Naf SAS would initiate rehabilitation proceedings, and the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Naf Naf SAS's business operations, the Company consequently lost control over Naf Naf SAS and excluded Naf Naf SAS from the scope the consolidation. As at 30 June 2020, the borrowing balance provided by the Group to Naf Naf amounted to EUR10,000,000 (equivalent to RMB80,777,000) in total at a loan interest rate of 6.00%. On 22 January 2020, the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Jack Walk's business operations, the Company consequently lost control over Jack Walk and excluded Jack Walk from the scope the consolidation. As at 30 June 2020, the borrowing balance provided by the Group to Jack Walk amounted to RMB 256,570,000 in total at a loan interest rate of 4.35% to 5.7%.

9. Debt investment

	30 June 2020			31 December 2019		
	Book balance	**Impairment provision**	**Book value**	Book balance	Impairment provision	Book value
Jiuwo debt instrument investment	**–**	**–**	**–**	–	–	–

In 2017, the Group provided a loan of RMB6,500,000 to Shanghai Jiuwo co., LTD. ("Jiuwo"), at an interest rate of 5.22%. The loan was extended for two years after its expiration on 30 November 2018. The loan interest rate during the extended period was 5.77% and the loan's due date is 30 November 2020. As at 30 June 2020, the Group reclassified Jiuwo debt instrument into Non-current assets due within one year.

The expected credit loss of Lending investments refer to Note V 7.

(All amounts in RMB'000 unless otherwise stated)

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

10. Long-term receivable

	30 June 2020			31 December 2019		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Disposal of subsidiaries	56,695	–	56,695	55,188	–	55,188
Deposit	37,574	(1,989)	35,585	137,613	(3,781)	133,832
	94,269	(1,989)	92,280	192,801	(3,781)	189,020

As at 30 June 2020, the discount rate used in long-term receivable is 5.46% (31 December 2019: 5.46%).

For 6 months ended 30 June 2020, the change of bad debt provision for long-term receivables in accordance with the expected credit loss of 12 months is as follows:

	Stage 1 Expected credit losses in The next 12 months	Total
Opening balance	3,781	3,781
Current period reclassification	(1,792)	(1,792)
Reversal during the period	–	–
Write-off during the period	–	–
Other changes	–	–
Closing balance	1,989	1,989

For the year ended 31 December 2019, the change of bad debt provision for long-term receivables in accordance with the expected credit loss of 12 months is as follows:

	Stage 1 Expected credit losses in the next 12 months	Total
Opening balance	–	–
Current period reclassification (note1)	3,781	3,781
Reversal during the period	–	–
Write-off during the period	–	–
Other changes	–	–
Closing balance	3,781	3,781

Note 1: For the current year, stores deposits due for more than one year were reclassified to long-term receivables.

(All amounts in RMB'000 unless otherwise stated)

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

11. Long-term equity investments

For 6 months ended 30 June 2020

	Opening balance	Increase/decrease during the period: Increase in investment	Transfers to subsidiaries	Share of net profit or loss using the equity method	Share of OCI	Disposals of associates	Exchange differences	Cash dividends declared	Provision for impairment	Closing balance	Balance of provision for impairment
Associates											
Tibet Baoxin Equity Investment Partnership Enterprise	157,660	-	-	-	-	-	-	-	-	157,660	-
Hong Che Industrial (Shanghai) Co., Ltd.	-	-	-	-	-	-	-	-	-	-	(39,250)
Beijing Ao Ni Trading Co., Ltd.	21,522	-	-	(319)	-	-	-	-	-	21,203	-
Fuzhou Badi Fashion Co., Ltd.	6,871	-	-	(335)	-	-	-	-	-	6,536	-
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,462	-	-	(110)	-	-	-	-	-	2,352	-
Xinjiang Hengding Cotton Textile International Trading Co. Ltd	4,701	-	-	595	-	(5,296)	-	-	-	-	-
	193,216	-	-	(169)	-	(5,296)	-	-	-	187,751	(39,250)

Note 1: On 21 February 2020, the Group disposed the equity investment in Xinjiang Hengding Cotton Textile International Trading Co., Ltd. at a consideration of RMB5,000,000.

(All amounts in RMB'000 unless otherwise stated)

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

11. Long-term equity investments (continued)

For 6 months ended 31 December 2019

	Opening balance	Increase/decrease during the year: Increase in investment	Transfers to subsidiaries	Share of net profit or loss using the equity method	Share of OCI	Disposals of associates	Exchange differences	Cash dividends declared	Provision for impairment	Closing balance	Balance of provision for impairment
Joint Venture											
LaCha Apparel II Sàrl.	161,343	–	(134,068)	(27,275)	–	–	–	–	–	–	–
Associates											
Tibet Baoxin Equity Investment Partnership Enterprise	157,593	–	–	67	–	–	–	–	–	157,660	–
Hong Che Industrial (Shanghai) Co., Ltd.	45,127	–	–	(5,877)	–	–	–	–	(39,250)	–	(39,250)
Beijing Ao Ni Trading Co., Ltd.	20,820	–	–	702	–	–	–	–	–	21,522	–
Shanghai Youshi Household Science and Technology Co., Ltd.	300	–	–	(300)	–	–	–	–	–	–	–
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) (note 1)	236,397	–	–	132,411	–	(362,609)	–	(6,199)	–	–	–
Hangzhou KaiHui E-Commerce Co., Ltd.	3,766	–	–	(56)	–	(3,710)	–	–	–	–	–
Fuzhou Badi Fashion Co., Ltd.	7,681	–	–	(810)	–	–	–	–	–	6,871	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,907	–	–	(445)	–	–	–	–	–	2,462	–
Xinjiang Hengding Cotton Textile International Trading Co. Ltd	–	3,500	–	1,201	–	–	–	–	–	4,701	–
	635,934	3,500	(134,068)	99,618	–	(366,319)	–	(6,199)	(39,250)	193,216	(39,250)

Note 1: As at 31 May 2019, the Group disposed of its interest in The Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership) at a consideration of RMB275,000,000.

(All amounts in RMB'000 unless otherwise stated)

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

11. Long-term equity investments (continued)

Impairment provision for long-term equity investment:

For 6 months 30 June 2020

	Opening balance	Increase in the period	Decrease in the period	Closing balance
Hong Che Industrial (Shanghai) Co., Ltd	**(39,250)**	**–**	**–**	**(39,250)**

For 6 months 30 June 2019

	Opening balance	Increase in the period	Decrease in the period	Closing balance
Hong Che Industrial (Shanghai) Co., Ltd	–	(39,250)	–	(39,250)

12. Other equity instrument investments

30 June 2020

	Accumulative changes through other comprehensive losses	Fair value	Reasons for designating at fair value through OCI
TNPI HK Co., Ltd	**(24,344)**	**–**	**(a)**
Beijing Mingtongsiji Technology Co., Ltd.	**(19,468)**	**10,534**	**(b)**
Shanghai O2bra Co., Ltd.	**(12,493)**	**1,112**	**(c)**
	(56,305)	**11,646**	

(All amounts in RMB'000 unless otherwise stated)

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

12. Other equity instrument investments (continued)

31 December 2019

	Accumulative changes through other comprehensive losses	Fair value	Reasons for designating at fair value through OCI
TNPI HK Co., Ltd	(24,344)	–	(a)
Beijing Mingtongsiji Technology Co., Ltd.	(19,468)	10,534	(b)
Shanghai O2bra Co., Ltd.	(12,493)	1,112	(c)
	(56,305)	11,646	

(a) In 2016, the Group invested in TNPI by acquiring 20.75% interests with a total consideration of USD 3,750,000 (equivalent to RMB25,026,000). The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through Other Comprehensive Income (OCI) at initial recognition, which are presented in other equity investment. As at 30 June 2020, the fair value of the equity instrument is Nil (31 December 2019: Nil).

(b) In 2017, the Group acquired 1,075,000 shares, or 3.75% equity interests in Beijing Mingtongsiji Technology Co., Ltd. through National Equities Exchange and Quotations with a consideration of RMB15,000,000. In 2019, the Group completed the equity change in the equity investment in Beijing Mingtongsiji Technology Co., Ltd. due to the increase of other equity instrument investment of RMB15,002,000 this year, and the shareholding ratio changed to 7.07%. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 30 June 2020, the fair value of the equity instrument is RMB10,534,000 (31 December 2019: RMB10,534,000).

(c) In July 2017, Shanghai Yanghe Culture Communication Co., Ltd. entered into an acquisition agreement with the Group whereby it transferred its 9.07% equity interest in Shanghai O2bra Co. Ltd. to the Group at the consideration of RMB13,605,000. In March 2018, Shanghai O2bra Co. Ltd. completed the aforementioned transaction. The Group chose to designate the equity investment as financial assets at fair value through OCI, which are presented in other equity instrument investments. As at 30 June 2020, the fair value of the equity instrument is RMB1,112,000 (31 December 2019: RMB1,112,000).

13. Other non-current financial assets

	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss	**93,733**	97,777

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets

For 6 months ended 30 June 2020

	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
Original cost					
Opening balance	1,710,848	66,710	4,513	139,783	1,921,854
Purchase	4,289	–	581	1,479	6,349
Transferred from CIP	–	–	–	–	–
Acquired from business combination	–	–	–	–	–
Exchange realignment	–	–	–	–	–
Disposal of subsidiaries	(2,712)	(6,103)	(51)	(2,444)	(11,310)
Disposal and retirement	–	–	(2,591)	(26,085)	(28,676)
Closing balance	1,712,425	60,607	2,452	112,733	1,888,217
Accumulated depreciation					
Opening balance	109,612	25,203	2,063	97,222	234,100
Accrual	42,897	4,451	95	10,598	58,041
Disposal of subsidiaries	–	–	(51)	(1,127)	(1,178)
Disposal and retirement	–	(21)	(834)	(21,547)	(22,402)
Closing balance	152,509	29,633	1,273	85,146	268,561
Provision for impairment					
Opening balance	2,712	6,103	–	–	8,815
Provision	–	–	–	–	
Disposal of subsidiaries	(2,712)	(6,103)	–	–	(8,815)
Closing balance	–	–	–	–	–
Carrying amount					
Closing balance	1,559,916	30,974	1,179	27,587	1,619,656
Opening balance	1,598,524	35,404	2,450	42,561	1,678,939

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets (continued)

For the year ended 31 December 2019

	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
Original cost					
Opening balance	808,867	57,928	8,386	161,473	1,036,654
Purchase	3,626	4,192	725	11,072	19,615
Transferred from CIP	895,643	509	–	7,932	904,084
Acquired from business combination	2,523	6,057	–	–	8,580
Exchange realignment	189	115	–	–	304
Disposal of subsidiaries	–	(123)	(4,592)	(12,181)	(16,896)
Disposal and retirement	–	(1,968)	(6)	(28,513)	(30,487)
Closing balance	1,710,848	66,710	4,513	139,783	1,921,854
Accumulated depreciation					
Opening balance	52,456	17,099	4,143	97,907	171,605
Accrual	57,156	8,403	905	28,984	95,448
Disposal of subsidiaries	–	(73)	(2,984)	(6,963)	(10,020)
Disposal and retirement	–	(226)	(1)	(22,706)	(22,933)
Closing balance	109,612	25,203	2,063	97,222	234,100
Provision for impairment					
Opening balance	–	–	–	–	–
Provision	2,682	6,036	–	–	8,718
Exchange realignment	30	67	–	–	97
Closing balance	2,712	6,103	–	–	8,815
Book value					
Closing balance	1,598,524	35,404	2,450	42,561	1,678,939
Opening balance	756,411	40,829	4,243	63,566	865,049

As at 30 June 2020, the Group has no fixed assets leased by finance. The Group owned some operating lease buildings, as operating lease buildings cannot be measured and sold separately, the Group did not recognize them as investment real estate (31 December 2019: Nil).

As at 30 June 2020, part of the Group's houses and buildings are idle.

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets (continued)

As at 30 June 2020, fixed assets with restricted ownership or use right refer to Note V 59.

Fixed assets without property certificate as at 30 June 2020

	Carrying amount	Reasons for not completing the property certificate
Properties and plants	**99,537**	The real estate certificate is being processed

Fixed assets without property certificate as at 31 December 2019

	Carrying amount	Reasons for not completing the property certificate
Properties and plants	1,007,143	The real estate certificate is being processed

15. Construction in progress

	30 June 2020			31 December 2019		
	Carrying amount before provision	**Provision for impairment**	**Carrying amount**	Carrying amount before provision	Provision for impairment	Carrying amount
Tianjin logistics center project	**68,202**	**–**	**68,202**	68,165	–	68,165
Wu Jing headquarter project	**71,232**	**–**	**71,232**	71,232	–	71,232
La chapelle AI commodity operation platform project	**2,390**	**–**	**2,390**	2,390	–	2,390
Taicang logistics center project phase II and III	**371**	**–**	**371**	–	–	–
Stores lifecycle management project	**–**	**–**	**–**	–	–	–
ERP system upgrade	**–**	**–**	**–**	–	–	–
Others	**–**	**–**	**–**	12,034	(12,034)	–
	142,195	**–**	**142,195**	153,821	(12,034)	141,787

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress (continued)

Movement in significant construction in progress in 6 months ended 30 June 2020:

	Budget	Opening balance	Increase in the current period	Transferred to intangible assets and long-term prepaid expenses	Transferred to fixed assets	Other decreases	Closing balance	Sources of funds	Investment percentage of budget (%)
Wu Jing headquarter project	1,099,961	71,232	–	–	–	–	71,232	Borrowing and working capital	93
Taicang logistics center project phase II and III	273,922	–	371	–	–	–	371	Borrowing and working capital	100
Tianjin logistics center project	296,286	68,165	37	–	–	–	68,202	Borrowing and working capital	69
La chapelle AI commodity operation platform project	4,999	2,390	–	–	–		2,390	Working capital	48
Others	–	12,034	–	–	–	(12,034)	–	Working capital	–
Impairment provision	–	(12,034)	–	–	–	12,034	–		
		141,787	408	–	–	–	142,195		

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress (continued)

Movement in significant construction in progress during 2019:

	Budget	Opening balance	Increase in the current year	Transferred to intangible assets and long-term prepaid expenses	Transferred to fixed assets	Other decreases	Closing balance	Sources of funds	Investment percentage of budget (%)
Wu Jing headquarter project	1,099,961	525,861	356,066	–	(810,695)	–	71,232	Borrowing and working capital	93
Taicang logistics center project phase II and III	273,922	40,827	5,553	–	(46,380)	–	–	Borrowing and working capital	100
Tianjin logistics center project	296,286	37,942	62,496	–	(32,273)	–	68,165	Borrowing and working capital	69
La chapelle AI commodity operation platform project	4,999	–	2,390	–	–	–	2,390	Working capital	48
Product lifecycle management project	49,000	9,465	6,467	(15,932)	–	–	–	Working capital	100
ERP system upgrade	5,898	872	–	(872)	–	–	–	Working capital	100
Chengdu logistics center project	113,310	–	14,736	–	(14,736)	–	–	Borrowing and working capital	100
Others	–	985	12,034	(985)	–	(12,034)	–	Working capital	–
		615,952	459,742	(17,789)	(904,084)	(12,034)	141,787		

As at 30 June 2020, the Group reserves impairment provision RMB 0 for construction in progress. (31 December 2019: RMB12,034,000).

Restricted construction in progress refers to Note V 59.

(All amounts in RMB'000 unless otherwise stated)

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

16. Right-of-use assets

The movement of right-of-use assets in 6 months ended 30 June 2020:

	Properties and plants
Original cost	
Opening balance	2,219,009
Disposal	(327,685)
Disposal of subsidiary	(904,130)
Exchange realignment	–
Closing balance	987,194
Accumulated depreciation	
Opening balance	467,308
Accrual	145,617
Disposal and retirement	(82,695)
Disposal of subsidiary	(67,348)
Exchange realignment	–
Closing balance	462,882
Provision for impairment	
Opening balance	142,303
Accrual	–
Write-off	(50,702)
Disposal of subsidiary	(19,147)
Exchange realignment	–
Closing balance	72,454
Carrying amount	
Closing balance	451,858
Opening balance	1,609,398

(All amounts in RMB'000 unless otherwise stated)

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

17. Intangible assets

The movement of intangible assets in 6 months ended 30 June 2020:

	Trademark	Purchased software	Land use right	Brands	Favorable contracts	Total
Original cost						
Opening balance	8,082	124,644	162,818	136,385	1,550	433,479
Purchase	–	3,181	4,490	–	–	7,671
Disposal of subsidiaries	(3,918)	(30,324)	–	(136,385)	(1,550)	(172,177)
Closing balance	4,164	97,501	167,308	–	–	268,973
Accumulated amortization						
Opening balance	2,360	72,689	16,635	15,866	1,550	109,100
Accrual	216	4,686	1,670	–	–	6,572
Disposal of subsidiaries	–	(3,636)	–	(15,866)	(1,550)	(21,052)
Closing balance	2,576	73,739	18,305	–	–	94,620
Provision for impairment						
Opening balance	3,918	26,431	–	110,476	–	140,825
The depreciation amortization	(3,918)	(26,431)	–	(110,476)	–	(140,825)
Exchange realignment	–	–	–	–	–	–
Closing balance	–	–	–	–	–	–
Carrying amount						
Closing balance	1,588	23,762	149,003	–	–	174,353
Opening balance	1,804	25,524	146,183	10,043	–	183,554

(All amounts in RMB'000 unless otherwise stated)

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

17. Intangible assets (continued)

The movement of intangible assets in the year 2019

	Trademark	Purchased software	Land use right	Brands	Favorable contracts	Total
Original cost						
Opening balance	4,086	77,599	162,818	60,815	1,550	306,868
Purchase	–	30,399	–	–	–	30,399
Transfer in construction	78	17,711	–	–	–	17,789
Acquired from business combination	3,844	17,098	–	107,641	–	128,583
Exchange realignment	74	454	–	2,039	–	2,567
Disposal	–	(17,894)	–	–	–	(17,894)
Disposal of subsidiaries	–	(723)	–	(34,110)	–	(34,833)
Closing balance	8,082	124,644	162,818	136,385	1,550	433,479
Accumulated amortization						
Opening balance	1,917	63,404	13,361	21,837	697	101,216
Accrual	443	9,994	3,274	11,718	853	26,282
Exchange realignment	–	27	–	77	–	104
Disposal	–	(281)	–	–	–	(281)
Disposal of subsidiaries	–	(455)	–	(17,766)	–	(18,221)
Closing balance	2,360	72,689	16,635	15,866	1,550	109,100
Provision for impairment						
Opening balance	–	–	–	–	–	–
The depreciation amortization	3,874	26,142	–	109,354	–	139,370
Exchange realignment	44	289	–	1,122	–	1,455
Closing balance	3,918	26,431	–	110,476	–	140,825
Carrying amount						
Closing balance	1,804	25,524	146,183	10,043	–	183,554
Opening balance	2,169	14,195	149,457	38,978	853	205,652

As at 30 June 2020, there is no intangible asset formed through internal research and development (31 December 2019: Nil).

As at 30 June 2020, the Group has no intangible asset with uncompleted property certificate (31 December 2019: Nil).

As at 30 June 2020, intangible assets with restricted ownership or use right refer to Note V 59.

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill

The movement of goodwill in the 6 months ended 30 June 2020:

	Opening balance	Increases Business combination	Decreases Disposal	Exchange realignment	Closing balance
Acquire NAF NAF SAS	**73,466**	**–**	**(73,466)**	**–**	**–**
Acquire Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	**78,231**	**–**	**–**	**–**	**78,231**
Acquire Jack Walk (Shanghai) Fashion Limited ("Jack Walk")	**13,383**	**–**	**–**	**–**	**13,383**
Acquire Pincheng	**7,992**	**–**	**(7,992)**	**–**	**–**
	173,072	**–**	**(81,458)**	**–**	**91,614**

	Opening balance	Increases	Decreases	Exchange realignment	Closing balance
Less: provision for impairment					
Acquire NAF NAF SAS	**73,466**	**–**	**(73,466)**	**–**	**–**
Acquire Hangzhou Anshe	**–**	**–**	**–**	**–**	**–**
Acquire Jack Walk	**13,383**	**–**	**–**	**–**	**13,383**
Acquire Pincheng	**7,992**	**–**	**(7,992)**	**–**	**–**
	94,841	**–**	**(81,458)**	**–**	**13,383**
	78,231				**78,231**

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill (continued)

The movement of goodwill in the year 2019:

		Increases	Decreases		
	Opening balance	Business combinations not under the common control	Disposal	Exchange realignment	Closing balance
Acquire NAF NAF SAS	–	72,088	–	1,378	73,466
Acquire Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	92,339	–	(14,108)	–	78,231
Acquire Jack Walk (Shanghai) Fashion Limited ("Jack Walk")	13,383	–	–	–	13,383
Acquire Pincheng	7,992	–	–	–	7,992
	113,714	72,088	(14,108)	1,378	173,072

	Opening balance	Increases	Decreases	Exchange realignment	Closing balance
Less: Provision for impairment					
Acquire Naf Naf SAS	–	72,664	–	802	73,466
Acquire Hangzhou Anshe	5,179	–	(5,179)	–	–
Acquire Jack Walk	–	13,383	–		13,383
Acquire Pincheng	–	7,992	–		7,992
	5,179	94,039	(5,179)	802	94,841
	108,535				78,231

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill (continued)

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

Movement of provision for impairment is as follow:

For the 6 months ended 30 June 2020

	Opening balance	Increase in the current period Accrual	Decrease in the current period Disposal	Exchange realignment	Closing balance
Acquire Hangzhou Anshe	**73,466**	**–**	**(73,466)**	**–**	**–**
Acquire Jack Walk	**13,383**	**–**	**–**	**–**	**13,383**
Acquire Pincheng	**7,992**	**–**	**(7,992)**	**–**	**–**

For the year 2019

	Opening balance	Increase in the current year Accrual	Decrease in the current year Disposal	Exchange realignment	Closing balance
Acquire Naf Naf SAS	–	72,664	–	802	73,466
Acquire Hangzhou Anshe	5,179	–	(5,179)	–	–
Acquire Jack Walk	–	13,383	–	–	13,383
Acquire Pincheng	–	7,992	–	–	7,992

Goodwill decreased by RMB0 arising from disposal of subsidiaries (Note VI 1).

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

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

(All amounts in RMB'000 unless otherwise stated)

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

19. Long-term prepaid expenses

The movement for the 6 months ended 30 June 2020:

	Opening balance	Additions	Amortization	Other decreases	Closing balance
Leasehold improvement	**274,241**	**46,704**	**(137,513)**	**(524)**	**182,908**

Note: The improvement expenditure of rented fixed assets refers to the decoration expenditure of rented stores. The Group amortizes this expenditure on average over the shorter period of estimated benefit term and lease term of rented self-operated stores.

The movement for the year 2019

	Opening balance	Additions	Amortization	Business combinations not under the common control	Exchange realignment	Other decreases	Closing balance
Leasehold improvement	570,867	281,894	(591,654)	22,358	100	(9,324)	274,241

(All amounts in RMB'000 unless otherwise stated)

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

20. Deferred tax assets and liabilities

Deferred tax assets before offsetting:

	30 June 2020		31 December 2019	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Fees within the rent-free period	**–**	**–**	–	–
Difference in rental expense and rental liability between tax and accounting	**928,276**	**232,069**	928,276	232,069
Tax losses carried forward	**1,489,397**	**372,349**	770,200	192,550
Provision for inventories impairments	**183,744**	**45,936**	183,744	45,936
Provision for bad debts	**177,976**	**44,494**	176,068	44,017
Differences in amortization of Long-term prepaid expense between tax and accounting	**92,264**	**23,066**	92,264	23,066
Elimination of intra-group unrealized profit	**70,104**	**17,526**	52,396	13,099
Disposal difference of Hanzhou Anshe	**–**	**–**	9,224	2,306
Employee benefits payable	**7,632**	**1,908**	7,632	1,908
Integral income contract liability	**1,975**	**494**	4,252	1,063
Fair value changes of other equity instrument investments	**–**	**–**	–	–
	2,951,368	**737,842**	2,224,056	556,014

(All amounts in RMB'000 unless otherwise stated)

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

20. Deferred tax assets and liabilities (continued)

Deferred tax liabilities before offsetting:

	30 June 2020		31 December 2019	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Right-of-use asset	**789,144**	**197,286**	789,144	197,286
Capitalized borrowing costs	**86,676**	**21,669**	86,676	21,669
Business combination involving enterprises not under common control	**41,097**	**10,728**	41,097	10,728
Difference in long-term equity investment between tax and accounting	**7,664**	**1,916**	7,664	1,916
Fair value changes on financial instruments	**4,576**	**1,144**	4,576	1,144
Other	**80,238**	**24,874**	80,238	24,874
Disposal of subsidiaries	**(142,408)**	**(35,602)**	–	–
	866,987	**222,015**	1,009,395	257,617

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

	30 June 2020		31 December 2019	
	Offsetting amount	**Net amount**	Offsetting amount	Net amount
Deferred tax assets	**(220,100)**	**517,742**	(220,100)	335,914
Deferred tax liabilities	**220,100**	**1,915**	220,100	37,517

(All amounts in RMB'000 unless otherwise stated)

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

20. Deferred tax assets and liabilities (continued)

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

	30 June 2020	31 December 2019
Deductible temporary differences	**1,215,169**	677,730
Tax losses	**1,886,431**	1,782,189
	3,101,600	2,459,919

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

	30 June 2020	31 December 2019
Expired within 1 year	**112,526**	8,284
Expired within 1-2 year	**84,622**	84,622
Expired within 2-3 year	**196,361**	196,361
Expired within 3-4 year	**273,918**	273,918
Expired within 4-5 year	**920,953**	920,953
	1,588,380	1,484,138

21. Other non-current assets

	30 June 2020	31 December 2019
Prepaid decoration expenses of department stores	**14,613**	17,879
Prepayments for long-term equity investment	**–**	–
	14,613	17,879

(All amounts in RMB'000 unless otherwise stated)

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

22. Provision for asset impairment

The movement for the 6 months ended 30 June 2020

			Decrease in the current period				
	Opening balance	Accrual	Reclassi-fication	Reversal	Write-off	Disposal of subsidiaries	Closing balance
Provision for bad debts of accounts receivable	79,002	11,971	–	–	–	(832)	90,141
Provision for bad debts of other receivables	60,493	28,838	1,792	(18,999)	–	(11,755)	60,369
Inventory provision	342,606	173,561	–	–	(156,449)	(26,226)	333,492
Impairment provision for non-current assets due within one year	7,287	177	–	–	–	–	7,464
Provision for bad debts of other current assets	95,366	337,847	–	–	–	(13,466)	419,747
Provision for long-term receivables and bad debts	3,781	–	(1,792)	–	–	–	1,989
Impairment provision for long-term equity investment	39,250	–	–	–	–	–	39,250
Fixed assets depreciation reserves	8,815	–	–	–	–	(8,815)	–
Impairment of construction in progress	12,034	–	–	–	–	(12,034)	–
Provision for impairment of the right of use assets	123,103	–	–	–	(31,503)	(19,147)	72,454
Impairment of intangible assets	140,825	–	–	–	–	(140,825)	–
Goodwill impairment provision	94,841	–	–	–	(94,841)	–	–
	1,007,403	552,394	–	(18,999)	(282,793)	(233,099)	1,024,906

(All amounts in RMB'000 unless otherwise stated)

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

22. Provision for asset impairment (continued)

The movement for the year 2019

	Opening balance	Accrual	Decrease in the current year				Closing balance
			Reversal	Write-off	Disposal of subsidiaries	Exchange realignment	
Provision for bad debts of accounts receivable	51,660	30,572	(1,575)	–	(1,655)	–	79,002
Provision for bad debts of other receivables	27,459	46,685	(11,725)	–	(1,940)	14	60,493
Inventory provision	326,851	348,842	–	(312,698)	(20,595)	206	342,606
Impairment provision for non-current assets due within one year	–	7,287	–	–	–	–	7,287
Provision for bad debts of other current assets	5,000	90,366	–	–	–	–	95,366
Provision for long-term receivables and bad debts	–	3,781	–	–	–	–	3,781
Impairment provision for long-term equity investment	–	39,250	–	–	–	–	39,250
Fixed assets depreciation reserves	–	8,718	–	–	–	97	8,815
Impairment of construction in progress	–	11,902	–	–	–	132	12,034
Provision for impairment of the right of use assets	–	122,892				211	123,103
Impairment of intangible assets	–	139,370	–	–	–	1,455	140,825
Goodwill impairment provision	5,179	94,039	–	–	(5,179)	802	94,841
	416,149	943,704	(13,300)	(312,698)	(29,369)	2,917	1,007,403

(All amounts in RMB'000 unless otherwise stated)

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

23. Short-term borrowings

	30 June 2020	31 December 2019
Mortgaged loan	**–**	292,289
Secured borrowing	**–**	427,400
Unsecured loan	**–**	51,418
Mortgages and guaranteed loans	**928,451**	310,000
Mortgage, pledge and guarantee loan	**550,000**	400,000
	1,478,451	1,481,107

As at 30 June 2020, the annual interest rate range of the above borrowings is 4.75% to 8.00% (31 December 31 2019: 4.35% to 8.00%).

As at 30 June 2020, the balance of overdue loans was RMB298,051,000 (31 December 2019: RMB292,289,000).

24. Notes payable

	30 June 2020	31 December 2019
Trade acceptance notes	**10,177**	248,288
Bank acceptance notes	**–**	7,188
	10,177	255,476

As at 30 June 2020, no notes payable due and unpaid (31 December 2019: Nil)

25. Accounts payable

Accounts payable are non-interest bearing and are usually settled within 6 months.

	30 June 2020	31 December 2019
Payable for purchase	**1,253,020**	1,721,205

As at 30 June 2020, the aging of accounts payable over 1 year showed as below:

	Amount	**Reason for non-payment**
Payable for purchase	115,517	Scheduled by the Group

(All amounts in RMB'000 unless otherwise stated)

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

26. Advance from customers

	30 June 2020	31 December 2019
Rent in advance	**745**	2,489

27. Contract liabilities

	30 June 2020	31 December 2019
Advance from customers	**5,655**	52,268

The amount and reasons for the major change in the book value of contract liabilities this year:

	Amount change	**Reason**
Disposal of subsidiary	(30,034)	Liquidation of subsidiary
Franchise sales performance obligations	(14,301)	The decrease resulted from the implementation of the new franchise sales model
Member points performance obligations	(2,278)	The introduction of the membership points system led to an decrease in sales
	(46,613)	

As at 30 June 2020, the Group has no important advance from customers with an account age over 1 year (31 December 2019: Nil).

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll payable

The movement for the 6 months ended 30 June 2020

	Opening balance	**Business combination involving enterprises not under common control**	**Increase in the current period**	**Decrease in the current period**	**Disposal of subsidiaries**	**Exchange realignment**	**Closing balance**
Short-term compensation	**108,658**	**–**	**308,976**	**(312,401)**	**(434)**	**–**	**104,799**
Retirement benefits (defined contribution) plans	**12,949**	**–**	**13,604**	**(19,139)**	**(52)**	**–**	**7,362**
Salary overseas and social insurance (Note 1)	**69,384**	**–**	**–**	**–**	**(69,384)**	**–**	**–**
	190,991	**–**	**322,580**	**(331,540)**	**(69,870)**	**–**	**112,161**

The movement for the year 2019

	Opening balance	Business combination involving enterprises not under common control	Increase in the current year	Decrease in the current year	Disposal of subsidiaries	Exchange realignment	Closing balance
Short-term compensation	199,754	–	1,621,102	(1,703,059)	(9,139)	–	108,658
Retirement benefits (defined contribution) plans	23,608	–	193,104	(202,669)	(1,094)	–	12,949
Salary overseas and social insurance (Note 1)	–	45,454	201,883	(179,077)	–	1,124	69,384
	223,362	45,454	2,016,089	(2,084,805)	(10,233)	1,124	190,991

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll payable (continued)

Details of short-term compensation are as follows:

The movement for 6 months ended 30 June 2020

	Opening balance	Increase in the current period	Decrease in the current period	Disposal of subsidiaries	Closing balance
Wages or salaries, bonuses, allowances and subsidies	**97,819**	**274,300**	**(298,721)**	**(433)**	**72,965**
Staff welfare	**462**	**2,942**	**68**	**–**	**3,472**
Social insurance	**6,396**	**17,063**	**(2,858)**	**(1)**	**20,600**
Including: Medical insurance	**5,483**	**15,599**	**(10,746)**	**–**	**10,336**
Others	**913**	**1,464**	**7,888**	**(1)**	**10,264**
Housing fund	**3,937**	**13,705**	**(9,880)**	**–**	**7,762**
Labor union and staff education fund	**44**	**966**	**(1,010)**	**–**	**–**
	108,658	**308,976**	**(312,401)**	**(434)**	**104,799**

The movement for the year 2019

	Opening balance	Increase in the current year	Decrease in the current year	Disposal of subsidiaries	Closing balance
Wages or salaries, bonuses, allowances and subsidies	180,447	1,459,384	(1,533,800)	(8,212)	97,819
Staff welfare	2,229	5,240	(7,005)	(2)	462
Social insurance	10,315	96,578	(99,921)	(576)	6,396
Including: Medical insurance	6,507	84,715	(85,185)	(554)	5,483
Others	3,808	11,863	(14,736)	(22)	913
Housing fund	6,763	59,069	(61,552)	(343)	3,937
Labor union and staff education fund	–	831	(781)	(6)	44
	199,754	1,621,102	(1,703,059)	(9,139)	108,658

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll payable (continued)

Defined contribution plans of domestic companies as follows:

The movement for the 6 months ended 30 June 2020

	Opening balance	Increase in the current period	Decrease in the current period	Disposal of subsidiaries	Closing balance
Basic pension insurance premium	**12,327**	**13,273**	**(18,187)**	**(51)**	**7,362**
Unemployment Insurance premium	**622**	**331**	**(952)**	**(1)**	**–**
	12,949	**13,604**	**(19,139)**	**(52)**	**7,362**

The movement for year 2019

	Opening balance	Increase in the current year	Decrease in the current year	Disposal of subsidiaries	Closing balance
Basic pension insurance premium	21,572	184,542	(192,722)	(1,065)	12,327
Unemployment Insurance premium	2,036	8,562	(9,947)	(29)	622
	23,608	193,104	(202,669)	(1,094)	12,949

Note 1: Salary overseas and social insurance are generated by the Naf Naf SAS.

The Group participates in endowment insurance and unemployment insurance established by government agencies according to regulations. According to such plans, the group pays fees to such plans respectively according to the basic wages of employees and the proportion specified by local governments. In addition to the above-mentioned monthly deposit fees, the group will no longer bear further payment obligations, and the corresponding expenses are included in the current profit and loss or the cost of related assets when incurred.

(All amounts in RMB'000 unless otherwise stated)

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

29. Taxes payable

	30 June 2020	31 December 2019
Unpaid VAT	**19,750**	115,356
Corporate income tax payable	**17,858**	65,678
City maintenance and construction tax payable	**11,191**	13,820
Educational surcharge payable	**8,453**	8,002
Withholding income tax	**385**	4,455
Others	**2,172**	19,897
	59,809	227,208

30. Other payables

	30 June 2020	31 December 2019
Interests payable	**39,904**	6,774
Dividend payable	**–**	–
Other payables	**685,174**	747,902
	725,078	754,676

Interests payable

	30 June 2020	31 December 2019
Short-term borrowing interests	**39,366**	6,170
Long-term borrowing interests	**538**	604
	39,904	6,774

Dividend payable

	30 June 2020	31 December 2019
Common stock dividends payable	**–**	–

(All amounts in RMB'000 unless otherwise stated)

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

30. Other payables (continued)

Other payables

	30 June 2020	31 December 2019
Payables for construction and decoration of department stores	**433,691**	431,687
Suppliers' deposits	**77,870**	82,666
Vendors' deposit	**59,381**	77,012
Outsourcing staff service fee	**2,846**	35,709
Payables for logistic expense	**19,404**	31,505
Trustee fees	**21,031**	16,868
Payable for posts props and store promotion	**5,317**	8,751
Payables for rental fees	**24,964**	8,308
Litigation compensation	**847**	8,058
Loan from the 3rd party	**6,000**	6,000
Payable for e-commercial	**3,741**	5,568
consulting fees	**2,438**	3,066
Payables for software purchase	**384**	2,930
Audit fees	**–**	1,628
Other	**27,260**	12,964
Other – Naf Naf SAS	**–**	15,182
	685,174	747,902

As at 30 June 2020, the aging of other payable over 1 year showed as below

	Amount	Reason for non-payment
Over 1 year	67,518	Deposit payable

31. Non-current liabilities due within one 1ear

	30 June 2020	31 December 2019
Long-term borrowing due within one year	**354,750**	361,614
Decoration subsidies due within one year	**–**	–
Lease liabilities due within one year	**207,640**	438,053
	562,390	799,667

(All amounts in RMB'000 unless otherwise stated)

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

32. Long-term borrowings

	30 June 2020	31 December 2019
Secured borrowing	**354,751**	361,614
Less: current portion of long-term borrowing	**354,751**	361,614
	–	–

As at 30 June 2020, the interest rate of the long-term borrowings is 5.46% (31 December 2019: 5.46%).

33. Lease liabilities

	30 June 2020	31 December 2019
Lease liabilities	**592,503**	1,738,505
Less: lease liabilities due within one year	**207,638**	438,053
	384,865	1,300,452

34. Accrued liabilities

The movement for 6 months ended 30 June 2020

	Opening balance	**Increase in the current period**	**Decrease in the current period**	**Closing balance**
Domestic entity – Estimated return	**8,350**	**–**	**(8,153)**	**197**
Overseas entity – Naf Naf SAS	**26,949**	**–**	**(26,949)**	**–**
	35,299	**–**	**(35,102)**	**197**

The movement for the year 2019

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Domestic entity – Estimated return	–	8,350	–	8,350
Overseas entity – Naf Naf SAS	–	26,949	–	26,949
	–	35,299	–	35,299

(All amounts in RMB'000 unless otherwise stated)

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

35. Other non-current liabilities

	30 June 2020	31 December 2019
Decoration subsidy	**10,807**	20,726
Less: due within one year	**–**	–
Government grants	**6,079**	6,246
	16,886	26,972

36. Share Capital

	30 June 2020	31 December 2019
RMB-denominated ordinary shares (A Shares)	**332,882**	332,882
H Shares	**214,790**	214,790
	547,672	547,672

37. Capital surplus

The movement for 6 months ended 30 June 2020

	Opening balance	**Increase in the current period**	**Decrease in the current period**	**Closing balance**
Share premium	**1,864,243**	**–**	**–**	**1,864,243**
Other capital surplus (a)	**46,557**	**4**	**–**	**46,561**
	1,910,800	**4**	**–**	**1,910,804**

The movement for the year 2019

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share premium	1,850,708	13,535	–	1,864,243
Other capital surplus (a)	44,634	1,923	–	46,557
	1,895,342	15,458	–	1,910,800

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

37. Capital surplus (continued)

(a) Other capital surplus

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

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

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

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus (continued)

(a) Other capital surplus (continued)

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

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

	30 June 2020	31 December 2019
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	**6.21%**	6.21%

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

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

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

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

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

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

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus (continued)

(a) Other capital surplus (continued)

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

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

38. Treasury share

	31 December 2019	Increase in the current period	Decrease in the current period	**30 June 2020**
Treasury share	10,165	9,845	–	**20,010**

As of 30 June 2020, the Company has repurchased 3,573,200 A shares by means of centralized bidding trading, and the repurchased A shares account for 0.65% of the company's total share capital and 1.07% of the Company's a share capital. The highest transaction p rice is 6.15 yuan per share, the lowest transaction price is 4.14 yuan per share, and the amount used for repurchasing is RMB20,009,946 (excluding transaction costs)

(All amounts in RMB'000 unless otherwise stated)

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

39. Other comprehensive income

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

30 June 2020

	1 January 2020	**Increase/ decrease**	**30 June 2020**
Fair value change gains of other equity instrument investments	**(52,858)**	**(514)**	**(53,372)**
Exchange realignment	**12,900**	**4,397**	**17,297**
	(39,958)	**3,883**	**(36,075)**

31 December 2019

	1 January 2019	Increase/ decrease	31 December 2019
Fair value change gains of other equity instrument investments	(20,327)	(32,531)	(52,858)
Exchange realignment	7,140	5,760	12,900
	(13,187)	(26,771)	(39,958)

(All amounts in RMB'000 unless otherwise stated)

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

39. Other comprehensive income (continued)

Current amount of other comprehensive income:

For the 6 months ended 30 June 2020

	The pre-tax amount in the current period	Less: transferred out from which was recognized in OCI in the previous period	Less: income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Fair value change gains of other equity instrument investments	**(514)**	**–**	**–**	**(514)**	**–**
Exchange realignment	**4,397**	**–**	**–**	**4,397**	**–**
	3,883	**–**	**–**	**3,883**	**–**

For the year 2019

	The pre-tax amount in the current period	Less: transferred out from which was recognized in OCI in the previous period	Less: income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Fair value change gains of other equity instrument investments	(32,531)	–	–	(32,531)	–
Exchange realignment	5,760	–	–	5,760	–
	(26,771)	–	–	(26,771)	–

(All amounts in RMB'000 unless otherwise stated)

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

40. Surplus reserve

30 June 2020

	31 December 2019	Changes in accounting policies	Increase in the current year	Decrease in the current year	30 June 2020
Statutory surplus reserve	**246,788**	**–**	**–**	**–**	**246,788**

2019

	31 December 2018	Changes in accounting policies	Increase in the current year	Decrease in the current year	31 December 2019
Statutory surplus reserve	246,885	(97)	–	–	246,788

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. For the 6 months ended 30 June 2020, the Company didn't appropriate the statutory surplus reserve. (the year ended 31 December 2019: Nil).

Discretionary surplus reserves' plan should be suggested by the board of directors and approved by the shareholders' meeting. Discretionary surplus reserves can be used to make up for losses or to increase the share capital after approval from the appropriate authorities. For the 6 months ended 30 June 2020 and the year ended 31 December 2019, the Company did not appropriate the discretionary surplus reserve.

(All amounts in RMB'000 unless otherwise stated)

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

41. (Accumulated losses)/undistributed profits

	For 6 months ended 30 June 2020	For the year ended 31 December 2019
Undistributed profits at the beginning of year (before adjustments)	**(1,414,703)**	770,706
Changes of accounting policies	**–**	(19,103)
Undistributed profits at the beginning of year (after adjustments)	**(1,414,703)**	751,603
Net losses attributable to shareholders of the Company	**(707,616)**	(2,166,306)
Less: Appropriation to statutory surplus reserve	**–**	–
Dividend declared	**–**	–
(Accumulated losses)/undistributed profits at the end of the period	**(2,122,319)**	(1,414,703)

42. Revenue and cost of sales

	Six months ended 30 June 2020		Six months ended 30 June 2019	
	Revenue from main operation	**Cost of main operation**	Revenue from main operation	Cost of main operation
Revenue from main operation	**1,434,574**	**742,236**	3,950,645	1,545,564

Revenue showed as below:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue from contracts with customers		
– Retail	**1,414,449**	3,926,187
– Wholesale/Franchise	**10,838**	18,408
– Rendering services	**6,054**	6,050
– Others	**3,233**	–
	1,434,574	3,950,645

For 6 months ended 30 June 2020, the Group's revenue classified as it recognized at a point in time and over time is RMB1,425,287,000 and RMB9,287,000 respectively.

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

(All amounts in RMB'000 unless otherwise stated)

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

43. Taxes and surcharges

	Six months ended 30 June 2020	Six months ended 30 June 2019
City maintenance and construction tax	**3,629**	6,279
Educational surcharge	**3,124**	2,593
Others	**10,227**	6,453
	16,980	15,325

44. Selling and distribution expenses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Employee benefits expenses	**279,304**	984,276
Concessionaire fees	**158,374**	521,615
Depreciation of right of use assets	**143,401**	358,722
Amortization of long-term prepaid expenses	**134,456**	242,867
Rental fees	**13,956**	166,119
Department store expenses	**39,962**	149,335
Online platform expenses	**34,508**	64,438
Utilities and electricity fees	**21,927**	69,961
Logistic expenses	**21,687**	56,896
Depreciation of fixed assets	**27,373**	22,928
Marketing expense	**820**	19,806
Costs of low value consumables	**3,098**	13,634
Repair and maintenance expenses	**5,294**	7,056
Travelling and communication expenses	**1,155**	8,936
Amortization of intangible assets	**201**	3,418
Quality inspection fee	**10**	4,559
Office supplies	**482**	15,707
Consulting expenses	**5,758**	16,319
Other – Naf Naf	**175,142**	–
Others	**49**	1,661
	1,066,957	2,728,253

(All amounts in RMB'000 unless otherwise stated)

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

45. General and administrative expenses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Employee benefits expenses	**46,331**	140,879
Consulting expenses	**14,532**	17,782
Depreciation of fixed assets	**30,668**	16,880
Office supplies	**4,737**	12,189
Rental fees	**3,644**	9,330
Amortization of intangible assets	**2,752**	6,448
Travelling and communication expenses	**520**	7,871
Utilities and electricity fees	**64**	6,617
Sample purchase fee	**6,371**	4,571
Depreciation of right of use assets	**3,056**	1,804
Amortization of long-term prepaid expenses	**2,841**	1,700
Costs of low value consumables	**247**	1,595
Logistic expenses	**273**	1,662
Repair and maintenance expenses	**2,216**	1,409
Others	**224**	770
Other – Naf Naf SAS	**60,810**	–
	179,286	231,507

46. Financial expenses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Interest expenses	**110,891**	136,954
Including: Lease liability interest expenses	**22,850**	67,203
Less: interest income	**5,228**	13,323
Less: capitalized interests	**–**	10,443
Exchange gains	**52**	2,757
Bank charges	**3,605**	2,616
	109,320	118,561

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

(All amounts in RMB'000 unless otherwise stated)

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

46. Financial expenses (continued)

Details of interest income are as follows:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Cash at bank and on hand	**5,228**	13,323

47. Other income

	Six months ended 30 June 2020	Six months ended 30 June 2019
Governmental grants relating to daily operational activities	**9,789**	84,291

48. Investment income

	Six months ended 30 June 2020	Six months ended 30 June 2019
Share of net (loss)/profit of associates and a joint venture accounted for using the equity method	**(170)**	77,874
Investment gain/(loss) of disposal of long-term equity investment	**281,964**	(58,257)
Gains on debt restructuring	**33,996**	–
Gains on step acquisition of long-term equity investment re-assessed at fair value	**–**	48,188
	315,790	67,805

49. Loss on fair value changes

	Six months ended 30 June 2020	Six months ended 30 June 2019
Other non-current financial assets	**(4,044)**	–
Financial assets held for trading	**–**	–
	(4,044)	–

(All amounts in RMB'000 unless otherwise stated)

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

50. Credit impairment losses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Impairment losses of other current assets	**(337,847)**	–
Impairment losses/(reversal) of accounts receivables	**(11,971)**	(11,832)
Impairment losses of other receivables	**(4,424)**	1,677
Impairment losses of other non-current assets due within one year	**(177)**	–
Impairment losses of interest receivable	**(7,207)**	–
Impairment losses of long-term receivable	**1,792**	–
	(359,834)	(10,155)

51. Asset impairment losses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Inventory provision	**(173,561)**	(206,613)

52. Gains/(losses) on disposals of assets

	Six months ended 30 June 2020	Six months ended 30 June 2019
Domestic entity – Gains on disposal of right of use assets	**13,373**	15,745
Domestic entity – Losses on disposal of fixed assets	**(2,455)**	(937)
Foreign entity – Naf Naf SAS	**(10,104)**	–
	814	14,808

(All amounts in RMB'000 unless otherwise stated)

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

53. Non-operating income

	Six months ended 30 June 2020	Six months ended 30 June 2019	Recorded in non-recurring profit or loss six months ended 30 June 2020
Domestic entity – Quality compensation income	**750**	5,561	750
Domestic entity – Government subsidies	**–**	–	–
Domestic entity – Other	**429**	156	429
Foreign entity – Naf Naf SAS	**–**	–	–
	1,179	5,717	1,179

54. Non-operating expenses

	Six months ended 30 June 2020	Six months ended 30 June 2019	Recorded in non-recurring profit or loss six months ended 30 June 2020
Compensation for closing stores	**2,939**	326	2,939
Compensation for litigation	**–**	–	–
Donations	**1,488**	110	1,488
Penalty expenses	**421**	–	421
Loss on disposal of current assets	**26**	–	26
Unrecoverable receivables	**829**	–	829
Foreign entity – Naf Naf SAS	**2,247**	–	2,247
Others	**80**	5,413	80
	8,030	5,849	8,030

(All amounts in RMB'000 unless otherwise stated)

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

55. Expenses by Nature

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

	Six months ended 30 June 2020	Six months ended 30 June 2019
Costs of inventories	**742,236**	1,545,564
Employee benefits expenses	**325,636**	1,125,155
Concessionaire fees	**158,373**	512,477
Depreciation of right of use assets	**145,617**	360,131
Amortization of long-term prepaid expenses	**137,513**	244,671
Rental fees	**18,693**	178,308
Store expenses	**39,962**	149,335
Online platform expenses	**34,508**	64,438
Utilities and electricity expenses	**24,768**	71,661
Logistic expenses	**21,934**	58,491
Consulting expenses	**20,291**	43,239
Depreciation of fixed assets	**58,041**	39,808
Office supplies	**3,234**	22,155
Costs of low value consumables	**3,162**	20,251
Marketing and promotion expenses	**820**	19,806
Travelling and communication expenses	**1,675**	16,807
Sample expenses	**3,644**	9,330
Repair and maintenance expenses	**5,567**	8,718
Amortization of intangible assets	**6,572**	7,989
Quality inspection fee	**9**	4,559
Other – Naf Naf SAS	**235,952**	–
Others	**272**	2,431
	1,988,479	4,505,324

(All amounts in RMB'000 unless otherwise stated)

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

56. Income tax expenses

	Six months ended 30 June 2020	Six months ended 30 June 2019
Current income tax expense	**38**	25,754
Deferred income tax expense	**(182,621**	(179,318)
	(182,583)	(153,564)

The reconciliation between income tax expenses and Loss is listed as below:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Total loss	**(898,102)**	(718,251)
Income tax expenses calculated at applicable tax rates	**(224,526)**	(177,285)
Impact of different tax rates applicable to subsidiaries	**20,122**	(145)
Non-taxable income	**(5,056)**	(18,214)
Tax impact of deductible temporary difference and deductible loss previously not recognized	**26,061**	42,045
Expenses not deductible for tax purposes	**816**	35
Income tax expense calculated based on the effective tax rate of the Group	**(182,583)**	(153,564)

(All amounts in RMB'000 unless otherwise stated)

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

57. Loss per share

Basic losses per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding. There were no dilutive potential ordinary shares.

The basic loss per share and the diluted loss per share are calculated as follows:

	Six months ended 30 June 2020 RMB/Share	Six months ended 30 June 2019 RMB/Share
Losses		
Loss attributable to shareholders of the Company	**(706,611)**	(498,134)
Shares		
Weighted average number of ordinary shares outstanding (note)	**544,098**	547,672
Basic losses per share and diluted losses per share	**(1.30)**	(0.91)

Note: Till 30 June 2020, the Company had purchased 3,573,200 A shares through centralized bidding, accounting for 0.65% of the Company's total share capital and 1.07% of the Company's a-share capital. The highest transaction price was 6.15 yuan per share, the lowest transaction price was 4.14 yuan per share, and the amount used for the buyback was RMB20,009,946 (excluding transaction costs).

(All amounts in RMB'000 unless otherwise stated)

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

58. Notes to the consolidated cash flow statement

	Six months ended 30 June 2020	Six months ended 30 June 2019
Cash received relating to other operating activities		
Customers' deposits and suppliers' deposits	**40,792**	17,170
Interest income	**5,228**	13,323
Non-operating income	**1,178**	5,716
Government grants	**9,789**	84,875
	56,987	121,084
Cash paid relating to other operating activities		
Utilities, electricity and department store expenses	**24,768**	69,961
Marketing and promotion expenses	**74,315**	233,579
Increase in deposits	**–**	15,376
Bank charges	**7,079**	2,616
Consulting fee and technical service fee	**20,290**	25,457
Repayment of customers' deposits	**25,900**	20,843
	152,352	367,832

(All amounts in RMB'000 unless otherwise stated)

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

58. Notes to the consolidated cash flow statement (continued)

	Six months ended 30 June 2020	Six months ended 30 June 2019
Cash received relating to other investing activities		
Interest income generated from other cash balances	**–**	–
Cash inflow on disposal of subsidiaries	**–**	–
Cash inflow on business combination	**–**	–
Net decrease in other cash balances	**–**	82,287
	–	82,287
Cash paid relating to other investing activities		
Prepayments for other equity instrument investments	**–**	–
Cash paid for disposal of subsidiaries	**–**	–
Net increase in entrusted loan	**–**	5,500
Net increase in other cash balances	**6,676**	–
Net cash received on disposal of subsidies and other business units	**41,644**	149,366
	48,320	154,866
Cash paid relating to other financing activities		
Cash paid for rental expenses	**182,424**	261,247
Cash paid for repurchasing shares	**9,845**	–
	192,269	261,247

(All amounts in RMB'000 unless otherwise stated)

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

58. Notes to the consolidated cash flow statement (continued)

(1) Supplementary information of cash flow statement

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

	Six months ended 30 June 2020	Six months ended 30 June 2019
Net loss	**(715,519)**	(564,687)
Add: Credit impairment loss	**359,834**	(10,155)
Asset impairment losses	**173,561**	206,613
Depreciation of fixed assets	**58,041**	39,808
Depreciation of right of use assets	**145,617**	360,131
Amortization of intangible assets	**6,572**	7,989
Amortization of long-term prepaid expenses	**137,513**	244,671
Losses on disposal of fixed assets, intangible assets and other long-term assets	**(3,106)**	(14,808)
Loss on fair value changes	**4,044**	–
Financial expenses	**110,891**	123,788
Investment income	**(315,790)**	(67,805)
Amortization of share-based payments	**–**	1,082
Decrease in deferred tax assets	**(181,828)**	(179,318)
Increase in deferred tax liabilities	**–**	–
Decrease in inventories	**450,439**	320,088
Decrease in operating receivables	**126,965**	612,613
Increase/(decrease) in operating payables	**(170,957)**	77,441
Net cash flows from/(used in) operating activities	**186,277**	1,157,451

(All amounts in RMB'000 unless otherwise stated)

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

58. Notes to the consolidated cash flow statement (continued)

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

Information for disposal of subsidiaries and other business units

	30 June 2020	31 December 2019
Price for disposal of subsidiaries and other business units	–	475,000
Cash and cash equivalents received from disposal of subsidiaries and other business units	–	385,000
Less: Cash and cash equivalents held for acquisition of subsidiaries and other business units	41,644	230,305
Net cash received from disposal of subsidiaries and other business units	(41,644)	154,695

(3) Cash and cash equivalents

	30 June 2020	31 December 2019
Cash and cash equivalents	48,103	175,549
Including: Cash on hand	2,241	6,763
Cash at bank that can be readily drawn on demand	45,862	168,786
Cash and cash equivalents at end of the period	48,103	175,549
Including: Restricted cash and cash equivalents used by the company or subsidiaries of the Group	3,685	76,030

(All amounts in RMB'000 unless otherwise stated)

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

59. Assets with restricted ownership or use right

	30 June 2020	31 December 2019	
Cash at bank and on hand	**188,811**	182,135	(a)
Fixed assets	**1,349,569**	1,384,412	(b)
Construction in progress	**69,235**	69,235	(c)
Intangible assets	**145,698**	142,842	(d)
	1,753,313	1,778,624	

(a) As at 30 June 2020, the book value of RMB188,811,000 is limited in the use of monetary funds, of which RMB173,811,000 is temporarily blocked or frozen due to the judicial system, and the monetary funds of RMB15,000,000 (31 December 2019: RMB182,135,000) are bank deposits.

(b) As at 30 June 2020, the book value was RMB1,349,569,000 (31 December 2019: RMB1,384,412,000) houses and buildings were used for obtaining bank loan mortgage.

(c) As at 30 June 2020, the project under construction with a book value of 69,235,000 (31 December 2019: 69,235,000) was used to obtain bank loan mortgage.

(d) As at 30 June 2020, the book value of the land use right of RMB145,698,000 (31 December 2019: RMB142,842,000) was used to obtain the bank loan mortgage; The amortization amount of the land use right in 6 months ended 30 June 2020 is RMB1,635,000 (for the year ended 31 December 2019: RMB3,201,000).

(All amounts in RMB'000 unless otherwise stated)

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

60. Monetary items denominated in foreign currency

	30 June 2020			31 December 2019		
	Foreign currency balance	**Exchange rate**	**RMB balance**	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand						
USD	**97**	**7.0795**	**686**	274	6.9762	1,911
EUR	**375**	**7.9610**	**2,985**	9,867	7.8155	77,116
HKD	**9**	**0.9134**	**8**	11	0.8958	10
Short-term borrowings						
EUR	**37,400**	**7.9610**	**297,741**	43,147	7.8155	337,215
Account receivables						
EUR		**7.9610**		13,563	7.8155	106,002
Other receivables						
EUR		**7.9610**		9,153	7.8155	71,535
Accounts payable						
EUR		**7.9610**		33,191	7.8155	259,401
Other payables						
EUR		**7.9610**		2,998	7.8155	23,431
			301,420			876,621

Note: Foreign currency monetary items are monetary items denominated in currencies other than RMB.

(All amounts in RMB'000 unless otherwise stated)

VI. CHANGES IN CONSOLIDATION SCOPE

1. Disposal of subsidiaries

	Place of incorporate	Nature of Business	Share proportion (%)	Voting right Proportion (%)	Reason for change
Naf Naf SAS	France	Sales of apparel products	100	100	Note 1
Shanghai Pincheng Industry Co., Ltd. ("Pincheng")	Shanghai	Design and sales of apparel products	63.38	63.38	Note 2
Jack Walk (Shanghai) Fashion Co., Ltd. ("Jack Walk")	Hangzhou	Sales of apparel products	69.12	69.12	Note 3

Note 1: On 15 May 2020, the French local court formally made a ruling that Naf Naf SAS would initiate rehabilitation proceedings, and the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Naf Naf SAS's business operations, the Company consequently lost control over Naf Naf SAS. The Group decided to estimate the Nil consideration of the disposal as the result of liquidation had yet to know. As a result, the Group decided not to consolidate the financial statements of Naf Naf SAS hereafter from 15 May 2020. The relevant financial information of Naf Naf SAS is as follows:

	15 May 2020 Book value	31 December 2019 Book value
Current assets	**496,297**	547,811
Non-current assets	**824,947**	874,827
Current liabilities	**(629,312)**	(646,378)
Non-current liabilities	**(783,677)**	(754,833)
	(91,745)	21,427
Non-controlling interests	**–**	–
Consideration received from disposal	**–**	
Present value of disposal consideration	**–**	
Net goodwill of termination	**–**	
Income from disposal	**75,585**	

Note 2: On 6 July 2020, the Group entered into an equity interest transfer agreement with Tian Wei to dispose of a 63.38% equity interest in Pincheng with consideration of RMB1. The date of disposal was 30 June 2020. The Group decided not to consolidate the financial statements of Pincheng hereafter from 30 June 2020. The relevant financial information of Pincheng is as follows:

(All amounts in RMB'000 unless otherwise stated)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

1. Disposal of subsidiaries (continued)

Note 2 (continued)

	30 June 2020 Book value	31 December 2019 Book value
Current assets	35,766	40,998
Non-current assets	17,901	19,235
Current liabilities	(36,432)	(37,000)
Non-current liabilities	(9,356)	(7,189)
	7,879	16,044
Non-controlling interests	2,886	9,906
Consideration received from disposal	–	
Present value of disposal consideration	–	
Net goodwill of termination	–	
Loss from disposal	(964)	

Note 3: On 22 January 2020, the Group received the bankruptcy decision of the subsidiary Jack Walk issued by the Shanghai Third Intermediate People's Court and appointed the administrator. The Group lost its control over Jack Walk. The Group decided to estimate the Nil consideration of the disposal of 69.12% equity interest in Jack Walk as the result of liquidation had yet to know. As a result, the Group decided not to consolidate the financial statements of Jack Walk hereafter from 22 January 2020. The relevant financial information of Jack Walk is as follows:

	22 January 2020 Book value	31 December 2019 Book value
Current assets	15,032	15,038
Non-current assets	735	765
Current liabilities	(306,147)	(306,164)
Non-current liabilities	–	–
	(290,380)	(290,361)
Non-controlling interests	(89,693)	(89,674)
Consideration received from disposal	–	
Present value of disposal consideration	–	
Net goodwill of termination	–	
Loss from disposal	(207,631)	

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES

2. Interests in major subsidiaries

Information of the Company's subsidiaries is as follows:

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

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in major subsidiaries (continued)

				Registered capital		Shareholding ratio (%)		
Subsidiary Name	Main business site	Place of incorporation	Nature of business		000'	Direct	Indirect	
Candie's Shanghai Fashion Co., Ltd. ("Shanghai Le'ou")	Shanghai	Shanghai	Design and sales of apparel products	CNY	16,000	65	–	Holding subsidiaries
Shanghai La Chapelle Naf Fashion Co., Ltd.	Shanghai	Shanghai	Sales of apparel products	CNY	20,000	65	–	Holding subsidiaries
Guangzhou Xichen Fashion Co., Ltd ("Guangzhou Xichen")	Guangzhou	Guangzhou	Sales of apparel products	CNY	20,000	60	–	Holding sub-subsidiaries
Dongtai yingxiao clothing Co., Ltd	Dongtai	Dongtai	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Taicang Xiawei Fashion Co., Ltd.	Taicang	Taicang	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Xinjiang Tongrong Fashion Co., Ltd.	Urumqi	Urumqi	Clothing technology	CNY	1,000	–	100	Wholly owned sub-subsidiary
Tianjin Xiawei Warehouse Co., Ltd.	Tianjing	Tianjing	Storage and logistics	CNY	1,000	–	100	Wholly owned sub-subsidiary
Shanghai Pinxi Technology Co., Ltd. ("Pinxi")	Shanghai	Shanghai	IT technology	CNY	20,000	–	100	Wholly owned sub-subsidiary
Taicang Chong'an Fashion Co., Ltd	Taicang	Taicang	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Taicang Jiashang Storage Co., Ltd.	Taicang	Taicang	Storage and logistics	CNY	393,191	100	–	Wholly owned subsidiary
Chengdu Xiawei Warehouse Co., Ltd.	Chengdu	Chengdu	Storage and logistics	CNY	1,000	–	100	Wholly owned sub-subsidiary
Taicang Xiawei Warehouse Co., Ltd.	Taicang	Taicang	Storage and logistics	CNY	387,457	–	100	Wholly owned sub-subsidiary
LaCha Fashion I Limited	Hongkong	Hongkong	Investment	HKD	81,134	–	100	Wholly owned sub-subsidiary
By business combination not under common control								
LaCha Apparel II Sàrl	Luxembourg	Luxembourg	Investment	EUR	12	–	100	Wholly owned sub-subsidiary

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity in joint venture and associates

	Main business site	Place of incorporation	Nature of Business	Registered Capital	Shareholding ratio (%)	Accounting Treatment	
					Direct	Indirect	
Associates							
Tibet Baoxin Equity Investment Partnership (note 1)	Tibet	Tibet	Leasing and commercial services	251,620	60	–	Equity method
Hongche Industry (Shanghai) Co., Ltd.	Shanghai	Shanghai	Leasing and commercial services	47,100	36	–	Equity method
Beijing Ao Ni Trading Co., Ltd.	Beijing	Beijing	Wholesale and retail	3,571	16	–	Equity method
Fuzhou Badi Clothing Co., Ltd.	Fujian	Fujian	Wholesale and retail	8,065	38	–	Equity method
Zhejiang Yuanrui Information Technology Co., Ltd.	Zhejiang	Zhejiang	Science research and technology services	20,000	30	–	Equity method

Note 1: The Group has only one seat in the Baoxin Investment Committee, and can directly participate in the discussion and formulation of decision-making. However, because the Investment Committee has a total of four seats and the decision needs to be passed by more than two-thirds of the investment committee members, the Group cannot control the decision of the Investment Committee only has a significant impact on Baoxin, so it is recognized as an associate.

Summarized financial information of non-significant associates:

	30 June 2020	31 December 2019
Associates		
Total book value of the investments	**–**	–
following items are calculated according to the shareholding ratio		
Net loss	**–**	(27,275)
Total comprehensive loss	**–**	(27,275)

Summarized financial information of non-significant joint ventures:

	30 June 2020	31 December 2019
Joint ventures		
Total book value of the investments	**227,001**	232,466
following items are calculated according to the shareholding ratio		
Net (loss)/profit	**(169)**	126,893
Total comprehensive (loss)/income	**(169)**	126,893

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

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date are as follows:

30 June 2020

Financial assets

	Financial assets at fair value through profits or losses			Measured at fair value through other comprehensive income		
	Required by the standards	Designated	Measured at amortized cost	Required by the standards	Designated	Total
Cash and bank	–	–	236,914	–	–	236,914
Account receivables	–	–	234,826	–	–	234,826
Other receivables	–	–	130,680	–	–	130,680
Other current assets	–	–	414,747	–	–	414,747
Non -current assets due within one year	–	–	26,286	–	–	26,286
Other equity instrument investment	–	–	–	–	11,646	11,646
Other non-current financial assets	93,733	–	–	–	–	93,733
Long-term receivables	–	–	92,280	–	–	92,280
	93,733	–	1,135,733	–	11,646	1,241,112

Financial liabilities

	Financial assets at fair value through profits or losses			
	Required by the standards	Designated	Measured at amortized cost	Total
Short term loans	–	–	1,478,451	1,478,451
Notes payables	–	–	10,177	10,177
Accounts payables	–	–	1,253,020	1,253,020
Other payables	–	–	685,175	685,175
Other non-current liabilities due within one year	–	–	562,388	562,388
Lease liabilities	–	–	384,865	384,865
	–	–	4,374,076	4,374,076

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

The book values of various financial instruments at the balance sheet date are as follows: (continued)

31 December 2019

Financial assets

	Financial assets at fair value through profits or losses			Measured at fair value through other comprehensive income		
	Required by the standards	Designated	Measured at amortized cost	Required by the standards	Designated	Total
Cash and bank	–	–	357,684	–	–	357,684
Account receivables	–	–	587,123	–	–	587,123
Other receivables	–	–	174,643	–	–	174,643
Other current assets	–	–	76,900	–	–	76,900
Non -current assets due within one year	–	–	25,588	–	–	25,588
Other equity instrument investment	–	–	–	–	11,646	11,646
Other non-current financial assets	97,777	–	–	–	–	97,777
Long-term receivables	–	–	189,020	–	–	189,020
	97,777	–	1,410,958	–	11,646	1,520,381

Financial liabilities

	Financial assets at fair value through profits or losses			
	Required by the standards	Designated	Measured at amortized cost	Total
Short term loans	–	–	1,481,107	1,481,107
Notes payables	–	–	255,476	255,476
Accounts payables	–	–	1,721,205	1,721,205
Other payables	–	–	754,676	754,676
Other non-current liabilities due within one year	–	–	799,667	799,667
Lease liabilities	–	–	1,300,452	1,300,452
	–	–	6,312,583	6,312,583

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks

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

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

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

Credit risk

The Group only conducts transactions with accredited and reputable third parties. According to the Group's policies, all the customers who require credit-based transactions are subject to credit audit. Moreover, the Group keeps monitoring the balances of accounts receivable to ensure it will not face material bad debt risks. Regarding transactions not settled in the recording currency of the relevant operating entities, the Group will not provide any credit transaction conditions, save as otherwise approved by the credit control department of the Group.

As the counterparties of cash at bank are the Banks with good reputations and high credit ratings, these financial instruments have low credit risk.

Other financial assets of the Group includes cash at bank, debt investments and other receivables. The credit risk of these financial assets is caused by the default of the counterparty, and the maximum risk exposure is equal to the carrying amount of these instruments.

The maximum credit risk exposure of the Group at each balance sheet date is the amount of the total amount to be charged to the customer less the provision for bad debts.

The Group does not require any guarantees from a third party since the Group only deals with the recognized third party with good reputation. The counterparties in the Group are all in the retail industry and there is a risk of industry concentration. The Group does not have any guarantees on balance of accounts receivables or other credit enhancement.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial risks (continued)

Credit risk (continued)

Criteria for judging significant increases in Credit risk

The group evaluates on each balance sheet date whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. In determining whether the credit risk has increased significantly since the initial recognition, the Group considers that reasonable and valid information can be obtained without unnecessary additional costs or efforts. This includes qualitative and quantitative analysis based on the Group's historical data, external credit risk ratings and forward-looking information. Based on a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Group compares the default risk of financial instruments on the balance sheet date with the default risk on the initial confirmation date to determine the change of default risk of financial instruments during their expected duration.

When one or more of the following quantitative, qualitative or ceiling indicators are triggered, the Group believes that the credit risk of financial instruments has increased significantly:

(1) Quantitative criteria mainly comprise the circumstance that at the reporting date, the increase in remaining lifetime probability of default is considered significant comparing with the on at initial recognition;

(2) Qualitative criteria mainly comprise significant adverse change in debtor's operation or financial status, and being listed on the watch-list etc.

Definition of credit-impaired assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the factors are mainly considered:

(1) The issuer or debtor has experienced major financial difficulties;

(2) The debtor breaches any of the contractual stipulations, for example, ails to payor delays the payment of interests or the principal, etc;

(3) For economic or contractual reasons related to the debtor's financial difficulties, the creditor gives the debtor concessions that the debtor would not have made under any other circumstances;

(4) The debtor is likely to go bankrupt or undergo other financial restructuring;

(5) The financial difficulties of the issuer or debtor cause the active market for the financial asset to disappear;

(6) Purchase or origin a financial asset at a substantial discount that reflects the fact that a credit loss has occurred.

The credit impairment of financial assets may be caused by the joint action of multiple events, but not by events that can be identified separately.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial risks (continued)

Credit risk (continued)

Measure parameter of Expected credit loss

According to whether the credit risk has significantly increased and whether the credit impairment has occurred, the Group measures the impairment provision for different assets with the expected credit loss of 12 months or the whole duration respectively. The key parameters of expected credit loss measurement include default probability, default loss rate and default risk exposure. The group takes into account the quantitative analysis and forward-looking information of historical statistical data (such as counterparty rating, guarantee method and types of collateral, repayment method, etc.) to establish default probability, default loss rate and default risk exposure models.

The relevant definition is as follows:

(1) The probability of default is the probability that the debtor will be unable to meet its repayment obligations in the next 12 months or throughout the remaining period. The default probability of the Group is adjusted based on the expected credit loss model results, and forward-looking information is added to reflect the default probability of the debtor in the current macroeconomic environment;

(2) The default loss rate refers to the expected loss degree of the Group's default risk exposure. Default loss rates also vary depending on the type of counterparty, the type and priority of recourse, and the collateral. The percentage of the risk exposure loss at the time of default, calculated on the basis of the next 12 months or the whole duration;

(3) Default exposure refers to the amount that the Group shall be reimbursed at the time of default in the next 12 months or throughout the remaining duration.

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

The impact of these economic indicators on probability of default (PD) and loss given default (LGD) varies in different types of businesses. The group applies expert judgment in this process, according to the result, the Group forecasts these economic indicators regularly and determine their effects on PD and LGD.

No significant increase in credit risk

On 30 June 2020, for other receivables stores with no withdrawal plan, the margin is considered to have not significantly increased the credit risk due to the lower credit risk of counter parties, and the Group still reserves the impairment provision according to the expected credit loss of 12 months.

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial risks (continued)

Liquidity risk

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

The group's goal is to use a variety of financing tools such as bank lending to maintain a balance between sustainability and flexibility. On 30 June 2020, the Group's debt of 84.9% (31 December 2019: 79.7%) matured in less than 1 year.

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

30 June 2020

	Within one year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Short-term borrowings	**1,547,847**	**–**	**–**	**–**	**1,547,847**
Notes Payable	**10,177**	**–**	**–**	**–**	**10,177**
Accounts Payable	**1,253,020**	**–**	**–**	**–**	**1,253,020**
Other Payables	**725,079**	**–**	**–**	**–**	**725,079**
Non-current Borrowings within one year	**581,766**	**–**	**–**	**–**	**581,766**
Lease Liability	**–**	**164,596**	**201,263**	**19,006**	**384,865**
	4,117,889	**164,596**	**201,263**	**19,006**	**4,502,754**

31 December 2019

	Within one year	1-2 years	2-5 years	Over 5 years	Total
Short-term borrowings	1,548,039	–	–	–	1,548,039
Notes Payable	255,476	–	–	–	255,476
Accounts Payable	1,721,205	–	–	–	1,721,205
Other Payables	754,676	–	–	–	754,676
Non-current Borrowings within one year	961,798	–	–	–	961,798
Lease Liability	–	447,261	866,227	294,487	1,607,975
	5,241,194	447,261	866,227	294,487	6,849,169

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial risks (continued)

Market risk

Interest Rate Risk

The Group's interest rate risk mainly arises from interest-bearing debts such as bank loans. Floating interest rate financial liabilities expose the Group to cash flow interest rate risk. The Group determines the relative proportion of fixed rate contracts based on the market environment at the time.

As at 30 June 2020, the Group has no significant interest rate risk.

31 December 2019

The group's interest-bearing debt is mainly bank loans with floating interest rates denominated in RMB, the specific amount of which is as follows:

	31 December 2019
Bank loan	
– Floating interest rate	16,823

Exchange Rate Risk

The main business of the Group is located in China and France, and its main business is settled in RMB. Due to the acquisition of Naf Naf SAS, foreign currency financing exists. The financial department of the headquarters of the Group is responsible for monitoring the scale of foreign currency transactions and foreign currency assets and liabilities of the Group to minimize foreign exchange risks. For the 6 months ended 30 June 2020 and year ended 2019, the Group has not entered into any forward foreign exchange contracts or currency swap contracts.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial risks (continued)

Market risk (continued)

Exchange Rate Risk (continued)

As at 30 June 2020 and 31 December 2019, the foreign currency financial assets and foreign currency financial liabilities held by the Group with the functional currency in RMB are shown below:

	30 June 2020 RMB'000	31 December 2019 RMB'000
The Euro items		
Foreign currency financial assets – Cash and bank	**2,985**	3,150
Foreign currency financial liabilities – Short-term borrowing	**298,051**	292,289
The dollar items		
Foreign currency financial assets – Cash and bank	**686**	1,910

On 30 June 2020, if the Hong Kong dollar appreciates or depreciates by 10% against the euro for various euro financial assets of the Group, and other factors remain unchanged, the Group's net profit will decrease or increase by RMB299,000 due to exchange rate fluctuations or increase (31 December 2019: RMB315,000).

As of 30 June 2020, for all kinds of euro financial liabilities of the Group, if the Hong Kong dollar appreciates or depreciates by 10% against the euro, and other factors remain unchanged, the Group's net profit will increase or decrease by about RMB29,805,000 due to exchange rate fluctuations (31 December 2019: RMB29,230,000).

As of 30 June 2020, if the Hong Kong dollar appreciates or depreciates by 10% against the us dollar for all kinds of us dollar financial assets of the Group, and other factors remain unchanged, the Group's net profit will decrease or increase by about RMB69,000 due to the exchange rate fluctuations (31 December 2019: RMB191,000).

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Capital management

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

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. There was no change in the Group's capital management objectives, policies or procedures in 6 months ended 30 June 2020 and the year ended 2019.

The Group manages its capital using a leverage ratio, which is the ratio of net debt to adjusted capital plus net debt. The Group's leverage ratio at the balance sheet date is as follows:

	30 June 2020	31 December 2019
Total borrowings	**1,833,201**	1,842,721
Total capital	**480,580**	1,126,196
Leverage ratios	**381%**	164%

(All amounts in RMB'000 unless otherwise stated)

IX. DISCLOUSURE OF FAIR VALUE

1. Assets measured at fair value

30 June 2020

	Inputs used in the measurement of fair value			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Persistent fair value measurement				
Other equity instrument investment	**–**	**–**	**11,646**	**11,646**
Other non-current financial assets	**–**	**–**	**93,733**	**93,733**
	–	**–**	**105,379**	**105,379**

31 December 2019

	Inputs used in the measurement of fair value			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Persistent fair value measurement				
Other equity instrument investment	–	–	11,646	11,646
Other non-current financial assets	–	–	97,777	97,777
	–	–	109,423	109,423

IX. DISCLOUSURE OF FAIR VALUE (CONTINUED)

2. Assets and liabilities disclosed at fair value

30 June 2020

	Inputs used in the measurement of fair value			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Long-term receivables	–	–	56,695	56,695

31 December 2019

	Inputs used in the measurement of fair value			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Long-term receivables	–	–	55,188	55,188

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. The ultimate controlling party

(a) General information of the ultimate controlling party

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

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

	30 June 2020		31 December 2019	
	Share holding	**Voting rights**	Share holding	Voting rights
Mr. Xing Jiaxing	**26%**	**34%**	26%	34%

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

2. Subsidiaries

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

3. Joint Ventures and Associates

The general information of the Joint Ventures and Associates are set out in Note VII 2.

(All amounts in RMB'000 unless otherwise stated)

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

4. Major transactions between the Group and related parties

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

Purchase of goods and receipt of services from related parties

	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Xinjiang Hengding Cotton Textile International Trading Co., Ltd.	**–**	164,295

Sales of goods and rendering of services to related parties

	For the six months ended 30 June 2020	For the six months ended 30 June 2019
Hongche Industry (Shanghai) Co., Ltd.	**–**	3,723

(2) Leases with related party

As lessors

	Type of leased assets	**For the six months ended 30 June 2020**	For the six months ended 30 June 2019
Hongche Industry (Shanghai) Co., Ltd.	Property and plant	**681**	526

(3) Guarantees from related parties

Lending

30 June 2020

	Loan Amount	**Inception date**	**Expiration date**
Hongche Industry (Shanghai) Co., Ltd.	**40,000**	**22 March 2018**	**27 December 2021**

31 December 2019

	Loan Amount	Inception date	Expiration date
Hongche Industry (Shanghai) Co., Ltd.	39,500	22 March 2018	27 December 2021

For 6 months ended 30 June 2020, the group provided a loan of RMB500,000 (2019 year: RMB7,000,000) to its associate, Hongche Industry (Shanghai) Co., Ltd, at an interest rate of 6%.

(All amounts in RMB'000 unless otherwise stated)

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

4. Major transactions between the Group and related parties (continued)

(4) Interest income

	For the six months ended 30 June 2019	For the six months ended 30 June 2019
Hongche Industry (Shanghai) Co., Ltd.	**1,088**	2,228
Naf Naf SAS	**–**	817
	1,088	3,045

5. Amount due from related parties

(1) Accounts receivable

	30 June 2020		31 December 2019	
	Ending balance	**Provision**	Ending balance	Provision
Hongche Industry (Shanghai) Co., Ltd.	**4,284**	**(4,284)**	4,284	(4,284)
	4,284	**(4,284)**	4,284	(4,284)

(2) Other receivables

Others

	30 June 2020	31 December 2019
Hongche Industry (Shanghai) Co., Ltd.	**1,280**	618
Less: provision for bad debt Hongche Industry (Shanghai) Co., Ltd.	**1,280**	618
	–	–

(All amounts in RMB'000 unless otherwise stated)

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

4. Major transactions between the Group and related parties (continued)

5. Amount due from related parties (continued)

(2) Other receivables (continued)

Interests receivable

	30 June 2020	31 December 2019
Hongche Industry (Shanghai) Co., Ltd.	**4,468**	3,314
Less: provision for bad debt Hongche Industry (Shanghai) Co., Ltd.	**4,468**	3,314
	–	–

(3) Other current assets

	30 June 2020	31 December 2019
Hongche Industry (Shanghai) Co., Ltd.	**40,000**	39,500
Less: provision for bad debt Hongche Industry (Shanghai) Co., Ltd.	**40,000**	39,500
	–	–

6. Amount due to related parties

(1) Accounts payable

	30 June 2020	31 December 2019
Xinjiang Hengding Cotton Textile International Trading Co., Ltd.	**–**	101,362

(All amounts in RMB'000 unless otherwise stated)

XI. COMMITMENTS

1. Significant commitments

	30 June 2020	31 December 2019
Contracted but not provisioned		
Capital commitments	–	850

As at 30 June 2020 the Group has no unconfirmed commitments related to investments in joint ventures or associates.

As of 30 June 2020, the Company has repurchased 3,573,200 A shares by means of centralized bidding trading, and the amount used for repurchasing is RMB20,009,946 (excluding transaction costs)

XII. EVENTS AFTER THE BALANCE SHEET DATE

On 30 June 2020, the Company had no events after the balance sheet date.

XIII. OTHER SIGNIFICANT EVENTS

On 30 June 2020, the Company had no other significant events.

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT

1. Accounts receivable

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

	30 June 2020	31 December 2019
Accounts Receivable	**2,537,191**	2,287,497
Less: provision for bad debts	**44,826**	44,826
	2,492,365	2,242,671

Accounts receivable with aging since invoice date are analyzed as follows:

	30 June 2020	31 December 2019
Within 90 days	**2,521,336**	2,259,139
90 days to 1 year	**4,200**	12,786
1 year to 3 years	**7,460**	1,729
2 years to 3 years	**3,192**	5,721
Above 3 years	**1,003**	8,122
	2,537,191	2,287,497
Less: Provision for bad debts	**44,826**	44,826
	2,492,365	2,242,671

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

1. Accounts receivable (continued)

Movement of provision of bad debts:

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
For the 6 months ended 30 June 2020	44,826	–	–	44,826
For the year 2019	21,763	29,776	(6,713)	44,826

	30 June 2020				31 December 2019			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**(%)**	**Amount**	**(%)**	Amount	(%)	Amount	(%)
Individual bad debt provision	**20,033**	**1**	**20,033**	**100**	20,033	1	20,033	100
Bad debt provided by portfolio of credit risk	**2,517,158**	**99**	**24,793**	**1**	2,267,464	99	24,793	1
	2,537,191	**100**	**44,826**		2,287,497	100	44,826	

As at 30 June 2020, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Book balance	**Bad debt provision**	**Expected credit Loss rate**	**Reason**
Accounts receivables from related parties out of the consolidation	**4,284**	**4,284**	**100%**	**(i)**
Accounts receivables from shopping malls	**15,749**	**15,749**	**100%**	**(ii)**
	20,033	**20,033**		

As at 31 December 2019, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Book balance	Bad debt provision	Expected credit Loss rate	Reason
Accounts receivables from related parties out of the consolidation	4,284	4,284	100%	(i)
Accounts receivables from shopping malls	15,749	15,749	100%	(ii)
	20,033	20,033		

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

1. Accounts receivable (continued)

(i) As at 30 June 2020 and 31 December 2019, accounts receivables from related parties out of the consolidation is RMB4,284,000, due to the poor operating conditions of the companies, there was a capital turnover problem, the Group considered that these receivables could not be collected, so it made full provision for bad debts.

(ii) As at 30 June 2020 and 31 December 2019, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions of the shopping malls, there was a capital turnover problem, and some shopping malls were closed. The Group considered that the receivables could not be collected, so it made partly provision for bad debts.

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

	30 June 2020			31 December 2019		
	Estimated book balance for default	**Expected credit loss rate(%)**	**Expected credit loss for the entire life**	Estimated book balance for default	Expected credit loss rate(%)	Expected credit loss for the entire life
The 3rd party						
Within 90 days	**51,952**	**2**	**1,085**	95,304	2	1,906
90 days to 1 year	**7,003**	**5**	**350**	10,926	5	546
1 to 2 years	**360**	**30**	**108**	1,305	30	392
2 to 3 years	**87**	**60**	**52**	62	60	37
Over 3 years	**33**	**100**	**33**	316	100	316
Subsidiaries						
Within 90 days	**2,457,723**	**1**	**23,165**	2,159,551	1	21,596
	2,517,158		**24,793**	2,267,464		24,793

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

2. Other receivables

	30 June 2020	31 December 2019
Other receivables	**413,013**	584,616

Other receivables with aging since invoice date are analysed as follows:

	30 June 2020	31 December 2019
Within 1 year	**201,528**	116,941
1 to 2 years	**100,881**	218,698
2 to 3 years	**220,847**	610,668
Over 3 years	**71,617**	77,305
	594,873	1,023,612
Less: provision for bad debts	**181,860**	438,996
	413,013	584,616

Other receivables are classified by nature as follows:

	30 June 2020	31 December 2019
Amounts due from subsidiaries	**570,246**	983,517
Deposits	**20,387**	23,857
Subsidiary equity transfer fund	**–**	14,028
Staff advances	**223**	314
Others	**4,017**	1,896
	594,873	1,023,612

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

2. Other receivables (continued)

The changes in the provision for bad debts for other receivables based on the 12-month expected credit losses and the expected credit losses for the entire duration are as follows:

For the six months ended 30 June 2020

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Opening balance	**8,965**	**3,283**	**426,748**	**438,996**
Opening balance in current year				
– Transfer to stage 2	**–**	**–**	**–**	**–**
– Transfer to stage 3	**–**	**–**	**–**	**–**
Provison during the year	**165,810**	**1,498**	**–**	**167,308**
Write-off during the year	**–**	**–**	**(424,444)**	**(424,444)**
Disposal of subsidiary	**–**	**–**	**–**	**–**
Closing balance	**174,775**	**4,781**	**2,304**	**181,860**

For the year ended 31 December 2019

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Opening balance	26,994	–	516	27,510
Opening balance in current year				
– Transfer to stage 2	(418)	418	–	–
– Transfer to stage 3	(4,407)	–	4,407	–
Provison during the year	–	2,865	421,825	424,690
Write-off during the year	(13,204)	–	–	(13,204)
Disposal of subsidiary	–	–	–	–
Closing balance	8,965	3,283	426,748	438,996

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

3. Inventories

	30 June 2020			31 December 2019		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**31,292**	**–**	**31,292**	422	–	422
Finished goods	**1,007,776**	**(302,093)**	**705,683**	1,543,582	(283,068)	1,260,514
Low value consumables	**8,149**	**–**	**8,149**	8,590	–	8,590
	1,047,217	**(302,093)**	**745,124**	1,552,594	(283,068)	1,269,526

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

For the 6 months ended 30 June 2020

	Opening balance	**Increase in the current period**	**Decrease in the current period Reversal or write-off**	**Closing balance**
Finished goods	**283,068**	**167,038**	**(148,013)**	**302,093**

For the year 2019

	Opening balance	Increase in the current period	Decrease in the current period Reversal or write-off	Closing balance
Finished goods	259,219	277,246	(253,397)	283,068

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

4. Long-term equity investments

The movement for 6 months ended 30 June 2020

		Movement in the current period					
	Opening balance	Additional investment	Return on investment under equity method	Disinvestmen	Impairment provision	Closing balance	Provision at year end
Subsidiaries:							
Enterprise Management	424,520	–	–	–	–	424,520	(375,480)
Hangzhou Anshe	–	–	–	–	–	–	–
Taicang LaCha	95,000	–	–	–	–	95,000	–
Jack Walk	–	–	–	–	–		(75,000)
Shanghai Weile	50,000	–	–	–	–	50,000	–
Pincheng	23,624	–	–	(23,624)	–	–	–
Shanghai Youshi	20,000	–	–	–	–	20,000	–
Shanghai Chongan	–	–	–	–	–	–	(12,750)
Shanghai Le'ou	10,400	–	–	–	–	10,400	–
Nuoxin	–	–	–	–	–	–	(10,000)
Tianjin LaCha	10,000	–	–	–	–	10,000	–
Chengdu Lewei	10,000	–	–	–	–	10,000	–
Fujian Lewei	10,000	–	–	–	–	10,000	–
Shanghai Xiawei	5,000	–	–	–	–	5,000	–
Shanghai Langhe	–	–	–	–	–	–	(5,000)
Lacha Xiuxian	5,000	–	–	–	–	5,000	–
Shanghai Jiatuo	1,000	–	–	–	–	1,000	–
Chengdu Lacha	500	–	–	–	–	500	–
Chongqing Lewei	500	–	–	–	–	500	–
Beijing Lacha	500	–	–	–	–	500	–
Shanghai Nafu	–	–	–	–	–	–	(3,000)
Associates：							
Xinjiang Hengding Cotton Textile International Trading Co. Ltd	4,701	–	595	(5,296)	–	–	–
Fuzhou Badi Fashion Co., Ltd.	6,871	–	(335)	–	–	6,871	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,462	–	(110)	–	–	2,462	–
	680,078	–	150	(28,920)	–	651,308	(481,230)

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

4. Long-term equity investments (continued)

The movement for the year 2019

		Movement in the current period					
	Opening balance	Additional investment	Return on investment under equity method	Disinvestmen	Impairment provision	Closing balance	Provision at year end
Subsidiaries:							
Enterprise Management	800,000	–	–	–	(375,480)	424,520	(375,480)
Hangzhou Anshe	208,000	–	–	(208,000)	–	–	–
Taicang LaCha	95,000	–	–	–	–	95,000	–
Jack Walk	75,000	–	–	–	(75,000)	–	(75,000)
Shanghai Weile	50,000	–	–	–	–	50,000	–
Pincheng	39,629	–	–	–	(16,005)	23,624	(16,005)
Shanghai Youshi	20,000	–	–	–	–	20,000	–
Shanghai Chongan	12,750	–	–	–	(12,750)	–	(12,750)
Shanghai Le'ou	10,400	–	–	–	–	10,400	–
Nuoxin	10,000	–	–	–	(10,000)	–	(10,000)
Tianjin LaCha	10,000	–	–	–	–	10,000	–
Chengdu Lewei	10,000	–	–	–	–	10,000	–
Fujian Lewei	10,000	–	–	–	–	10,000	–
Shanghai Xiawei	5,000	–	–	–	–	5,000	–
Shanghai Langhe	5,000	–	–	–	(5,000)	–	(5,000)
Lacha Xiuxian	5,000	–	–	–	–	5,000	–
Shanghai Jiatuo	1,000	–	–	–	–	1,000	–
Chengdu Lacha	500	–	–	–	–	500	–
Chongqing Lewei	500	–	–	–	–	500	–
Beijing Lacha	500	–	–	–	–	500	–
Shanghai Nafu	–	3,000	–	–	(3,000)	–	(3,000)
Associates：							
Xinjiang Hengding Cotton Textile International Trading Co. Ltd	–	3,500	1,201	–	–	4,701	–
Fuzhou Badi Fashion Co., Ltd.	7,681	–	(810)	–	–	6,871	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,907	–	(445)	–	–	2,462	–
	1,378,867	6,500	(54)	(208,000)	(497,235)	680,078	(497,235)

As at June 30, 2020, the impairment provision for long-term equity investments is RM481,230,000. (2019: RM497,235,000)

(All amounts in RMB'000 unless otherwise stated)

XIV. NOTES TO THE COMPANY'S FINANCIAL STATEMENT (CONTINUED)

5. Revenue and cost of sales

	Six months ended 30 June 2020		Six months ended 30 June 2019	
	Revenue	**Cost**	Revenue	Cost
Main operation	**563,542**	**500,750**	1,963,388	1,285,115

Details of revenue are listed below:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue from contracts with customers		
– Retail	**557,756**	1,896,993
– Wholesale/Franchise	**4,257**	16,064
– Rendering services	**652**	50,331
– Others	**877**	–
	563,542	1,963,388

For 6 months ended 30 June 2020, the Group's revenue classified as it recognized at a point in time and over time is RMB562,012,000 and RMB1,529,000 respectively.

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

6. Investment (loss)/income

	Six months ended 30 June 2020	Six months ended 30 June 2019
Investment loss from long-term equity investments under equity method	**150**	–
(Loss)/gain from disposal of long-term equity investments	**(23,922)**	(20,647)
Gain on debt restructuring (Note 1)	**15,704**	–
	(8,068)	20,647

Note 1: The gain on debt restructuring aroused from the restructuring of account payables to suppliers.

(All amounts in RMB'000 unless otherwise stated)

1. SUMMARY OF NON-RECURRING PROFIT OR LOSS

	For the 6 months ended 30 June 2020
Gains from disposal of non-current assets	**814**
Government grants (It is closely related to the normal business operations, except for the government subsidies that are in line with the provisions of the national policies and in accordance with certain standard quota or quantitative continuous enjoyment)	**9,789**
Gains and losses on debt restructuring	**33,996**
Investment loss from disposal of subsidiaries	**(964)**
Investment income from disposal of subsidiaries	**283,224**
Investment income from disposal of associates	**(296)**
Loss from changes in fair value of financial assets held for trading	**(4,044)**
Other profit and loss items that meet the definition of non-recurring profit and loss	**(6,851)**
Other non-operating income and expenses except the above items	**–**
Subtotal of non-recurring profit before tax	**315,668**
Less: Impact of income tax expense	**(2,551)**
Less: Impact on the minority interests, net of tax	**(790)**
Non-recurring profit attributed to parent company	**312,327**

For the 6 months ended 30 June 2020, the Group has no non-recurring government grants.

(All amounts in RMB'000 unless otherwise stated)

2. RETURN ON NET ASSETS AND (LOSSES)/EARNINGS PER SHARE

For the 6 months ended 30 June 2020

	Weighted average return on net assets (%)	**losses per share (RMB Yuan)**	
		Basic	**Dilutive**
Net loss attributable to ordinary shareholders of the Company	**(80.08)**	**(1.30)**	**(1.30)**
Net loss attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	**(115.42)**	**(1.87)**	**(1.87)**

For the 6 months ended 30 June 2019

	Weighted average return on net assets (%)	earnings per share (RMB Yuan)	
		Basic	Dilutive
Net loss attributable to ordinary shareholders of the Company	(15.50)	(0.91)	(0.91)
Net loss attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	(17.78)	(1.04)	(1.04)

The Group has no dilutive potential ordinary shares.