



Cosmo Lady (China) Holdings Company Limited

都市麗人(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)















Stock Code : 2298



2020
ANNUAL REPORT



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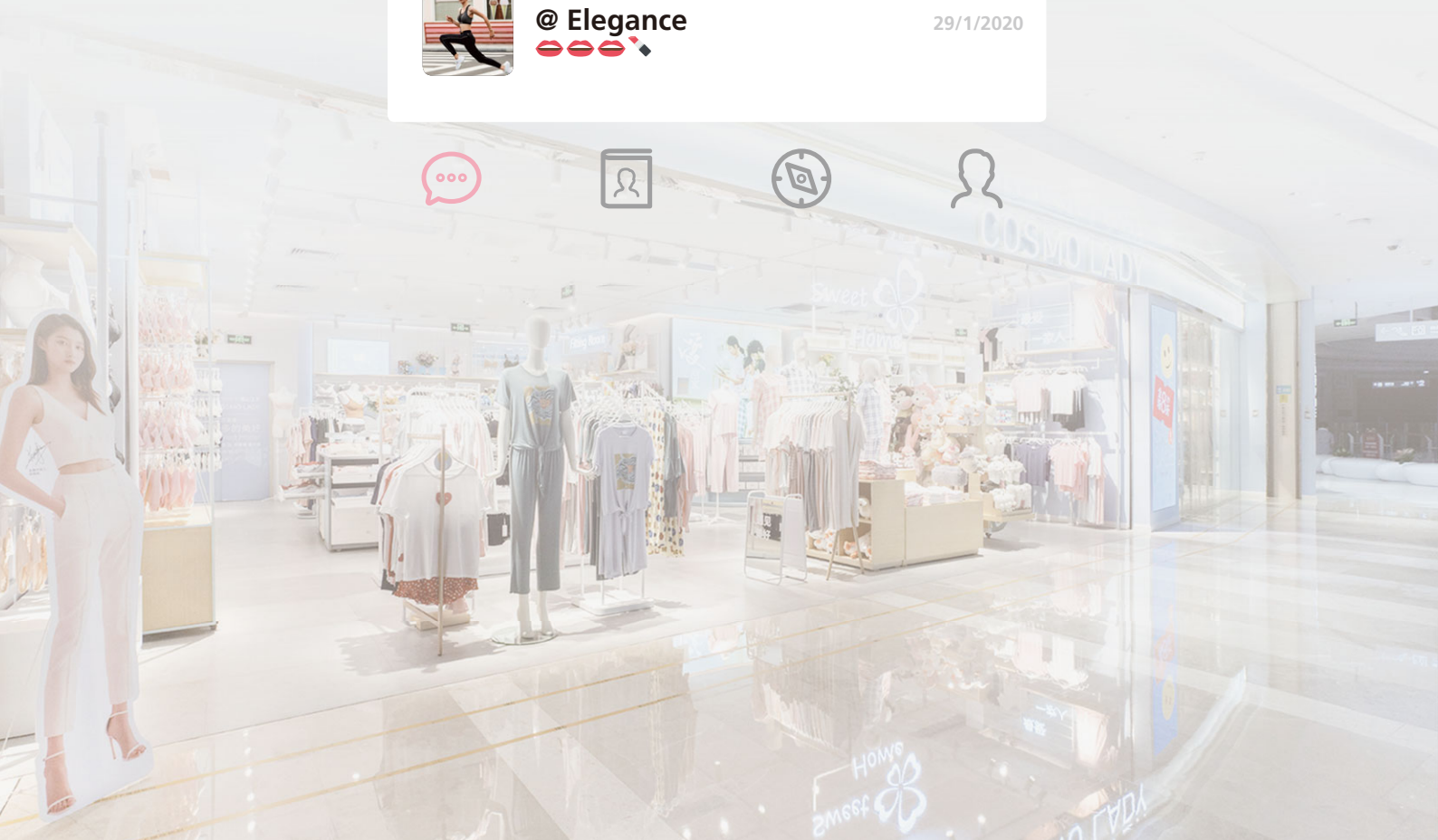
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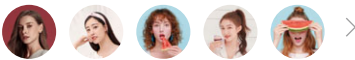


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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Lin Zonghong
Mr. Wen Baoma
Mr. Jiang Bo
Mr. Zhao Yingming

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Loo Hong Shing Vincent *FCA, AHKSA*

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Risk Management Committee

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered PIE Auditor

PRINCIPAL BANKERS

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 2298

WEBSITE

<http://www.cosmo-lady.com.hk>

INVESTOR RELATIONS

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

AUTHORIZED REPRESENTATIVES

Mr. Zheng Yaonan
Mr. Loo Hong Shing Vincent

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Cayman Islands

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Nos. 168-200 Connaught Road Central
Hong Kong

SHARE REGISTRAR IN HONG KONG

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Shops 1712-1716
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183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISORS

Hong Kong
ReedSmith Richards Butler

STATEMENT FROM CHAIRMAN



Zheng Yaonan
Chairman

Dear Shareholders,

In 2020, in response to the outbreak and rapid spread of the 2019 coronavirus (“COVID-19”), many countries and regions have adopted appropriate measures to alleviate its adverse impact. These measures included but not limited to large-scale travel restrictions, social quarantine and suspension of work and school. As a result, various economic activities were greatly reduced causing tremendous downward pressure on the global macro-economy.

The economy of China was also affected by the epidemic. According to the information of China’s National Bureau of Statistics, mainland China’s GDP in 2020 increased by only about 2.3%, the lowest growth rate in the last 3 decades. The various epidemic prevention measures have limited the foot traffic in the shopping areas and dampened consumer sentiment leading to devastating impact on the apparel industry in mainland China. The retail sales of apparel products in 2020 declined year-on-year by approximately 6.6% while the cumulative finished cloth volume of apparel enterprises above designated size fell by approximately 11.3%.

In addition, there is keen competition in mainland China’s intimate wear market which continues to undergo structural adjustments in respect of sales channel diversification, product quality and mix of products.

Statement from Chairman

The Board has adopted and will adopt the following measures to mitigate the adverse impact of the factors mentioned above, and continued to implement the transformation plan adopted in the second half of 2019:

1. New product development

- (a) Continuing the Group's shift from fast-moving-fashionable-sexy products to high technology, healthy, comfortable, good-looking and value-for-money products;
- (b) Focusing on classic products and reducing significantly the number of stock keeping unit ("SKU"), for example, the total number of SKU for 2020 spring-summer season products and 2020 autumn-winter season products have been reduced by about 30% when comparing with that for 2019;
- (c) Launching more quality high technology new products (such as soft cup bras, no-feeling seamless underwear, dust-free cotton loungewear, thermal cloth using extra-fine yarn and special weaving technology, extra elastic underpants);
- (d) Launching the 2020 autumn-winter season products which were popular in the market, with their cumulative sold-out rate about 10% higher than that for 2019 autumn-winter season products; and
- (e) Promoting the 2021 spring-summer season products which have received positive appraisals from franchisees of the Group. The value of orders placed by our franchisees during the 2021 spring-summer season trade fair increased by more than 30%, when comparing with the value of orders placed during the 2020 spring-summer season trade fair.

2. Smart retail and membership management

- (a) Continuing to strengthen the relationships with major platforms, including Alibaba (for example Rhino Smart Manufacturing Platform), JD.com and Vipshop, and proactively developing business with other e-commerce platforms (such as Tik Tak);
- (b) Stepping up efforts on developing online "smart retail", including Tencent mini APP and live webcast, and integration of Tencent mini App and other sales system, realizing omni-channel marketing and extending business hours;
- (c) Cooperating with China Youzan Limited from the fourth quarter of 2020 onwards, to promote franchisees' business through the use of Tencent mini APP, which will increase the interactions between franchisees and the loyalty program customers of the Group, bringing more sales opportunities to franchisees;
- (d) Arranging 9 online live-streams in 2020 bringing sales of around RMB150,000,000 to stores. Number of online live-streams will be increased in 2021, which are expected to bring more sales for stores; and
- (e) Enhancing membership system, refining membership management, establishing standardized membership identification system, setting up consumers database, introducing appropriate products and promotions to improve the purchasing rate, re-purchasing rate and activity rate of members, and making use of the private traffic of approximately 60 million members to boost sales.

3. New development on offline retail stores

- (a) With the gravest impact of the epidemic gradually subsiding, the operating performance of offline retail stores in the second half of 2020 gradually improved. The same-store-sales growth of self-managed stores turned into positive from mid-September 2020 onwards, and the same-store-sales growth for the fourth quarter of 2020 was approximately 7.4%;
- (b) Optimizing and adjusting sales and distribution channels by closing certain stores located at inappropriate areas and large loss-making stores;
- (c) Up to 31 December 2020, 691 seventh generation stores with new image have been opened or renovated, and the sales performance of the seventh generation stores was outstanding in 2020. Franchisees have signed agreements in the first quarter of 2021 to open about 400 stores in the future, and it is expected that there will be net opening of 200 to 300 stores in 2021;
- (d) Up to 31 December 2020, 15 shopping mall stores with “family life concept” have been opened or renovated, and the sales performance of these stores was satisfactory in the fourth quarter of 2020; and
- (e) Up to 31 December 2020, around 100 factory outlets/discount stores have been opened for clearance of aged inventories.

4. Stepping up effort on clearing aged inventories – although being affected by the epidemic, part of the aged inventories (purchased in 2019 or before), representing approximately 61.5% of the cost of these inventories, have been cleared, and the amount of inventories has returned to a healthy level;
5. Launching new brand stories, focusing on promotion of hot-selling products and stepping up efforts on brand communications;
6. Improving supply chain management, product designing, product merchandising and product operating (such as ordering and re-ordering products accurately, transferring products flexibly, products life cycle management), and conducting on-site inspection of stores to understand the actual requirements of consumers in order to enhance efficiency, lower costs and shorten response time; and
7. Stepping up investments in digital management for supporting operation and management (such as work shift system for stores, stock replenishment system for stores, stock ordering system, purchase orders management system, warehouse management system, etc.), and enabling the Group to make response swiftly to the market change.





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MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

Revenue

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

During the year, due to the factors mentioned in the “Statement from Chairman” section, the Group’s revenue from products sales declined by approximately 23.1%, and total revenue declined by approximately 25.1%.

Revenue by sales channel

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

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Retail sales	1,150,951	37.6	1,378,873	33.8
Sales to franchisees	1,127,029	36.9	1,950,422	47.8
E-commerce	763,684	25.0	627,481	15.4
Revenue from products sales	3,041,664	99.5	3,956,776	97.0
Trading of raw materials	15,827	0.5	125,109	3.0
Total revenue	3,057,491	100.0	4,081,885	100.0

On adoption of various transformation measures, sales in the second half of 2020 has improved:

- (a) Retail sales in the second half of 2020 increased by approximately 9.3% year-on-year to approximately RMB729,177,000 (2019: RMB667,250,000);
- (b) E-commerce sales in the second half of 2020 increased by approximately 25.5% year-on-year to approximately RMB381,366,000 (2019: RMB303,852,000); and
- (c) The 2020 autumn-winter season trade fair was held in March 2020. In view of the epidemic, there were less orders from franchisees, affecting the sales to franchisees in the second half of 2020.

Sales to franchisees in the second half of 2020 decreased by approximately 29.2% year-on-year to approximately RMB614,974,000 (2019: RMB868,835,000), but the decline was lower than that in the first half of 2020 of approximately 52.7%.

The retail sales of franchisees for the full year 2020 fell by approximately 29.5%, which was better than the decline in sales to franchisees of approximately 42.2%, reflecting that the actual sales performance of franchisees were better than their expectation.

In order to focus on implementing reforms and dealing with the impact of the epidemic, trading of raw materials activities in 2020 declined significantly.



Management Discussion and Analysis

Revenue by product as a percentage of total revenue

The Group's revenue is mainly generated from intimate wear products: bras, underpants, sleepwear and loungewear, thermal clothes and other products. The revenue of each type of products as a percentage of the total revenue is as follows:

	Year ended 31 December	
	2020 %	2019 %
Bras	49.0	45.9
Underpants	17.6	18.3
Sleepwear and loungewear	14.3	14.1
Thermal clothes	9.3	8.8
Other products (Notes (a) and (b))	9.3	9.9
Revenue from product sales	99.5	97.0
Trading of raw materials	0.5	3.0
Total revenue	100.0	100.0

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

- (a) The sales of higher gross profit margin bras product, as a percentage of total revenue, increased to about 49.0% (2019: 45.9%); and
- (b) The sales of lower gross profit margin trading of raw materials business, as a percentage of total revenue, dropped to about 0.5% (2019: 3.0%).

Gross profit margin

During the year, despite the fact that raw material costs has increased in 2020, the gross profit margin of the Group increased to around 48.8% (2019: 22.6%). The significant increase was mainly due to:

- (a) Continued implementation of transformation plan for optimization of supply chain management, product operating and product merchandising capabilities to lower cost and improve gross profit margin;
- (b) The product capability and competitiveness have improved in 2020, and the sold-out rates in 2020 were better than that in 2019;
- (c) Change in sales mix, with higher gross profit margin products (e.g. corset) had better sales performance in 2020 than in 2019; and
- (d) Sales of inventories with provision already made in 2019.

Selling and marketing expenses

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

The decline of selling and marketing expenses by about 16.0% for the year ended 31 December 2020 to approximately RMB1,354,586,000 (2019: RMB1,612,604,000) was primarily driven by the decrease in various store-related expenses as a result of optimizing and adjusting sales and distribution channels by closing certain stores located at inappropriate areas and loss-making retail stores.

General and administrative expenses

General and administrative expenses primarily consist of employee benefit expenses, impairment of right-of-use assets, consulting service expenses, travelling expenses, depreciation and amortization and others.

The decline of general and administrative expenses by about 5.5% for the year ended 31 December 2020 to approximately RMB287,521,000 (2019: RMB304,106,000) was mainly attributable to the decrease in employee benefit expenses.

Other income

Other income mainly consists of government grants, logistics warehousing and delivery income, dividends from financial assets at fair value through other comprehensive income, software usage fee income and others. During the year, other income increased by approximately 109.3% to approximately RMB75,187,000 (2019: RMB35,919,000), mainly due to the increase in logistics warehousing and delivery service income and dividends from financial assets at fair value through other comprehensive income.

Finance expenses – net

Finance expenses – net mainly represents financial expenses on bank borrowings and lease liabilities less interest income on short-term bank deposits and advances to suppliers.

The finance income of approximately RMB4,743,000 (2019: RMB9,947,000) decreased mainly resulted from the drop in interest income on short-term bank deposits.

The increase in finance expenses to approximately RMB55,434,000 (2019: RMB30,287,000) was in line with the increase in bank borrowings and lease liabilities.

Income tax credit

The Group recognized appropriate deferred tax assets in the financial statements resulting in income tax credit.

As at 31 December 2020, the Group had fulfilled all its tax obligations and did not have any unresolved tax disputes.

Management Discussion and Analysis

WORKING CAPITAL MANAGEMENT

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Inventories (Note (a))	793,730	679,845

	Year ended 31 December	
	2020	2019
Average inventory turnover days (Note (a))	172 days	107 days
Average trade receivables turnover days (Note (b))	35 days	49 days
Average trade payables turnover days (Note (c))	137 days	68 days

Reference is made to the Company's 2019 annual report in which an one-off provision for inventories of approximately RMB737,912,000, an one-off waiving amount of approximately RMB326,602,000 owed by major customers and a large provision for impairment of trade receivables of approximately RMB68,665,000 had been made.

Notes:

- (a) The average inventory turnover days increased to approximately 172 days (31 December 2019: 107 days), mainly attributable to the above one-off provision for inventories leading to the increase in cost of sales in 2019, and hence a lower average inventory turnover days in 2019.

As at 31 December 2020, around 61.5% of inventories (in term of costs) purchased in 2019 or before has been cleared, and the amount of inventory has returned to a healthy level. The inventory balance was higher than that for 31 December 2019, mainly due to the purchase of new high technology, healthy, comfortable, good-looking and value-for-money inventories in 2020, and the remaining balance of these new inventories as at 31 December 2020 was approximately RMB523,779,000.

- (b) The average trade receivables turnover days decreased to approximately to 35 days (31 December 2019: 49 days), mainly because the large trade receivable balance as at 31 December 2018 was used in the calculation of higher average trade receivable balance in 2019. After making the above one-off waiving amount and the large provision for impairment of trade receivables, the average trade receivable turnover days has returned to normal level.

- (c) The average trade payables turnover days increased to 137 days (31 December 2019: 68 days), mainly due to the above one-off provision for inventories leading to the increase in cost of sales in 2019, and hence a lower average trade payable turnover days in 2019, and the fact that suppliers have granted longer credit period to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a solid balance sheet. As at 31 December 2020, the Group's term deposits, restricted bank deposits and cash and cash equivalents amounted to approximately RMB980,913,000 (31 December 2019: RMB854,794,000) and bank borrowings amounted to approximately RMB537,751,000 (31 December 2019: RMB455,190,000). As at 31 December 2020, the current ratio was about 1.7 times (31 December 2019: 1.9 times).

As at 31 December 2020, the Group's gross gearing ratio, which was calculated on the basis of the amount of bank borrowings as a percentage of the total shareholders' equity, was approximately 22.3% (31 December 2019: 17.8%). The gross gearing ratio increased as a result of increase in bank borrowings. The net gearing ratio, which was calculated on the basis of the amount of bank borrowings less term deposits, restricted bank deposits and cash and cash equivalents as a percentage of the total shareholders' equity, was approximately negative 18.4% (31 December 2019: negative 15.7%) as the Group was at a net cash position.

FOREIGN CURRENCY RISK

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

APPOINTMENT OF PROFESSIONAL CONSULTANT

During the year, the Group continued to engage a global leading consulting firm, Boston Consulting Group, to assist the Group in undergoing reforms in various aspects (such as overall operation strategies, major brand operation models, improvement of store structure, implementation of strategies and prioritization of various measures, inventory management, optimization of management hierarchy and determining short, medium and long-term strategies).



Management Discussion and Analysis

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company's ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2014. The gross proceeds from the Company's initial public offering amounted to approximately HK\$1,463,245,000 while the net proceeds amounted to approximately HK\$1,386,405,000. By reference to the 2020 interim report of the Company published on 29 September 2020, the said net proceeds were fully utilized as of 31 August 2020.

USE OF PROCEEDS FOR FUNDS RAISED

Fosun Subscription

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

It was set out at the time that the net proceeds from the Fosun Subscription were intended to be used by the Company for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capital. Up to 31 December 2020, the use of net proceeds was as follows:

Use of net proceeds	Intended use of net proceeds HK\$	Amount utilized as at 31 December 2020 HK\$	Expected timeline of full utilization of said unutilized balance (Note)
Financing the reforms in sales and distributions channels of the Group	39,000,000	39,000,000	N/A
Potential mergers, acquisitions and cooperation opportunities	30,000,000	–	Before the end of 2023
General working capital	530,000,000	530,000,000	N/A

Note: The expected timeline of full utilization of said unutilized balance is based on the best estimation of the future market conditions made by the Group. It may be subject to change due to future development of market conditions.

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

Windcreek Subscription

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

It was set out at the time that the net proceeds from the Windcreek Subscription were intended to be used by the Company for financing the reforms in sales and distribution channels of the Group, potential mergers, acquisitions and cooperation opportunities, and general working capital. Up to 31 December 2020, the use of the net proceeds was as follows:

Use of net proceeds	Intended use of net proceeds HK\$	Amount utilized as at 31 December 2020 HK\$	Expected timeline of full utilization of said unutilized balance (Note)
Financing the reforms in sales and distributions channels of the Group	239,000,000	31,698,369	Before the end of 2023
Potential mergers, acquisitions and cooperation opportunities	70,000,000	–	Before the end of 2023
General working capital	200,000,000	–	Before the end of 2023

Note: The expected timeline of full utilization of said unutilized balance is based on the best estimation of the future market conditions made by the Group. It may be subject to change due to future development of market conditions.

The net proceeds from the Windcreek Subscription have been deposited with certain licensed banks. The Company will continue to actively seek to identify opportunities suitable but has no definitive timetable nor expectation for when such opportunities will be found.

CAPITAL EXPENDITURE

During the year, capital expenditure amounted to approximately RMB260,634,000 (2019: RMB221,827,000), which was mainly used for the construction of the new office of the Group.

PLEDGE OF ASSETS

As at 31 December 2020, certain property, plant and equipment, and land use rights were pledged for obtaining banking borrowings of approximately RMB529,377,000 (31 December 2019: RMB189,990,000).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities.

Management Discussion and Analysis

HUMAN RESOURCES AND MANAGEMENT

The Group had approximately 3,200 full-time employees as at 31 December 2020 (31 December 2019: 3,530). The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's operating result as well as individual performance.

ENVIRONMENTAL MANAGEMENT

Being a socially and environmentally responsible enterprise, the Group is dedicated to achieving environmental sustainability through its daily operations and is in compliance with regulations including the "Environmental Protection Law of the People's Republic of China" and regulations set by the Environmental Protection Bureau of local governments. The Group has also attained ISO 14001 Environment Management Systems. A corporate social responsibility report for the Group issued in accordance with the Environmental, Social and Governance Reporting Guide of the Stock Exchange has been included in this report.

OUTLOOK

2020 is a year out of ordinary. Despite various challenges, through the effort of our staff, the Company has become a better company. The business of the Group gradually recovered in 2020 and was back on a growth track in the fourth quarter of 2020, and the major channels of the Group, including self-managed stores, franchised stores, shopping mall stores, e-commerce, Tencent mini APP, performed remarkably.

The strategies in 2021 are to focus on consumer-orientation, digitization, sales and operation planning, and investment in brand equity and staff for driving long-term business growth.

We are confident of our operation and achieving sales growth in 2021, which is the first year of our 3-year new strategic plan.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zheng Yaonan, aged 45, is the chairman of the Board, an executive Director, the chairman of the nomination committee of the Company. He was the chief executive officer of the Company from 30 January 2014 to 19 August 2019. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. He is also one of the founders of the Group. With approximately 21 years of experience in the intimate wear manufacturing and sales industry, Mr. Zheng has been the key driver of the business strategies and achievements to date of the Group. He is primarily responsible for the strategic planning, business development, corporate management and overall performance of the Group. Mr. Zheng has been serving the Group since September 2009.

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

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

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

Mr. Zhang Shengfeng, aged 52, is a deputy chairman of the Board, an executive Director, a vice president and a member of the remuneration committee of the Company. He also holds positions as an executive director and concurrently as the general manager of a number of the Company's subsidiaries. Mr. Zhang is also one of the founders of the Group, and is primarily responsible for the product design, research and development and procurement of the Group. Mr. Zhang has been serving the Group since September 2009.

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

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

Ms. Wu Xiaoli, aged 47, is an executive Director and a vice president of the Company. Ms. Wu is primarily responsible for the human resources and administration management of the Group. Ms. Wu has been serving the Group since September 2009.

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

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

Biographies of Directors and Senior Management

Mr. Siu Ka Lok, aged 50, the chief executive officer of the Company and an executive Director since August 2019 and March 2020, respectively. His major duty is to manage the intimate wear business of the Group, responsible for planning the strategic development of the Group, implementing the strategies, policies and regulations approved by the Board, and supervising the daily work of core senior officers of the Group.

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

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

NON-EXECUTIVE DIRECTORS

Mr. Lin Zonghong, aged 52, is a non-executive Director from 19 August 2019. He was a deputy chairman of the Board and an executive Director from 30 January 2014 to 19 August 2019. Mr. Lin is one of the founders of the Group and he is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Lin has been serving the Group since September 2009.

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

Mr. Wen Baoma, aged 59, is a non-executive Director. Mr. Wen is primarily responsible for giving strategic advice and making recommendations on the operations and management of the Group. Mr. Wen has been serving the Group since October 2010. Mr. Wen has been a partner of Capital Today China Growth (HK) Limited since 2005. Mr. Wen had held a number of senior positions in various investment companies and an investment bank:

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

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

Mr. Jiang Bo, aged 39, has become a non-executive Director since May 2020. Mr. Jiang is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group.

Mr. Jiang is currently the president of Fosun Private Equity and vice chairman of Yuyuan Beauty & Healthcare Group. Before taking his current role, he served as an executive president of Fosun New Technology and New Economy Industry Group. Fosun Private Equity is one of the investment platforms of Fosun, which manages the USD private equity funds sponsored by Fosun International Limited, a substantial shareholder of the Company.

Prior to joining Fosun Private Equity, Mr. Jiang was an executive director of New Enterprise Associates (“NEA”) from March 2012 to December 2016 and a partner of NEA’s China spin-off fund Long Hill Capital from January 2017 to April 2018. NEA is one of the world’s largest venture capital and growth equity firms. He was responsible for investments in China. Prior to joining NEA, Mr. Jiang held important positions in Alibaba Group from December 2006 to July 2012, responsible for establishing Alipay’s mobile payment team and developing the earliest mobile payment products in China.

Mr. Jiang obtained a bachelor’s degree in Computer Science and Technology from Tsinghua University in Beijing, a master’s degree in Industrial Engineering and Logistics Management from the Hong Kong University of Science and Technology and an MBA with honors from The Wharton School of The University of Pennsylvania in 2002, 2005 and 2012, respectively.

Mr. Zhao Yingming, aged 48, is a non-executive Director. Mr. Zhao is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group.

Mr. Zhao is currently the vice president of JD.com, Inc. (“JD.com”) and the president of the Fashion Household Retail Platform of JD.com. Mr. Zhao has extensive experience in the consumer and retail business. Prior to joining JD.com, Mr. Zhao was an assistant to the president of Wangfujing Group Co., Ltd and the deputy general manager of Chengdu Wangfujing Department Store (Southwest District) from August 1999 to March 2014. He served as a general manager of Shanxi Tianmei Mingdian Shopping Center Co., Ltd. from June 2014 to October 2015. He served as a special assistant to the chairman of Maoye International Holdings Limited and served as the general manager of Chengshang Group Co., Ltd. from October 2015 to January 2017. He was a director of Better Life Commercial Chain Share Co., Ltd. from May 2018 to August 2019.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yau Chi Ming, aged 53, is an independent non-executive Director, the chairman of the audit committee and a member of the nomination committee and risk management committee of the Company. Mr. Yau is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

Mr. Yau is a certified public accountant in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yau graduated from The University of Hong Kong in 1992 with a bachelor’s degree in Social Sciences.

Biographies of Directors and Senior Management

Dr. Dai Yiyi, aged 53, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee and risk management committee of the Company. Dr. Dai is mainly responsible for supervising the activities and decisions of the Remuneration Committee, giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Company	Duration of tenure	Stock exchange
China SCE Property Holdings Limited	from February 2010 to present	Stock Exchange
Fujian Septwolves Industry Co., Ltd.	from July 2016 to present	Shenzhen Stock Exchange
Xiamen C&D Inc.	from July 2016 to present	Shanghai Stock Exchange
Xiamen Bank Co., Ltd.	from January 2021 to present	Shanghai Stock Exchange

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

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

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

Mr. Chen Zhigang, aged 48, is an independent non-executive Director, the chairman of the risk management committee of the Company and a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Chen is mainly responsible for giving strategic advice and making recommendations on the operations and management of the Group. He has been serving the Group since 2014.

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

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

Dr. Lu Hong Te, aged 60, is an independent non-executive Director, a member of the audit committee, the remuneration committee, the nomination committee and the risk management committee of the Company.

Dr. Lu is an independent non-executive director of China Lilang Limited and China SCE Property Holdings Limited and an independent director of Uni-President Enterprises Corp.. Dr. Lu is also an independent director of Firich Enterprises Co., Ltd. and Lanner Electronics Inc., the shares of which are traded in Taipei Exchange. Dr. Lu is currently a professor at the department of business administration of Chung Yuan Christian University in Taiwan and Xiamen University's EMBA Center. Dr. Lu was appointed as an independent non-executive director of ANTA Sports Products Limited from 26 February 2007 to 1 March 2019. Dr. Lu has resigned as an independent non-executive director of Capxon International Electronic Company Limited in October 2020.

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

SENIOR MANAGEMENT

Mr. Chen Haiqi, aged 48, joined the Group in April 2020. He is the chief operating officer of the Group. He is mainly responsible for managing the operation of omni-channel of the Group, establishing the Group's overall sales strategies and policies and assisting the chief executive officer to formulate the Group's business development plan.

Mr. Chen graduated from Jinan University in 1997 and obtained a double degree in chemistry and economics. After graduation, he worked in leading sportswear companies in China for more than two decades. He served as a director of north China of ANTA (China) Co., Ltd. ("ANTA") and a vice president of sales department of adidas Greater China, and has rich working experience in customer management, retail operations and commodity operations, etc..

Mr. Sha Shuang, aged 48, joined the Group in April 2012. He is a senior vice president and the chief executive officer for Ordifen brand business of the Group. He is mainly responsible for the development of Ordifen brand business.

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

Biographies of Directors and Senior Management

Mr. Loo Hong Shing Vincent, aged 54, has been appointed as a vice president, the chief financial officer, company secretary and authorized representative of the Company since December 2016. Before joining the Group, Mr. Loo was an executive director, the chief financial officer, company secretary and authorized representative of Hengan International Group Company Limited, a company listed on the Stock Exchange. Mr. Loo has been appointed as an independent non-executive director of Huabang Financial Holdings Limited, a company listed on the Stock Exchange, since 26 June 2012.

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

Mr. Mao Yu-in, aged 56, joined the Group in July 2017. He is a vice president of the Group. He is mainly responsible for developing the Group's business in shopping malls.

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

Mr. Yuasa Masaru, aged 62, joined the Group in August 2018. He is the chief technology officer of the Group. He is mainly responsible for research, development and innovation of technology for developing new products and new raw materials.

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

Mr. Pan Jigang, aged 44, joined the Group in April 2019. He is a vice president and the chief human resources officer of the Group. He is primarily responsible for the human resources management of the Group.

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

Ms. Lee Sang Wook, aged 50, joined the Group in October 2019. She is a vice president of the Group. She is mainly responsible for product merchandising of the Group.

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and has complied with the code provisions contained therein during the year ended 31 December 2020 and up to the date of this report.

THE BOARD

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

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

Executive Directors

Mr. Zheng Yaonan (*Chairman*)

Mr. Zhang Shengfeng (*Deputy Chairman*)

Ms. Wu Xiaoli

Mr. Siu Ka Lok (*Chief Executive Officer*) (appointed on 31 March 2020)

Non-executive Directors

Mr. Lin Zonghong

Mr. Wen Baoma

Mr. Jiang Bo (appointed on 26 May 2020)

Mr. Zhao Yingming

Independent Non-executive Directors

Mr. Yau Chi Ming

Dr. Dai Yiyi

Mr. Chen Zhigang

Dr. Lu Hong Te

All Directors have signed service contracts or letters of appointment with the Company which set out the key terms and conditions of their appointments. Biographical details of the Director and relevant relationships among them, together with their respective roles on the Board and its committees, are set out under the section headed “Biographies of the Directors and Senior Management” on pages 19 to 24 of this report.

The Board has adopted a board diversity policy (the “Board Diversity Policy”) recognizing and embracing the benefits of having a diverse Board to enhance the quality of its performance. A diverse Board is crucial to the Board’s performance and development of the Company. Accordingly, in designing the Board’s composition, the Company has considered Board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, qualification, ethnicity, skills, knowledge and length of service, having due regards to the Company’s own business model and specific needs from time to time. During the year under review, the Board has conducted an annual review of its structure and composition at a regular meeting. With the Board members coming from a variety of business and/or industry bodies and/or professional and/or academic institutions and one out of the twelve Board members being female, the Company considers that the Board possesses a balanced structure and a diverse mix of skills, experience and expertise appropriate to the requirements of the Company’s business and development.

Corporate Governance Report

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

In compliance with Rule 3.10 of the Listing Rules, the Company has appointed four independent non-executive Directors which represent at least one-third of the Board, and complied with the requirement that at least one of them has appropriate professional qualifications of accounting or related financial management expertise. The Company has received written confirmation for the year 2020 from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules and considers all independent non-executive Directors to be independent.

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

The Board meetings are held regularly and are also held on an ad hoc basis as required by business needs. All Directors are consulted as to whether to include any matters in the agenda. Notice of at least 14 days are given to all Directors before the date of regular Board meeting. Agenda and accompanying board papers are given to all Directors in a timely manner before the date of each regular Board meeting. During the year 2020, four regular meetings were held by the Board and the chairman of the Board had an annual meeting with all independent non-executive Directors without the presence of the other Director.

The Board, led by the Chairman, has reserved for its decision or conservation matters covering formulation of the Group’s overall long-term strategy, supervising the performance of the management, approving annual and interim results, monitoring and controlling other significant operations of the Group, reviewing and monitoring the Group’s systems of financial controls and risk management, and assessing the results and achievement of the Group on an on-going basis, etc.. The Board confines itself to making decisions on major operational and financial matters as well as investments. The Board commits itself to acting in the best interests of the Group and shareholders. It is accountable to the shareholders for the long-term performance of the Group, while taking into consideration the interests of the other stakeholders. The non-executive Directors (including independent non-executive Directors) have contributed valuable independent views and proposals for the Board’s deliberation and decisions. The Board has established an audit committee, a nomination committee, a remuneration committee and a risk management committee (collectively the “Committees”) with clear written terms of reference to oversee particular aspects of the Company’s affairs and to assist in sharing the Board’s responsibilities. The Committees have to report regularly to the Board on their decisions and recommendations.

With delegated responsibility, the management is responsible for the day-to-day management, administration and operation of the Group, implementing the strategies and plans adopted by the Board and the Committees and assumes full accountabilities to the Board for the operation of the Group. Both the Board and the management have clearly defined authorities and responsibilities under various risk management, internal control and check-and-balance mechanisms. The Board has agreed on procedures to enable the Directors to seek independent professional advice whenever deemed necessary, at the Company’s expense, to assist them to perform their duties.

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

Audit Committee

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

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

During the year ended 31 December 2020, the Audit Committee held three meetings. The Audit Committee reviewed the interim and annual financial statements, interim and annual report as well as the accounting policies and practices adopted by the Group, discussed on auditing and financial reporting matters, evaluated the overall effectiveness of the internal control system of the Group and the significant risks faced by the Group, reviewed the continuing connected transaction entered into by the Group, reviewed and monitored the effectiveness and resource adequacy of internal audit function of the Group, reviewed the arrangements for raising concerns about improprieties and considered the audit scope and fees for the year ended 31 December 2020.

The Audit Committee held a meeting in March 2021 to review the consolidated financial statements of the Group for 2020 and consider the re-appointment of the auditor. On the recommendation of the Audit Committee, the Board resolved to submit the Group's consolidated financial statements for 2020 and to propose the re-appointment of the auditor for approval by the shareholders at annual general meeting of the Company for 2021.

Nomination Committee

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

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

During the year ended 31 December 2020, the Nomination Committee held three meetings. The Nomination Committee reviewed the Board structure, size and composition, nomination policy, the Board diversity, and recommended the appointments of Mr. Siu Ka Lok as an executive Director and Mr. Jiang Bo as a non-executive Director to the Board for approval.

Corporate Governance Report

Remuneration Committee

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

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

Three meetings of the Remuneration Committee were held during 2020 for considering and making recommendations to the Board for determining the remuneration of the nominated executive Director and non-executive Director and for an annual review of remuneration policy and packages for all the Directors and senior management. Details of emoluments paid to the Directors and senior management for the year ended 31 December 2020 are set out in Note 11 to the consolidated financial statements.

Risk Management Committee

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

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

During the year ended 31 December 2020, the Risk Management Committee held three meetings to review the risk management framework, internal audit program, including its program status and internal audit findings, and the risk associated with Group’s strategies.

Attendance Records at Meetings

The attendance of individual Directors at general meeting, regular meetings of the Board and meetings of the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee held during the year ended 31 December 2020 is set out below:

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

Notes:

- (1) Mr. Siu Ka Lok was appointed on 31 March 2020.
- (2) Mr. Yang Weiqiang retired on 26 May 2020.
- (3) Mr. Jiang Bo was appointed on 26 May 2020.

Appointment and Re-election of Directors

In accordance with article 112 of the Memorandum and Articles of Association of the Company, Mr. Jiang Bo was appointed as non-executive Director on 26 May 2020. He will retire at the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

In accordance with article 108 of the Memorandum and Articles of Association of the Company and Code Provision A.4.2 in Appendix 14 of the Listing Rules, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Wen Baoma and Mr. Chen Zhigang will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

Nomination Policy

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

Corporate Governance Report

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

- (a) diversity that the candidate can bring to the Board in all its aspects, including but not limited to gender, age, cultural and educational background, skills, knowledge, professional experience, expertise, length of service and other personal qualities of the candidate;
- (b) the candidate's commitment in respect of available time and relevant interest, in particular, whether the candidate would be able to devote sufficient time to effectively carry out his/her duties;
- (c) reputation for integrity;
- (d) independence of candidate; and
- (e) accomplishment and experience in the relevant industries involved in the Company's business.

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

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

A summary of the continuous professional development in which Directors participated during the year ended 31 December 2020 is as follows:

Name of directors	Types ^(Notes)
Executive Directors	
Mr. Zheng Yaonan	A, C
Mr. Zhang Shengfeng	A, C
Ms. Wu Xiaoli	C
Mr. Siu Ka Lok	A
Non-executive Directors	
Mr. Lin Zonghong	A
Mr. Wen Baoma	C
Mr. Yang Weiqiang	C
Mr. Jiang Bo	A
Mr. Zhao Yingming	A, B, C
Independent Non-executive Directors	
Mr. Yau Chi Ming	A, C
Dr. Dai Yiyi	A, B, C
Mr. Chen Zhigang	A, C
Dr. Lu Hong Te	A

Notes:

- A: Attending seminars and/or conferences and/or forums and/or in-house trainings
- B: Giving talks at seminars and/or conferences and/or forums
- C: Reading newspapers, journals and updates in relation to the economy, general business, retails or director's duties and responsibilities, etc.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Specific enquiry was made with all the Directors and all confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2020.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements for the year ended 31 December 2020 as disclosed in this report. The Directors have selected suitable accounting policies and applied them consistently, have made judgements and estimates that were prudent and reasonable and have prepared the consolidated financial statements on a going concern basis.

The statement of the Company's auditor regarding its responsibilities for the consolidated financial statements is set out under the section headed "Independent Auditor's Report" on pages 64 to 71 of this report.

Corporate Governance Report

Risk Management and Internal Control

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

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

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

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

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

The Board had authorized the Audit Committee and Risk Management Committee to review the effectiveness of the risk management and internal control systems. Information about the two Committees, including their work in 2020, is set out under the sections headed "Audit Committee" on page 27 and "Risk Management Committee" on page 28 of this report.

The Board, through the review of the Audit Committee and Risk Management Committee, was not aware of any areas of concern that would have a material impact on the Group's financial position or result of operations, and considered that the Group's risk management and internal control systems were adequate and effective. The Group had complied with the provisions on risk management and internal control as set out in the CG Code during the year ended 31 December 2020.

Auditor's Remuneration

The Company engages PricewaterhouseCoopers as external auditor and has received a written confirmation from PricewaterhouseCoopers confirming that they are independent and that there are no relationships between PricewaterhouseCoopers and the Company that are likely to impair its independence. The roles and responsibilities of our external auditor are stated under the section headed "Independent Auditor's Report" on pages 64 to 71. During the year ended 31 December 2020, PricewaterhouseCoopers provided the following services to the Group:

Service rendered	RMB'000
Audit services	
Annual audit and interim review	3,900
Non-audit services	
Tax services	147
Corporate advisory services	170
Environmental, social and governance services	210
Total	4,427

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

Shareholders' Enquiries

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

Corporate Communication

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

Corporate Website

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

Corporate Governance Report

Shareholders' Meetings

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

Investment Market Communications

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

SHAREHOLDERS' RIGHTS

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

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

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

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

Procedures for Putting Forward Enquiries to the Board

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

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

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no change in the constitutional documents of the Company during the year ended 31 December 2020 and up to the date of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE APPROACH

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



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

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

ABOUT THIS REPORT

This ESG Report provides an annual update describing the overall ESG Report performance and initiatives of the Group’s businesses, including the head office and retail stores in China, for the year ended 31 December 2020. Information and data of the previous year are provided for reference. This report has been prepared in accordance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT & MATERIALITY ASSESSMENT

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

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

Topics	Material aspects
Employment and labour practices	<ul style="list-style-type: none"> Employment Employee benefits and welfare Care for employees Health and safety Development and training Labour standards
Operating practices	<ul style="list-style-type: none"> Supply chain management Product responsibility Anti-corruption
Environmental protection	<ul style="list-style-type: none"> Emissions Use of resources The environment and natural resources
Community investment	<ul style="list-style-type: none"> Community investment
Regulatory compliance	<ul style="list-style-type: none"> Regulatory compliance

Table 1 Material ESG aspects of the Group

EMPLOYMENT AND LABOUR PRACTICES

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

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

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

Employment

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

Understanding that the success of a sustainable business relies on a talented and engaged workforce as well as a balanced and positive working environment, the Group encourages employees to pursue their career paths within the Group. The Group does so by providing multiple promotion tracks for career progression and tailored on-the-job training. As of 31 December 2020, the Group had approximately 3,200 employees with an average monthly turnover rate of 1.76%. Given the nature of the business, the Group's workforce is mainly composed of female and young people.

Employment Category

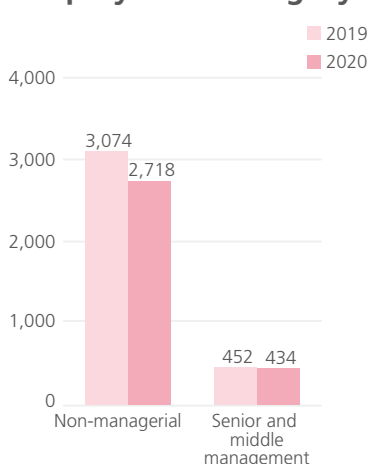


Figure 2 Total workforce by employment category

Gender

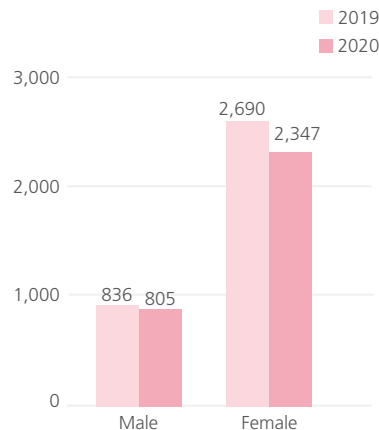


Figure 3 Total workforce by gender

Age

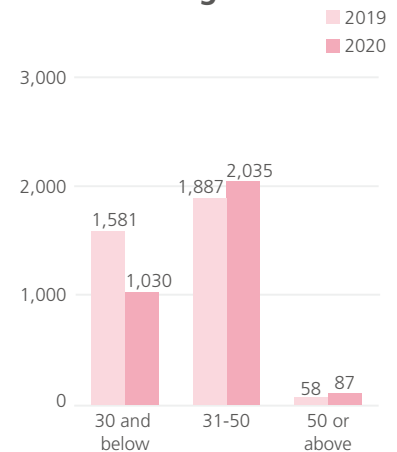


Figure 4 Total workforce by age

Environmental, Social and Governance Report

Employee Benefits and Welfare

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

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

Care for Employees

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

To foster a sense of belonging, the Group organized diverse entertainment and employee engagement activities, including team building activities, staff birthday parties and photo day throughout the year. Details of the events were typically announced through the Group's WeChat official account. The Group upholds the values of a healthy work-life balance, well-being and personal growth for its employees. Flexible working arrangements and paid leave are offered to employees to enhance their mental and physical well-being. A gym room and a yoga room located in office building helped to promote healthy lifestyles among staff. The Group also makes use of a number of channels to facilitate transparent and effective communication between management and other employees, including informal gatherings, newsletters, office administrative bulletins, and online social networking groups. The Group was awarded the certificate for "Best Employer in China 2020" by the CHiRC in 15th Business Management Award 2020.



Award: "Best Employer in China 2020" by the CHiRC

Health and Safety

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

In response to the outbreak of COVID-19, the Group has implemented a series of measures in order to secure a safe working environment. The Group maintained daily cleaning and disinfection practice across its factory, office space and other facilities. Routine monitoring of body temperature was also maintained in all entrances. The Group continues to have flexible working arrangements to reduce the risk of infection within the office while certain level of manpower is maintained to sustain the office operation. Furthermore, hand sanitizer and face mask are provided to the Group's staff.

Development and Training

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

In 2020, training sessions were provided to all the Group's employees. The respective percentage of staff trained and average training hours per employee by categories are summarized below:

Employee category	Percentage of employees trained	2019 Average training hours	2020 Average training hours
Senior and middle management	100%	70	103
Non-managerial employees	100%	54	35
Store salesmen	100%	14	15

Table 2 Average training hours per employee by category

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

Labour Standards

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

Environmental, Social and Governance Report

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

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

OPERATING PRACTICES

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

- Supply chain management
- Product responsibility
- Anti-corruption

Supply Chain Management

The Group has an extensive supply chain in China to source finished garments, including the Guangdong Province, East China and other regions of China. The Group continuously applied stringent standards for supplier selection and selected 108 outstanding suppliers this year. The Group's supply chain management processes are further described in this section.

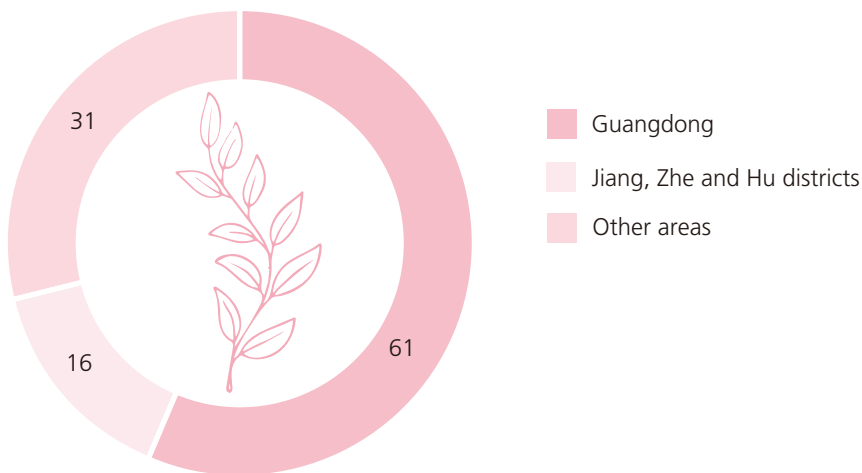


Figure 5 Distribution of suppliers by geographical region

The Group regards its partnership with suppliers and franchisees as an important element to delivering quality products to customers. Therefore, the Group would consider multiple factors when selecting a new business partner, including the quality of product supplied and potential business partners' ethical standards. From 2020, the Group has introduced several new considerations in acceptance of new supplier and continuance of existing supplier procedure. For example, the Group takes emission and pollution produced by the supplier, social responsibility, and integrity of the supplier into consideration. Annual background check is performed to assess if potential supplier has any of the abovesaid issues. For instance, suppliers which produce significant pollution or hazardous waste, have dispute between its stakeholders, or have potential risk of corruption will be given in a lower ranking during the annual review process. Prior to the commencement of each partnership, the Group works towards reaching a consensus between parties in such areas as their business operations, product design specifications and mitigation requirements when misalignments and/or inconsistencies arise during the product design, procurement, packaging or distribution phase.

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

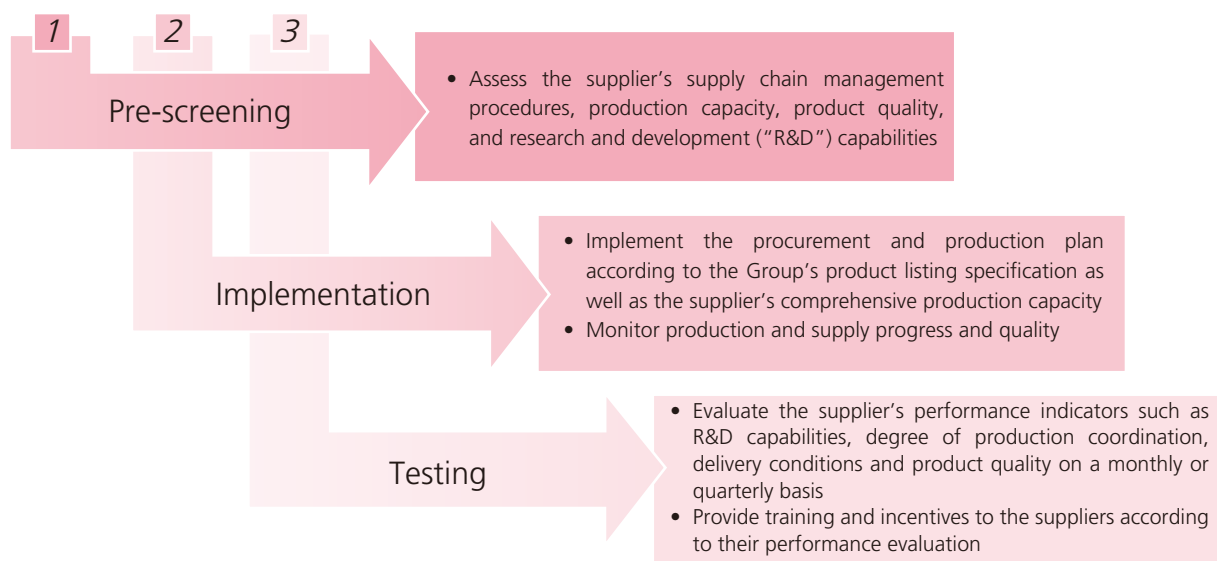


Figure 6 Illustration of supply chain management procedures

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

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

Environmental, Social and Governance Report

Product Responsibility

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

- Quality and safety of products and services
- Research and development and design
- Product transport and packaging
- Customers

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

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

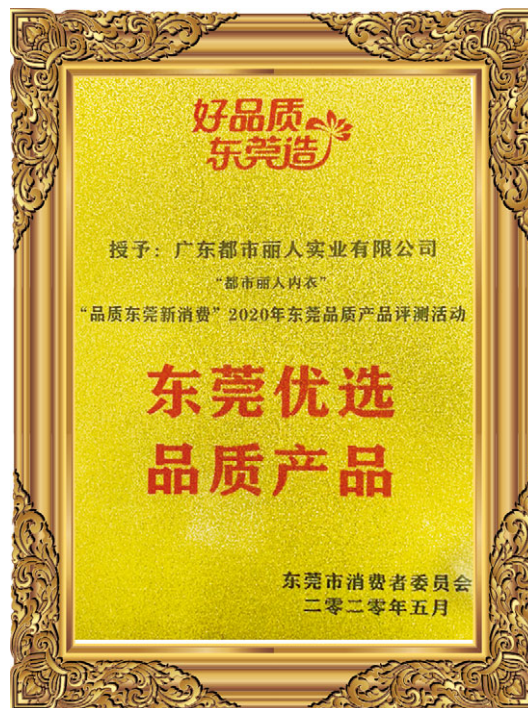
The Group believes that providing a high quality shopping experience remains the best way to retain old customers and attract new customers. Therefore, numerous strategies have been implemented on different levels across the Group. On the Group level, initiatives such as "Customer Service Management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

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

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

The Group has also set up a customer service centre to manage customer complaints and merchandise returns. The practice of prioritising complaints allows the Group to manage key customer issues with quicker responses. For general customer complaints, the service centre also have procedures in place to handle them. In 2020, the percentage of total products sold or shipped subject to complaints for quality and other reasons is maintained at a level lower than 0.001%, which is lower than the average industry level.

With significant effort spent in product quality for the past years, the Group had been awarded the “Excellent Quality Product in Dongguan” by the Dongguan Consumer Council in 2020.



Award: “Excellent Quality Product in Dongguan” by the Dongguan Consumer Council

The Group is committed to comply with the national policies, laws and regulations related to intellectual property rights. Procedures are in place to deal with patent infringement and other violations of the intellectual property rights. For online procedure, the Group has formed a team to monitor several e-Commerce platforms, such as Taobao and Xiaohongshu, on a weekly basis to identify any product with counterfeit trademark launched in the market. Reporting to local authority or taking legal action will be done by the Group against any identified counterfeit.

Environmental, Social and Governance Report

Anti-Corruption

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

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

The Group adopts a zero-tolerance policy towards any form of unethical practice, including deception, bribery, forgery, extortion, conspiracy, embezzlement and collusion. Employees should not abuse their position to obtain illegal benefits in the form of monetary or non-monetary favours. Potential conflict of interest, gifts in any form and related party transaction are required to be declared by every staff within 1 month upon receipt. To better communicate the Group's expectations of staff behaviour to employees and implement relevant anti-corruption initiatives, a "Reward and Punishment Management System" has been developed. A whistleblowing hotline has been set up during the year. When unethical incidents are reported, investigated and verified by the internal monitoring centre, the Group will impose punishment accordingly. Employees involved in any unlawful act may be subjected to the following:

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

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

ENVIRONMENTAL PROTECTION

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

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

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

Emissions

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

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

- Encourage the use of reusable stainless steel tableware and restrict the use of disposable items in the staff canteen;
- Apply unrestricted fertilizers, pesticides and detergents for daily operations;
- Inspect grease trap to identify any further maintenance required;
- Ensure large-scale publicity and promotional activities would keenly endorse the proper use and handling of recyclable materials;
- Reuse existing office equipment and furniture after the relocation of office; and
- Reallocate redundant equipment and furniture from existing retail stores or reusable equipment and furniture from closed retail stores to new retail stores opened during the year.

Environmental, Social and Governance Report

Use of Resources

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

Energy-saving initiatives

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

Figure 7 Energy-saving initiatives

Freshwater resources preservation initiatives

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

Figure 8 Freshwater resources preservation initiatives

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



Figure 9 Efficient utilization of packaging materials initiatives

The Environment and Natural Resources

The Group is committed to manage its impacts on the environment and natural resources. To show the Group's dedication, strict environmental management policies are in place to strive for continuous improvements in the environmental management system with various targets and responsibility assessments. These strategies aim to minimize the negative impacts on the environment and natural resources when the Group conducts business. The Group's commitment to environmental protection is evident throughout its factory, office space and other facilities. For instance, an air quality-processing device that measures and assesses the quality of air emitted from exhaust pipes was installed in the staff cafeteria. The Group also oversees noise pollution from facilities, by prohibiting the use of car horns in the factory. The plant equipment is calibrated on a timely manner to prevent environmental impact. During 2020, no material non-hazardous waste is produced by the Group.

Environmental performance data for the year ended 31 December 2020 are as follows:

Environmental KPIs	Unit	2020	2019
NO _x emissions	tonne	0.300	0.406
SO _x emissions	tonne	0.000913	0.000730
Particulate matter emissions	tonne	0.0293	0.0399
Total GHG emissions	tonne (CO ₂)	5,651	5,554
Greenhouse gas emissions (Scope 1)	tonne (CO ₂)	158.4	126.7
Greenhouse gas emissions (Scope 2)	tonne (CO ₂)	5,493	5,427
Total energy consumption	GJ	25,810	25,090
Total energy consumption intensity	GJ/Revenue (in million)	8.44	6.15
Total direct energy consumption	GJ	2,176	1,740
Petrol	GJ	1,014	813
Diesel Oil	GJ	1,162	926
Total indirect energy consumption	GJ	23,634	23,351
Purchased electricity	GJ	23,634	23,351
Water consumption	m ³	157,897	176,937
Water consumption intensity	m ³ /Revenue (in million)	51.65	43.35
Packaging material	tonne	164	271
Packaging material intensity	tonne/Revenue (in million)	0.05	0.07

Table 3 Environmental performance table

Note: The scope of data covered in this report include Fenggang office building, Yuquan, Fumin, and Youganpu industrial parks but excludes the retail stores. Change in scope is noted in 2020 due to the relocation of office operation. The Group had relocated its office operation from Youganpu industrial parks to a commercial building in Fenggang in 2020.

Environmental, Social and Governance Report

COMMUNITY INVESTMENT

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

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

During the outbreak of COVID-19, the Group has contributed in cooperation with the government and the community. The Group also organized a series of collection of supplies, such as clothes and cleaning and disinfection supplies for donation. For the year ended 31 December 2020, the Group has successfully collected and donated supplies of RMB2,200,000 to medical organisations in Hubei province etc. To further support the needies in the society, the Group has participated in 2 events which were organized by the government and several non-profit social associations and donated cash of RMB40,000 and living supplies of RMB80,000 to support the living of needies. The Group has organized 16 voluntary projects with more than 280 volunteer participation hours under the COVID-19 pandemic. With scope as follows:

Scope	Number of projects
Health	15
Others	1

Table 4 Number of social investment projects by scope

REGULATORY COMPLIANCE

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

CONTENT INDEX HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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

Environmental, Social and Governance Report

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

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

Environmental, Social and Governance Report

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

REPORT OF THE DIRECTORS

The board of directors of the Company (the “Board”) is pleased to present its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the design, research, development and sale of its own branded intimate wear products (namely, bras, underpants, sleepwear and loungewear, thermal clothes and others, which include leggings and tights, vests, hosiery and accessories) in the People’s Republic of China (the “PRC”).

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

BUSINESS REVIEW

A review of the business of the Group, a discussion and analysis of the Group’s operating performance and a discussion of the Group’s future development during the year are provided in the Statement from Chairman and the Management Discussion and Analysis sections, on page 5 to 7 and on pages 10 to 18 of this report, respectively.

A description of the principal risks and uncertainties that the Company may be facing can be found in the Management Discussion and Analysis section on pages 10 to 18 of this report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 3 to the consolidated financial statements. Discussions on the Group’s environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are provided on pages 35 to 52 of this report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated financial statements on pages 72 to 73.

No interim dividend was declared for 2020 (2019: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining shareholders’ entitlement to attend and vote at the annual general meeting held on 31 May 2021 (the “2021 AGM”), the register of members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021, both days inclusive, during which period no transfer of shares of the Company will be effected.

In order to be eligible to attend and vote at the 2021 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong Special Administrative Region of the PRC, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 25 May 2021 for registration.

Report of the Directors

DIVIDEND POLICY

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

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

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

BORROWINGS

Details of borrowings of the Group as at 31 December 2020 are set out in Note 33 to the consolidated financial statements.

SHARE CAPITAL

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

DONATIONS

During the year ended 31 December 2020, charitable and other donations made by the Group amounted to approximately RMB828,000 (2019: RMB828,000).

PROPERTY, PLANT AND EQUIPMENT

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

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

RESERVES

The distributable reserves of the Company as at 31 December 2020 amounted to approximately RMB1,558,426,000 (2019: RMB1,684,340,000).

Movements in reserves of the Group and of the Company during the year are shown in the Consolidated Statement of Changes in Equity on pages 76 to 77, and Note 28, Note 29 and Note 36 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the preceding five financial years is set out on page 150.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the percentage of the Group's turnover attributable to the Group's largest customer and the five largest customers in aggregate were approximately 0.9% and 2.7% (2019: 0.6% and 2.7%) respectively.

During the year ended 31 December 2020, the percentage of the Group's purchases attributable to the Group's largest suppliers and the five largest suppliers in aggregate were approximately 4.9% and 18.7% (2019: 2.9% and 11.0%) respectively.

During the year ended 31 December 2020, none of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had any interest in any of five largest customers or suppliers of the Group.

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr. Lin Zonghong
 Mr. Wen Baoma
 Mr. Jiang Bo (appointed on 26 May 2020)
 Mr. Zhao Yingming

Independent Non-executive Directors

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

A profile of the existing Directors is shown on pages 19 to 24.

Report of the Directors

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

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

All Directors are subject to retirement by rotation at annual general meeting of the Company in accordance with the Company's Memorandum of Article of Association. Article 108 provides that at every annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election. In this connection, Mr. Zhang Shengfeng, Mr. Lin Zonghong, Mr. Wen Baoma and Mr. Chen Zhigang will retire by rotation at the 2021 AGM and, being eligible, offer themselves for re-election.

Mr. Jiang Bo was appointed as a non-executive Director on 26 May 2020. In accordance with article 112 of the Company's Memorandum and Articles of Association, he will retire at 2021 AGM and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at 2021 AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

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

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

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interest and short positions in the Company

Name of directors	Nature of interest	Number of shares held ⁽¹⁾	Approximate percentage of shareholding interest ⁽¹⁾
Mr. Zheng Yaonan ⁽²⁾	Interest of controlled corporation; founder of a discretionary trust who can influence how the trustee exercises his discretion	790,552,944 (L)	35.14% (L)
Ms. Wu Xiaoli ⁽²⁾	Interest of spouse; other (beneficiary of a discretionary trust)	790,552,944 (L)	35.14% (L)
Mr. Zhang Shengfeng	Founder of a discretionary trust who can influence how the trustee exercises his discretion	222,625,173 (L)	9.90% (L)
Mr. Lin Zonghong	Founder of a discretionary trust who can influence how the trustee exercises his discretion	156,290,277 (L)	6.95% (L)
Mr. Wen Baoma	Beneficial owner	5,000,000 (L)	0.22% (L)
Mr. Siu Ka Lok ⁽³⁾	Beneficial owner; Interest of spouse	1,770,000 (L)	0.08% (L)
Dr. Lu Hong Te	Beneficial owner	210,000 (L)	0.01% (L)

Notes:

- (1) The letter "L" denotes the person's long position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,249,457,213 shares) of the Company as at 31 December 2020.
- (2) Ms. Wu Xiaoli is the spouse of Mr. Zheng Yaonan. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zheng Yaonan is interested. Ms. Wu Xiaoli is also one of the beneficiaries of a discretionary trust, founded by Mr. Zheng Yaonan, which holds the entire issued share capital of Yao Li Investment Holdings Limited.
- (3) As at 31 December 2020, Mr. Siu Ka Lok held 1,000,000 shares of the Company. Ms. Cheung Wilma Veronica, the spouse of Mr. Siu Ka Lok, held 770,000 shares of the Company. Under Part XV of the SFO, he was deemed to be interested in the same number of shares in which Ms. Cheung Wilma Veronica was interested.

Report of the Directors

(ii) Interest in associated corporations of the Company

As at 31 December 2020, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2020, the following shareholders (other than the Directors and chief executive) were interested, directly or indirectly, in 5% or more of the number of issued shares and the underlying shares of the Company and those interests were required to be recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interest	Number of shares held ⁽¹⁾	Approximate percentage of shareholding interest ⁽¹⁾
TMF (Cayman) Limited ⁽²⁾	Trustee	1,156,001,136 (L)	51.39% (L)
Great Brilliant Investment Holdings Limited ⁽³⁾	Interest of controlled corporation, beneficial owner	750,863,402 (L)	33.38% (L)
Yao Li Investment Holdings Limited ^{(2), (3)}	Interest of controlled corporation	750,863,402 (L)	33.38% (L)
Harmonious Composition Investment Holdings Limited ^{(3), (4)}	Beneficial owner	735,018,732 (L)	32.68% (L)
Fosun International Holdings Limited ⁽⁵⁾	Interest of controlled corporation	240,000,000 (L)	10.67% (L)
Fosun International Limited ⁽⁵⁾	Beneficial owner	240,000,000 (L)	10.67% (L)
Mr. Guo Guangchang ⁽⁵⁾	Interest of controlled corporation	240,000,000 (L)	10.67% (L)
Ms. Cai Shaoru ⁽⁶⁾	Interest of spouse	222,625,173 (L)	9.90% (L)
Forever Flourish International Holdings Limited ⁽⁷⁾	Beneficial owner	222,625,173 (L)	9.90% (L)
Xin Feng Asset Holdings Limited ^{(2), (7)}	Interest of controlled corporation	222,625,173 (L)	9.90% (L)
Prime Capital Management Company Limited	Investment Manager	156,899,369 (L)	6.97% (L)
Ms. Cai Jingqin ⁽⁸⁾	Interest of spouse	156,290,277 (L)	6.95% (L)
Forever Shine Holdings Limited ⁽⁹⁾	Beneficial owner	156,290,277 (L)	6.95% (L)
Hong Ye Asset Holdings Limited ^{(2), (9)}	Interest of controlled corporation	156,290,277 (L)	6.95% (L)
Capital Today Investment XVIII (HK) Limited ⁽¹⁰⁾	Beneficial owner	133,156,000 (L)	5.92% (L)
Capital Today Investment XVIII Limited ⁽¹⁰⁾	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today China Growth Fund, L.P. ⁽¹⁰⁾	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today China Growth GenPar, LTD ⁽¹⁰⁾	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Capital Today Partners Limited ⁽¹⁰⁾	Interest of controlled corporation	133,156,000 (L)	5.92% (L)
Ms. Xu Xin ⁽¹⁰⁾	Interest of controlled corporation	133,156,000 (L)	5.92% (L)

Notes:

- (1) The letter "L" denotes the person's long position in the shares. The calculation is based on the number of ordinary shares that each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued ordinary shares (that is, 2,249,457,213 shares) of the Company as at 31 December 2020.
- (2) TMF (Cayman) Limited in its capacity as the trustee holds, among others, the entire issued share capital of Yao Li Investment Holdings Limited, Xin Feng Asset Holdings Limited and Hong Ye Asset Holdings Limited. The three discretionary trusts are founded by Mr. Zheng Yaonan, Mr. Zhang Shengfeng and Mr. Lin Zonghong, respectively for themselves and their close relatives.
- (3) Great Brilliant Investment Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Yao Li Investment Holdings Limited. Yao Li Investment Holdings Limited is a company incorporated in the British Virgin Islands and wholly owned by TMF (Cayman) Limited as the trustee.
- (4) Harmonious Composition Investment Holdings Limited is a wholly-owned subsidiary of Great Brilliant Investment Holdings Limited, and held approximately 735,018,732 shares of the Company, representing approximately 32.68% of the entire issued share capital of the Company.
- (5) Fosun International Limited is indirectly owned as to 71.77% by Fosun International Holdings Limited, which is in turn owned as to 64.45% by Mr. Guo Guangchang. As such, each of Mr. Guo Guangchang and Fosun International Holdings Limited was deemed to be interested in the 240,000,000 shares of the Company held by Fosun International Limited.
- (6) Ms. Cai Shaoru is the spouse of Mr. Zhang Shengfeng. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Zhang Shengfeng was interested.
- (7) Forever Flourish International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Xin Feng Asset Holdings Limited. Xin Feng Asset Holdings Limited is a company incorporated in the British Virgin Islands and is wholly owned by TMF (Cayman) Limited as the trustee.
- (8) Ms. Cai Jingqin is the spouse of Mr. Lin Zonghong. Under Part XV of the SFO, she was deemed to be interested in the same number of shares in which Mr. Lin Zonghong was interested.
- (9) Forever Shine International Holdings Limited, a company incorporated in the British Virgin Islands, is a wholly-owned subsidiary of Hong Ye Asset Holdings Limited. Hong Ye Asset Holdings Limited is a company incorporated in the British Virgin Islands and is wholly owned by TMF (Cayman) Limited as the trustee.
- (10) Capital Today Investment XVIII (HK) Limited, a Hong Kong registered company, held 133,156,000 shares, representing approximately 5.92% of the total issued share capital of the Company. Capital Today Investment XVIII (HK) Limited is wholly owned by Capital Today Investment XVIII Limited, which is an exempted company incorporated in the British Virgin Islands. Capital Today China Growth Fund, L.P., an exempted limited partnership registered in the Cayman Islands, holds approximately 99.58% shareholding interest in Capital Today Investment XVIII Limited. The sole general partner of Capital Today China Growth Fund, L.P. is Capital Today China Growth GenPar, LTD, an exempted company registered in the Cayman Islands, approximately 91.19% shareholding interest of which is owned by Capital Today Partners Limited. Capital Today Partners Limited is solely owned by Ms. Xu Xin. Therefore, under Part XV of the SFO, each of Capital Today Investment XVIII Limited, Capital Today China Growth Fund, L.P., Capital Today China Growth GenPar, LTD, Capital Today Partners Limited and Ms. Xu Xin was deemed to be interested in 133,156,000 shares held by Capital Today Investment XVIII (HK) Limited, representing approximately 5.92% of the total issued share capital of the Company.

Save as disclosed above, as at 31 December 2020, the Directors were not aware of any persons (other than the Directors and chief executive) who had, directly or indirectly, interest or short positions in shares and underlying shares of the Company and those interests or short positions were required to be recorded in the register kept under Section 336 of the SFO.

Report of the Directors

SHARE OPTION SCHEME

The Company adopted a share option scheme on 9 June 2014 (the "Share Option Scheme"). Under the Share Option Scheme, there were no options granted, exercised, cancelled or lapsed during the year ended 31 December 2020, nor was there any option outstanding at the beginning or at the end of the year.

The principal terms of the Share Option Scheme are as follows:

(a) Purpose

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

(b) Participants

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

(c) Maximum number of shares available for issue

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

(d) Maximum entitlement of each participants

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

(e) Acceptance of an offer of options

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

(f) Performance target and minimum holding period

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

(g) Basis of determining the exercise price

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

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the options, which must be a business day;
- (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

(h) The remaining life of the Share Option Scheme

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

SHARE AWARD SCHEMES

The Company adopted share award schemes on 17 August 2016 and 28 June 2019 (the "Share Award Schemes"). The purposes and objectives of the Share Award Schemes are to recognize and motivate the contribution of the employees of the Group, to help the Group in retaining its existing members of management and to attract new talents to join the Group, each with a 10-year validity. The share award scheme adopted in 2016 has been terminated on 22 December 2020.

The Cosmo Lady Employee Benefit Trust was established to manage the trust property of the share award scheme adopted. As at 31 December 2020, a total of 48,485,800 shares of the Company were held by the trustee.

EQUITY-LINKED AGREEMENTS

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

DEED OF NON-COMPETITION

Pursuant to a deed of non-competition dated 9 June 2014 (the "Deed of Non-competition") entered into among Mr. Zheng Yaonan and Harmonious Composition Investment Holdings Limited (collectively the "Controlling Shareholders") and the Company, the Controlling Shareholders have given certain non-competition undertakings in favor of the Company. Please refer to the Prospectus of the Company for details of the terms of the Deed of Non-competition.

The independent non-executive Directors have reviewed matters relating to the compliance with the Deed of Non-competition in 2020.

The Controlling Shareholders have provided the Company with an annual confirmation of compliance with the provisions of the Deed of Non-competition.

During 2020, the Controlling Shareholders provided the Company with all information necessary for the enforcement of the Company's rights under the Deed of Non-competition, all information reasonably requested by the Company from time to time relating to the Excluded Businesses (as defined in the Deed of Non-competition) and such other business opportunities or activities related to any business of the Group as the Company reasonably believed was available to them or that they may be planning to participate in, as well as access to appropriate staff members of theirs to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the Deed of Non-competition.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2020, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in this report, there had been no transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with the Director (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, were entered into during the year ended 31 December 2020 or subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTION

During the year ended 31 December 2020, the Group has entered into the following continuing connected transaction, details of which are set out below:

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

	2020 Annual cap (RMB'000)	Amount for the year (RMB'000)
Purchases from Shantou Shengqiang	33,000	15,681

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

REVIEW OF THE CONTINUING CONNECTED TRANSACTION

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

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or better; and
- according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

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

RELATED PARTY TRANSACTIONS

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

The related party transactions with Shantou City Maosheng Knitting Underwear Co., Ltd. constituted continuing connected transactions under Chapter 14A of the Listing Rules but were fully exempted from relevant disclosures and other requirements, including, announcement, circular and independent shareholders' approval and annual review in accordance with the Listing Rules pursuant to rule 14A.76(1) of the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group commits to comply with the relevant laws and regulations including, inter alia, the Companies Ordinance, the Listing Rules, and other applicable local laws and regulations in various jurisdictions in which it operates. During the year ended 31 December 2020 and up to the date of this report, the Group was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on its business and operation.

RETIREMENT SCHEMES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year ended 31 December 2020 and up to the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the 2021 AGM of the Company.

On behalf of the Board

Zheng Yaonan

Chairman

Hong Kong, 30 March 2021

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Cosmo Lady (China) Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Cosmo Lady (China) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 149, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Provision for impairment of inventories
- Expected credit losses of trade receivables
- Impairment of retail store assets

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Provision for impairment of inventories</p> <p>Refer to note 4(a) (Critical accounting estimates and judgements) and note 24 (Inventories) to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group's gross inventories and provision for impairment of inventories amounted to RMB1,084 million and RMB290 million, respectively. As described in the Accounting Policies in note 2.12 to the consolidated financial statements, inventories are carried at lower of cost and net realisable value.</p> <p>We focused on auditing the impairment of inventories because the estimation of net realisable value is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of inventories is considered significant due to significant judgements involved in estimating selling price less costs to sell, including consideration of distribution channel, condition and classification of products, latest selling price, use of discount rate as sales promotion, expected changes in economic conditions and customer needs.</p>	<p>We obtained an understanding of the management's internal control and assessment process of provision for impairment of inventories and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as complexity, subjectivity, changes and susceptibility to management bias or fraud.</p> <ul style="list-style-type: none"> • We evaluated the outcome of prior period assessment of provision for impairment of inventories to assess the effectiveness of management's estimation process; • We evaluated and tested the key controls over the impairment of inventories, including its procedures on estimating the net realisable value of the inventories, conducting periodic reviews on product condition, classification and use of discount rate at sales promotion; • We tested on a sample basis, the net realisable value of selected inventory items, by comparing the carrying amount of the inventory items against the historical selling price and promotion discount rate;

Independent Auditor's Report

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of inventories (Continued)	<ul style="list-style-type: none">• We tested on a sample basis, the accuracy of the condition and classification profile of individual inventory items by checking to the underlying estimation standard criteria set by the management;• We challenged management's expectation in economic conditions and performed sensitivity analysis by using different sales discount rate to address the estimation uncertainty of selling pricing;• We reperformed the calculation for the provision; and• We considered whether the judgements made in determining significant assumptions would give rise to indicators of possible management bias and the implications for the audit when indicators of possible management bias are identified. <p>Based on the procedures above, we considered that management's judgements and assumptions applied in the impairment assessment of provision for impairment of inventories were supportable by the evidences obtained and procedures performed.</p>

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Expected credit losses of trade receivables</p> <p>Refer to note 4(b) (Critical accounting estimates and judgements) and note 25 (Trade receivables and notes receivables) to the consolidated financial statements.</p> <p>As at 31 December 2020, the Group had gross trade receivables of RMB383 million and provision for impairment of trade receivables of RMB84 million.</p> <p>We focused on auditing the expected credit losses of trade receivables because the estimation of recoverable amount is subject to high degree of estimation uncertainty. The inherent risk in relation to the impairment assessment of trade receivables is considered significant due to significant judgements involved in estimating the expected credit loss rates, including grouping the receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery with taking into account the nature of the customer and its ageing category, the use of roll rate method to calculate historical loss rate, consideration of forward looking information used in management's provision matrix assessment.</p>	<p>We obtained an understanding of the management's internal control and assessment process of expected credit losses of trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as complexity, subjectivity, changes and susceptibility to management bias or fraud.</p> <ul style="list-style-type: none"> • We evaluated the outcome of prior period assessment of expected credit losses of trade receivables to assess the effectiveness of management's estimation process. • We evaluated and tested the key controls over the impairment of trade receivables, including its procedures on estimating the recoverable amount of the trade receivables and conducting periodic reviews on ageing profile of trade receivables. • We obtained management's assessment on the expected credit losses of trade receivables by using roll rate method and reperformed the calculation of the provision. • We tested on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices. • We challenged management's determination of the time horizon using in the roll rate model and the losses buckets over 360 days ageing profile. • We reperformed the calculation of historical loss rate by using roll rate model based on aging by monthly rolling forward. • We performed market research regarding the relevant forward-looking information used in management's provision matrix assessment. • We tested on a sample basis, the subsequent settlement of trade receivables against bank receipts. <p>Based on the procedures above, we considered that management's judgements and assumptions applied in the impairment assessment of expected credit losses of trade receivables were supportable by the evidences obtained and procedures performed.</p>

Independent Auditor's Report

Key Audit Matters (Continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment of retail store assets

Refer to note 4(c) (Critical accounting estimates and judgements) and note 17 (Property, plant and equipment) and note 18 (Leases) to the consolidated financial statements.

As at 31 December 2020, net book value of the Group's property, plant and equipment and right-of-use assets amounted to RMB695 million and RMB523 million, of which approximately RMB53 million and RMB393 million were attributable to its retail stores respectively. The carrying amount of the retail store assets is written down to its recoverable amount if the asset's carrying amount is in excess of its estimated recoverable amount.

Management considers each individual retail store as a separately identifiable cash-generating unit and monitors their financial performance for impairment indicators. Management has identified loss making stores for impairment assessment.

Provision for impairment of right-of-use assets and property, plant and equipment were RMB48 million and RMB3 million respectively as at 31 December 2020. The recoverable amount of the assets of the retail stores is determined by value-in-use calculations using discounted cash flow projections based on the management's forecast covering the remaining tenure of the lease, with major assumptions such as growth in revenue and discount rate. The growth in revenue is dependent on management's assumption in respect of the recovery of retail market and operating strategy of the Group.

We obtained an understanding of the management's internal control and assessment process of impairment of retail store assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors, such as complexity, subjectivity, changes and susceptibility to management bias or fraud.

- We evaluated the outcome of prior period assessment of impairment of retail store assets to assess the effectiveness of management's estimation process;
- We evaluated and tested the key controls over the impairment of retail store assets, including its procedures on estimating the recoverable amount of the retail store assets;
- We obtained management's assessment on the impairment of retail stores assets by value-in-use calculations using discounted cash flow projections based on the management's forecast covering the remaining tenure of the lease;
- We compared the forecasted sales performance, gross profits and estimated operating expense applied in the value-in-use calculations to the historical data and evaluated the key assumptions applied by comparing them to historical trends and our understanding of latest market information and conditions;
- We evaluated management's basis on projected growth in revenue, particularly the basis of the estimated recovery of retail market and operating strategy of the Group;

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of retail store assets (Continued)</p> <p>We focused on auditing the impairment of retail store assets because the estimation of recoverable amount is subject to high degree of estimation uncertainty.</p>	<ul style="list-style-type: none"> • We recalculated the impairment losses calculation and checked the tenure of the leases of the retail stores to the lease agreements; and • We evaluated the sensitivity analysis to ascertain the extent of changes in the key assumptions either individually or collectively that would result in the retail store assets being impaired and considered the likelihood of such a change in the key assumptions arising. <p>Based on the procedures above, we considered that management’s judgements and assumptions applied in the impairment assessment of retail stores assets were supportable by the evidences obtained and procedures performed.</p>

Other Information

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Kin, Andrew.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	6	3,057,491	4,081,885
Cost of sales	9	(1,566,711)	(3,159,299)
Gross profit		1,490,780	922,586
Selling and marketing expenses	9	(1,354,586)	(1,612,604)
General and administrative expenses	9	(287,521)	(304,106)
Net impairment losses on financial assets	12	(15,889)	(419,550)
Other income	7	75,187	35,919
Other gains/(losses) – net	8	6,857	(11,438)
Operating loss		(85,172)	(1,389,193)
Finance income	13	4,743	9,947
Finance expenses	13	(55,434)	(30,287)
Finance expenses – net	13	(50,691)	(20,340)
Share of profit of equity investments	20	8,934	2,995
Loss before income tax		(126,929)	(1,406,538)
Income tax credit	14	10,603	106,746
Loss for the year		(116,326)	(1,299,792)
Other comprehensive (loss)/income for the year			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences		(18,277)	17,388
<i>Item that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		(2,122)	(9,446)
Total comprehensive loss for the year		(136,725)	(1,291,850)
(Loss)/profit attributable to:			
Owners of the Company		(118,095)	(1,297,812)
Non-controlling interests		1,769	(1,980)
		(116,326)	(1,299,792)

	Note	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(138,494)	(1,289,870)
Non-controlling interests		1,769	(1,980)
		(136,725)	(1,291,850)
		RMB cents	RMB cents
Loss per share			
Basic loss per share	15	(5.32)	(57.76)
Diluted loss per share	15	(5.32)	(57.76)

The notes on pages 79 to 149 are integral parts of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	17	695,368	515,402
Right-of-use assets	18	522,894	516,522
Intangible assets	19	33,975	39,871
Investment in joint ventures	20	295,107	285,174
Investment in an associate	20	–	–
Financial assets at fair value through profit or loss	26	–	102,729
Financial assets at fair value through other comprehensive income	21	67,893	74,414
Deposits, prepayments and other receivables	22	13,396	113,757
Deferred income tax assets	23	211,226	178,444
		1,839,859	1,826,313
Current assets			
Inventories	24	793,730	679,845
Trade and notes receivables	25	302,157	276,111
Deposits, prepayments and other receivables	22	574,129	694,154
Financial assets at fair value through profit or loss	26	4,623	8,822
Term deposits and restricted bank deposits	27	266,344	630
Cash and cash equivalents	27	714,569	854,164
		2,655,552	2,513,726
Total assets		4,495,411	4,340,039
Equity			
Capital and reserves attributable to owners of the Company			
Share capital	28	140,312	140,312
Share premium	28	1,656,669	1,656,669
Other reserves	29	401,310	418,807
Retained earnings		187,289	320,835
		2,385,580	2,536,623
Non-controlling interests		22,067	15,989
Total equity		2,407,647	2,552,612

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2020 RMB'000	2019 RMB'000
Liabilities			
Current liabilities			
Trade and notes payables	31	719,562	460,642
Accruals and other payables	32	321,107	370,292
Contract liabilities	6	61,261	133,675
Current income tax liabilities		15,805	–
Borrowings	33	198,674	150,000
Lease liabilities	18	214,434	199,147
Deferred income	34	267	436
		1,531,110	1,314,192
Non-current liabilities			
Borrowings	33	339,077	305,190
Lease liabilities	18	215,855	165,880
Deferred income tax liabilities	23	893	1,070
Deferred income	34	829	1,095
		556,654	473,235
Total liabilities		2,087,764	1,787,427
Total equity and liabilities		4,495,411	4,340,039

The notes on pages 79 to 149 are integral parts of these consolidated financial statements.

Zheng Yaonan
Director

Zhang Shengfeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
	Share capital	Share Premium	Other reserves	Retained earnings	Total		
	RMB'000 (Note 28)	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000	RMB'000		
As at 1 January 2020	140,312	1,656,669	418,807	320,835	2,536,623	15,989	2,552,612
Comprehensive (loss)/income							
Loss for the year	-	-	-	(118,095)	(118,095)	1,769	(116,326)
Other comprehensive loss							
Exchange differences	-	-	(18,277)	-	(18,277)	-	(18,277)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	(2,122)	-	(2,122)	-	(2,122)
Total comprehensive (loss)/income for the year	-	-	(20,399)	(118,095)	(138,494)	1,769	(136,725)
Transactions with owners							
Transaction with non-controlling interests	-	-	(3,308)	-	(3,308)	3,308	-
Equity-settled share-based compensation (Note 30)	-	-	8,823	-	8,823	-	8,823
Shares purchased for share award scheme (Note 29(d))	-	-	(18,064)	-	(18,064)	-	(18,064)
Contribution from non-controlling interests	-	-	-	-	-	1,001	1,001
Total transactions with owners	-	-	(12,549)	-	(12,549)	4,309	(8,240)
Appropriation to statutory reserves	-	-	15,451	(15,451)	-	-	-
As at 31 December 2020	140,312	1,656,669	401,310	187,289	2,385,580	22,067	2,407,647

	Attributable to equity owners of the Company					Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 28)	Other reserves RMB'000 (Note 29)	Retained earnings RMB'000	Total RMB'000		
As at 1 January 2019	140,755	1,866,386	416,471	1,623,937	4,047,549	15,056	4,062,605
Comprehensive loss							
Loss for the year	–	–	–	(1,297,812)	(1,297,812)	(1,980)	(1,299,792)
Other comprehensive income/(loss)							
Exchange differences	–	–	17,388	–	17,388	–	17,388
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	(9,446)	–	(9,446)	–	(9,446)
Total comprehensive income/(loss) for the year	–	–	7,942	(1,297,812)	(1,289,870)	(1,980)	(1,291,850)
Transactions with owners							
Dividends paid	–	(196,706)	–	–	(196,706)	–	(196,706)
Shares bought back on-market and cancelled	(443)	(13,011)	–	–	(13,454)	–	(13,454)
Equity-settled share-based compensation (Note 30)	–	–	7,944	–	7,944	–	7,944
Shares purchased for share award scheme (Note 29(d))	–	–	(18,840)	–	(18,840)	–	(18,840)
Contribution from non-controlling interests	–	–	–	–	–	2,913	2,913
Total transactions with owners	(443)	(209,717)	(10,896)	–	(221,056)	2,913	(218,143)
Appropriation to statutory reserves	–	–	5,290	(5,290)	–	–	–
As at 31 December 2019	140,312	1,656,669	418,807	320,835	2,536,623	15,989	2,552,612

The notes on pages 79 to 149 are integral parts of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	35(a)	593,593	(183,752)
Income tax paid		(38,161)	(64,177)
Net cash generated from/(used in) operating activities		555,432	(247,929)
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	35(b)	3,686	1,719
Proceeds from disposal of land use rights		–	7,788
Interest received		4,743	9,947
Investment income from financial assets at fair value through profit or loss		1,297	157
Dividends from financial assets at fair value through other comprehensive income		11,402	–
Payment for financial assets at fair value through other comprehensive income		–	(23,366)
Purchases of property, plant and equipment		(139,072)	(193,497)
Purchases of intangible assets		(1,996)	(8,219)
Repayment from/(advance to) a joint venture		2,306	(3,267)
Capital contribution to joint ventures		(999)	(116,389)
Received in advance for proposed disposal of financial assets at fair value through profit or loss		–	100,000
Received term deposits with initial term of over three months		630	–
Release of restricted bank deposits		–	9,225
Net cash used in investing activities		(118,003)	(215,902)
Cash flows from financing activities			
Purchase of the Company's shares for share award scheme		(18,064)	(18,840)
Payments for repurchase of the Company's shares		–	(13,454)
Capital injections from non-controlling interests		1,001	2,913
Pledge of restricted bank deposit		(266,344)	–
Proceeds from bank borrowings		269,284	470,000
Repayments of bank borrowings		(186,723)	(198,770)
Interest paid for bank borrowings		(32,942)	(20,324)
Principal elements of lease payments		(338,487)	(218,115)
Dividends paid		–	(196,706)
Net cash used in from financing activities		(572,275)	(193,296)
Net decrease in cash and cash equivalents		(134,846)	(657,127)
Cash and cash equivalents at beginning of the year	27	854,164	1,496,163
Effect of foreign exchange rate changes		(4,749)	15,128
Cash and cash equivalents at end of the year	27	714,569	854,164

The notes on pages 79 to 149 are integral parts of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Cosmo Lady (China) Holdings Company Limited (the “Company”) was incorporated in the Cayman Islands on 28 January 2014 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. The address of the Company’s registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (the “Group”) are principally engaged in the designing, marketing and selling of intimate wear products in the People’s Republic of China (the “PRC”). The Company’s ordinary shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 26 June 2014.

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

The consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated, and have been approved for issue by the Company’s board of directors (the “Board”) on 30 March 2021.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

(a) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 7, IFRS 9 and IAS 39
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

- COVID-19-Related Rent Concessions – amendments to IFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the Amendment to IFRS 16 set out above.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards, Amendments or Interpretations	Subject	Effective for annual accounting periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to 2018–2020 Cycle	Improvements to IFRS	1 January 2022
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

2.2 Changes in accounting policies

The Group has early adopted Amendment to IFRS 16 – COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling approximately RMB24,822,000 have been accounted for as negative variable lease payments and recognised in selling and marketing expenses in the statement of profit or loss for the year ended 31 December 2020, with a corresponding adjustment to the lease liability.

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting

2.3.1 *Subsidiaries*

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

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

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

2.3.2 *Associates*

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

2.3.3 *Joint arrangements*

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

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

2.3.4 Changes in ownership interests in subsidiaries without change of control

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

2.3.5 Disposal of subsidiaries

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

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

2 Summary of significant accounting policies (Continued)

2.6 Foreign currency translation (Continued)

(b) Transactions and balances

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

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognized in other comprehensive income.

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

2.7 Property, plant and equipment

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

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

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment (Continued)

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

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

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

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

2.8 Intangible assets

(a) *Acquired trademark*

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

(b) *Computer software*

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

(c) *Goodwill*

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

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

2 Summary of significant accounting policies (Continued)

2.9 Impairment of non-financial assets

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

2.10 Offsetting financial instruments

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

2.11 Investments and other financial assets

Classification

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

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

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

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

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

Recognition and derecognition

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.11 Investments and other financial assets (Continued)

Measurement

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

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

Equity instruments

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

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

Impairment

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

2.12 Inventories

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

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

2.13 Trade and other receivables

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

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

2 Summary of significant accounting policies (Continued)

2.14 Cash and cash equivalents

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

2.15 Restricted bank deposits

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

2.16 Share capital and shares held for employee share scheme

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

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

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

2.17 Trade and other payables

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.18 Borrowings

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

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

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

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

2.19 Borrowing costs

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

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

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

Borrowing costs include interest expense.

2 Summary of significant accounting policies (Continued)

2.20 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.21 Employee benefits

(a) Pension obligations

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

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

(b) Termination benefits

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

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

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

(d) Bonus entitlements

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

2 Summary of significant accounting policies (Continued)

2.22 Share-based payments

(a) *Equity-settled share-based payment transactions*

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

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

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

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

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

(b) *Shares held for the 2016 Share Award Scheme*

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.22 Share-based payments (Continued)

(c) *Employee options*

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

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

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

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

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

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

(d) *2019 Share Award Scheme*

The Board of Directors approved the adoption of the 2019 Share Award Scheme on 28 June 2019. The purpose of the 2019 Share Award Scheme is to motivate certain members of management of the Group and to help the Group in retaining its existing members of management and attracting new talents to join the Group. The vesting period of the awarded shares is determined by the Board. The 2019 Share Award Scheme serves to replace the employee option plan as mentioned in Note 2.22(c).

2 Summary of significant accounting policies (Continued)

2.22 Share-based payments (Continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.23 Provisions

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

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

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

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

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

2.24 Revenue recognition

(a) Sales of goods – sales to franchisees

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

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

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

2 Summary of significant accounting policies (Continued)

2.24 Revenue recognition (Continued)

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

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

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

(c) Franchise fee and software usage fee income

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

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

(d) Logistics warehousing and delivery income

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

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

(e) Other services income

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

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.25 Earnings per share

(a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

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

(b) *Diluted earnings per share*

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

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Interest income

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

2.27 Dividend income

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

2 Summary of significant accounting policies (Continued)

2.28 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies (Continued)

2.28 Leases (Continued)

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

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

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

2.29 Dividend distribution

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

2.30 Government grants

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

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

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

3 Financial risk management

3.1 Financial risk factors

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

(a) Foreign exchange risk

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

The Group operates in the PRC with most of the Group's transactions denominated and settled in RMB. The Group's assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's recognized assets and liabilities in the consolidated balance sheet as at 31 December 2020 are denominated in the respective Group companies' functional currencies.

(b) Cash flow and fair value interest rate risk

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

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

(c) Price risk

Except for the investments held by the Group and classified on the consolidated balance sheet as FVOCI of RMB67,893,000 (2019: RMB74,414,000) and FVPL of RMB4,623,000 (2019: RMB111,551,000), the Group is not exposed to any equity securities price risk.

(d) Credit risk

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

Notes to the Consolidated Financial Statements

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(d) Credit risk (Continued)

(i) Trade receivable

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The management assesses expected credit loss on a half yearly basis. The management determines the expected credit loss on the trade receivables using a provision matrix group by common risk characteristic.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles of sales before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the real private consumption growth and real imports growth of PRC in which it sells its goods to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor. Different expected loss rates were applied to different groups of customers and each age band to calculate the provisions required.

For the calculation of above expected credit loss rates, account receivables are divided into several groups according to risk characteristic. The expected credit loss rates are determined on different channels of customers, such as franchisees, E-commerce and trading of raw materials. The receivables from franchisees as at 31 December 2020 accounts for approximately 55% of total receivables (2019: 52%).

On that basis, the loss allowance as at 31 December 2020 was determined as follows for trade receivables:

31 December 2020	Within 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 360 days	More than 360 days	Total
Franchisees:							
Expected loss rate	5%	8%	10%	15%	40%	68%	
Gross carrying amount	58,099	22,495	24,350	46,888	29,354	29,189	210,375
– trade receivables							
Loss allowance	2,849	1,689	2,453	7,042	11,673	19,829	45,535
Others:							
Expected loss rate	6%	12%	18%	39%	41%	68%	
Gross carrying amount	85,116	19,215	18,258	14,047	9,144	27,590	173,370
– trade receivables							
Loss allowance	5,365	2,365	3,281	5,459	3,760	18,695	38,925

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(d) Credit risk (Continued)

(i) Trade receivable (Continued)

The loss allowance as at 31 December 2019 was determined as follows for trade receivables:

31 December 2019	Within 30 days	30 days to 60 days	60 days to 90 days	90 days to 180 days	180 days to 360 days	More than 360 days	Total
Franchisees:							
Expected loss rate	4%	5%	6%	4%	38%	51%	
Gross carrying amount	15,060	41,051	36,209	31,014	31,119	24,452	178,905
– trade receivables							
Loss allowance	628	1,961	2,253	1,257	11,925	12,497	30,521
Others:							
Expected loss rate	0%	13%	34%	33%	78%	66%	
Gross carrying amount	73,748	23,955	14,855	18,471	19,557	19,856	170,442
– trade receivables							
Loss allowance	16	3,124	5,039	6,105	15,229	13,202	42,715

(ii) Deposits and other receivables

Deposits and other receivables at amortised cost mainly include deposits, staff advances and other payments for employees, advances to agent. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

Notes to the Consolidated Financial Statements

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(d) Credit risk (Continued)

(iii) Bank balances, term deposits and restricted bank deposits

The Group has policies in place to ensure that bank balances, term deposits and restricted bank deposits with banks are mainly placed with either state-owned or reputable financial institutions in the PRC and Hong Kong with good credit rating. There has been no recent history of default in relation to these financial institutions. As at 31 December 2020, the bank balances, term deposits and restricted bank deposits with banks as detailed in Note 27 are held in the following banks in the PRC and Hong Kong:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Top-four major state-owned banks in the PRC/Hong Kong	567,917	584,601
Listed state-owned banks in the PRC/Hong Kong	352,632	146,753
Other regional banks in the PRC	59,432	122,573
	979,981	853,927
Cash on hand	932	867
	980,913	854,794

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

(e) Liquidity risk

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

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

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(e) Liquidity risk (Continued)

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020					
Borrowings (Note 33)	208,272	287,500	76,269	572,041	537,751
Lease liabilities (Note 18)	229,474	129,033	102,875	461,382	430,289
Trade and notes payable (Note 31)	719,562	–	–	719,562	719,562
Accruals and other payables *	270,697	–	–	270,697	270,697
Total	1,428,005	416,533	179,144	2,023,682	1,958,299

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

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

Notes to the Consolidated Financial Statements

3 Financial risk management (Continued)

3.2 Capital risk management

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

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

The Group monitors capital on basis of the gearing ratio. This ratio is calculated as bank borrowings divided by total equity. As at 31 December 2020, the amount of bank borrowings of approximately RMB537,751,000 (2019: RMB455,190,000) is disclosed in Note 33 while the amount of total equity of approximately RMB2,407,647,000 (2019: RMB2,552,612,000) is shown in the consolidated balance sheet.

3.3 Fair value estimation

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

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

As at 31 December 2020, except for the financial assets at FVOCI of RMB67,893,000 (2019: RMB74,414,000) and financial assets at fair value through profit or loss of RMB4,623,000 (2019: RMB111,551,000), which were measured at either level 3 or level 1 fair value respectively, the Group's financial instruments recognized in the consolidated balance sheet are mainly receivables and financial liabilities carried at amortized cost. Analysis of level 3 and level 1 financial instruments for the year ended 31 December 2020 are as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000 (Note)	Total RMB'000
Financial assets at fair value through profit or loss	4,623	–	–	4,623
Financial asset at fair value through other comprehensive income	–	–	67,893	67,893
At 31 December 2020	4,623	–	67,893	72,516
At 31 December 2019	8,822	–	177,143	185,965

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

	Unlisted equity securities RMB'000
As at 1 January 2019	166,494
Additions	23,366
Losses recognised in other comprehensive income	(9,446)
Losses recognised in other income	(3,271)
As at 31 December 2019	177,143
Additions	–
Disposal	(107,128)
Losses recognised in other comprehensive income	(2,122)
As at 31 December 2020	67,893

Notes to the Consolidated Financial Statements

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

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

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

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

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

Twelve entities engaging in the manufacturing of intimate wear in the PRC	2020	2019
Discount rate	15%	15%
Long term revenue growth rates	3%	3%
Long term profit margins	5%-12%	4%-13%
Discount for lack of marketability	30%	30%

4 Critical accounting estimates and judgements

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

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

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

(a) Net realizable value of inventories

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

(b) Impairment of financial assets

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

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

(c) Impairment of non-financial assets

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

(d) Current and deferred income taxes

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

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

(e) Fair value of certain financial assets

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

Notes to the Consolidated Financial Statements

5 Segment information

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

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

For the year ended 31 December 2020, none of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue (2019: None).

6 Revenue

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Retail sales	1,150,951	1,378,873
Sales to franchisees	1,127,029	1,950,422
E-commerce	763,684	627,481
Trading of raw materials	15,827	125,109
	3,057,491	4,081,885

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contract liabilities related to sales to franchisees	52,730	108,227
Contract liabilities related to trading of raw materials	8,531	25,448
	61,261	133,675

The revenue recognised in the current reporting year relating to carried-forward contract liabilities as at 1 January 2020 is approximately RMB133,675,000.

7 Other income

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Logistic warehousing and delivery income (Note (a))	30,630	10,252
Dividends from financial assets at FVOCI	18,057	–
Government grants (Note (b))	10,621	13,559
Software usage fee income	1,005	1,290
Investment income from financial assets at FVPL	1,297	157
Others	13,577	10,661
	75,187	35,919

Notes:

- (a) These mainly represented the amount of revenue by approximately RMB70,479,000 (2019: RMB59,561,000) from logistics warehousing and delivery services net off against its direct cost by approximately RMB43,819,000 (2019: RMB50,051,000).
- (b) These mainly represented grants received from various local governments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

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

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

8 Other gains/(losses) – net

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net foreign exchange gains/(losses)	13,838	(2,445)
Fair value losses on financial asset at fair value through profit or loss (Note 26)	(6,927)	(2,334)
Gain/(loss) on disposal of property, plant and equipment – net	346	(2,522)
Loss on disposal of intangible assets	(400)	(4,137)
	6,857	(11,438)

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9 Expenses by nature

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Costs of inventories recognized in cost of sales	1,472,766	2,381,264
Employee benefit expenses (including directors' emoluments) (Note 10)	326,863	399,820
Operating expenses in respect of stores under cooperative arrangements	219,049	605,313
Other operating rental expenses	13,063	27,330
Marketing and promotion expenses	233,903	190,141
Depreciation and amortization (Notes 17, 18 and 19)		
– Depreciation of right-of-use assets	357,717	136,571
– Property, plant and equipment	93,986	97,073
– Intangible assets	7,581	7,607
E-commerce platforms commission expenses	95,024	76,583
Logistics warehousing and delivery expenses	28,291	55,765
Provision for inventories (Note 24)	65,362	737,912
Impairment of property, plant and equipment and right of use assets (Notes 17 and 18)	28,031	23,071
Government charges and levies	21,409	25,155
Utilities expenses	26,966	33,009
Travelling expenses	33,794	50,746
Consumables recognized in expenses	18,269	27,183
Consulting service expenses	28,782	33,541
Auditor's remuneration		
– Audit services	3,900	3,900
– Non-audit services	527	865
Miscellaneous	133,535	163,160
Total cost of sales, selling and marketing expenses and general and administrative expenses	3,208,818	5,076,009

10 Employee benefit expenses

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	289,148	339,685
Pension costs – defined contribution plans	19,219	37,750
Welfare and allowance	9,673	14,441
Equity-settled share-based compensation (Note 30)	8,823	7,944
	326,863	399,820

11 Directors and chief executive's emoluments and five highest paid individuals

(a) Benefits and interests of directors

Directors' and chief executive's emoluments for the year ended 31 December 2020 are set out below:

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Equity-settled share-based compensation RMB'000	Total RMB'000
Executive Directors					
Mr. Zheng Yaonan ^(Note 1)	–	492	20	–	512
Mr. Zhang Shengfeng	–	418	20	–	438
Ms. Wu Xiaoli	–	565	35	–	600
Mr. Siu Ka Lok ^(Note 1)	–	7,619	867	1,330	9,816
Non-executive Directors					
Mr. Lin Zonghong	–	–	20	–	20
Mr. Wen Baoma	–	50	–	–	50
Mr. Jiang Bo ^(Note 2)	–	–	–	–	–
Mr. Zhao Yingming	–	–	–	–	–
Independent Non-executive Directors					
Dr. Dai Yiyi	150	–	–	–	150
Mr. Chen Zhigang	120	–	–	–	120
Mr. Yau Chi Ming	168	–	–	–	168
Dr. Lu Hong Te	150	–	–	–	150
	588	9,144	962	1,330	12,024

Notes to the Consolidated Financial Statements

11 Directors and chief executive's emoluments and five highest paid individuals (Continued)

(a) Benefits and interests of directors (Continued)

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

	Fees RMB'000	Wages, salaries and bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Equity-settled share-based compensation RMB'000	Total RMB'000
Executive Directors					
Mr. Zheng Yaonan	–	757	64	399	1,220
Mr. Zhang Shengfeng	–	640	64	399	1,103
Ms. Wu Xiaoli	–	776	92	399	1,267
Non-executive Directors					
Mr. Cheng Zuming ^(Note 3)	–	640	62	399	1,101
Mr. Lin Zonghong	–	–	64	–	64
Mr. Wen Baoma	–	50	–	–	50
Mr. Yang Weiqiang ^(Note 4)	–	–	–	–	–
Mr. Hu Shengli ^(Note 5)	–	–	–	–	–
Mr. Zhao Yingming	–	–	–	–	–
Independent Non-executive Directors					
Dr. Dai Yiyi	150	–	–	–	150
Mr. Chen Zhigang	120	–	–	–	120
Mr. Yau Chi Ming	179	–	–	–	179
Dr. Lu Hong Te	150	–	–	–	150
	599	2,863	346	1,596	5,404

Note 1: Mr. Zheng Yaonan voluntarily resigned as the chief executive officer with effect from 19 August 2019. Mr. Siu Ka Lok ("Mr. Siu") has been appointed as the chief executive officer of the Company with effect from 19 August 2019. Mr. Siu was appointed as an executive Director with effect from 31 March 2020. The emoluments of Mr. Siu was RMB9,816,000 for the year ended 31 December 2020.

Note 2: Mr. Jiang Bo was appointed as a non-executive Director with effect from 26 May 2020.

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

Note 4: Mr. Yang Weiqiang has decided to retire with effect from 26 May 2020.

Note 5: Mr. Hu Shengli has decided to retire with effect from 21 May 2019.

11 Directors and chief executive's emoluments and five highest paid individuals (Continued)

(a) Benefits and interests of directors (Continued)

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

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2019: nil).

No payment was made to directors as compensation for the early termination of the appointment during the year (2019: nil).

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2019: nil).

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2019: nil).

Except for those disclosed in Note 38, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 1 director (2019: Nil), whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 4 (2019: 5) during the year are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	4,885	11,070
Pension costs – defined contribution plans	138	462
Equity-settled share-based compensation	626	1,140
	5,649	12,672

Notes to the Consolidated Financial Statements

11 Directors and chief executive's emoluments and five highest paid individuals (Continued)

(b) Five highest paid individuals (Continued)

The emoluments fell within the following bands:

	Year ended 31 December	
	2020	2019
	Number of individual	
Emolument bands:		
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	–	1

During the year, no director or none of the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2019: nil).

(c) Senior management remuneration by band

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

	Number of individual	
	Year ended 31 December 2020	2019
Emolument bands:		
HK\$0 to HK\$500,000	1	3
HK\$500,001 to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	3	4
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	–	1

12 Net impairment losses on financial assets

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
One-off waiving of trade receivables (Note 25)	–	326,602
Provision for impairment of trade receivables (Note 25)	12,983	68,665
Provision for impairment of other receivables (Note 22)	2,906	24,283
	15,889	419,550

13 Finance income and expenses

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance income		
Interest income on short-term bank deposits	4,469	9,522
Interest income on advance to suppliers	274	425
	4,743	9,947
Finance expenses		
Interest expense on bank borrowings	(32,942)	(20,324)
Interest expense on lease liabilities	(22,492)	(9,963)
	(55,434)	(30,287)
	(50,691)	(20,340)

14 Income tax credit

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax (<i>Note (a)</i>)	–	–
– PRC corporate income tax (<i>Note (b)</i>)	22,356	17,090
– Over-provision in prior year (<i>Note (d)</i>)	–	(25,198)
	22,356	(8,108)
Deferred income tax (<i>Note 23</i>)		
– Current deferred income tax	(32,959)	(101,249)
– Over-provision in prior year (<i>Note (d)</i>)	–	2,611
	(32,959)	(98,638)
Income tax credit	(10,603)	(106,746)

Notes to the Consolidated Financial Statements

14 Income tax credit (Continued)

Notes:

(a) **Hong Kong profits tax**

The applicable Hong Kong profits tax rate is 16.5% (2019: 16.5%) for the year ended 31 December 2020.

(b) **PRC corporate income tax**

The Company's subsidiary, Cosmo Lady Guangdong Holdings Limited ("Cosmo Lady Guangdong") was given the preferential corporate income tax at 15% under the High and New Technology Enterprises ("HNTE") in April 2019, which is effective for 3 years from 2018 to 2020. The Group's other subsidiaries in the PRC are subject to PRC corporate income tax at the rate of 25% for the year ended 31 December 2020 (2019: 25%) on the estimated assessable profits for the year, based on the existing legislation, interpretations and practices in respect thereof.

(c) **Overseas income tax**

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

(d) **Over-provision in prior year**

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Loss before income tax	(126,929)	(1,406,538)
Tax calculated at statutory tax rates applicable to each group entity	(25,703)	(249,873)
Tax losses for which no deferred income tax asset was recognised	15,881	61,608
Reversal of tax losses for which deferred tax assets were recognised previously	–	36,553
Income not subject to taxation	(10,897)	(82)
Expenses not deductible for tax purposes	4,751	64,047
Withholding tax	5,365	3,588
Over-provision in prior year	–	(22,587)
Income tax credit	(10,603)	(106,746)

15 Loss per share

Basic

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

	Year ended 31 December	
	2020	2019
Loss for the year attributable to owners of the Company (RMB'000)	(118,095)	(1,297,812)
Weighted average number of ordinary shares for the purposes of basic loss per share (thousands of shares)	2,221,102	2,247,066
Basic loss per share (RMB cents per share)	(5.32)	(57.76)

Note: The weighted average number of ordinary shares for the purpose of basic loss per share for the year ended 31 December 2020 has been adjusted for the effects of purchase and withholding of ordinary shares of the Company for the share award scheme during the year ended 31 December 2020.

Diluted

For the year ended 31 December 2020, diluted loss per share is the same as the basic loss per share as there is no diluted potential shares.

16 Dividends

At a meeting held on 30 March 2021, the Board does not recommend a final dividend to the shareholders of the Company for the year ended 31 December 2020 (2019: nil).

The Board did not recommend the payment of interim dividend to shareholders of the Company for the six months ended 30 June 2020 (2019: nil).

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17 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture, fittings and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019							
Cost	445,407	213,392	80,255	143,568	5,807	43,383	931,812
Accumulated depreciation	(84,303)	(150,990)	(33,985)	(93,104)	(5,073)	-	(367,455)
Net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
Year ended 31 December 2019							
Opening net book amount	361,104	62,402	46,270	50,464	734	43,383	564,357
Additions	806	52,888	724	17,403	2,650	959	75,430
Transfer	43,151	-	-	-	-	(43,151)	-
Disposals	-	(17)	(5)	(3,028)	-	(1,191)	(4,241)
Depreciation (Note 9)	(21,537)	(49,734)	(5,972)	(18,587)	(1,243)	-	(97,073)
Impairment loss (Note (a))	-	(23,071)	-	-	-	-	(23,071)
Closing net book amount	383,524	42,468	41,017	46,252	2,141	-	515,402
At 31 December 2019							
Cost	489,364	266,263	80,974	157,943	8,457	-	1,003,001
Accumulated depreciation	(105,840)	(200,724)	(39,957)	(111,691)	(6,316)	-	(464,528)
Accumulated impairment loss	-	(23,071)	-	-	-	-	(23,071)
Net book amount	383,524	42,468	41,017	46,252	2,141	-	515,402
Year ended 31 December 2020							
Opening net book amount	383,524	42,468	41,017	46,252	2,141	-	515,402
Additions	149,610	63,635	5,094	12,355	742	26,114	257,550
Transfer	21,119	-	-	1,168	-	(22,287)	-
Disposals	-	(962)	(46)	(1,570)	(1)	(761)	(3,340)
Depreciation (Note 9)	(29,170)	(39,770)	(6,161)	(17,749)	(1,136)	-	(93,986)
Impairment loss (Note (a))	-	(2,197)	-	-	-	-	(2,197)
Reversal of provision for impairment	-	21,939	-	-	-	-	21,939
Closing net book amount	525,083	85,113	39,904	40,456	1,746	3,066	695,368
At 31 December 2020							
Cost	660,093	328,936	86,022	169,896	9,198	3,066	1,257,211
Accumulated depreciation	(135,010)	(240,494)	(46,118)	(129,440)	(7,452)	-	(558,514)
Accumulated impairment loss	-	(3,329)	-	-	-	-	(3,329)
Net book amount	525,083	85,113	39,904	40,456	1,746	3,066	695,368

17 Property, plant and equipment (Continued)

Notes:

- (a) As at 31 December 2020, net book amount of retail store assets including leasehold improvement and right of use assets amounted to RMB446,152,000. The Group regards each individual retail store as a separately identifiable cash-generating unit ("CGU") and monitors their financial performance for the existence of impairment indicators, such as stores making a loss and early closure of stores before the expiry of lease term. Management carried out an impairment assessment for the retail store assets which have an impairment indicator. The carrying amount of the retail store assets is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Previous provision for impairment is reversed if the estimated recoverable amount is greater than its carrying amount. As a result, a reversal of impairment of property, plant and equipment of RMB21,939,000, impairment loss of property, plant and equipment of RMB2,197,000 and impairment loss of right of use assets of RMB47,773,000 were recognised in general and administrative expenses. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease, with major assumptions such as revenue growth rates, gross margins and discount rate. The key assumptions used in the value-in-use calculations are dependent on management significant judgement by comparing with the historical performance of the stores, future business plans and market situation.

The following table sets out the key assumptions for the CGUs used in the value-in-use calculations:

	Individual retail store 2020	Individual retail store 2019
Revenue (% annual growth rate)	5% – 7%	3%-7%
Budgeted gross margin (% of revenue)	61%	56%
Pre-tax discount rate (%)	13%	13%

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine the value
Revenue (% annual growth rate)	Annual growth rate over the period before the expiry of lease term. It is determined based on past performance, management's expectations of market development.
Budgeted gross margin (% of revenue)	Average margin as a percentage of revenue over forecast period before the expiry of lease term. It is determined based on the CGU's past performance and management's expectations for the future.
Pre-tax discount rates (%)	Reflect specific risks relating to the CGU and the countries in which it operates.

Notes to the Consolidated Financial Statements

17 Property, plant and equipment (Continued)

Notes: (Continued)

- (b) As at 31 December 2020, buildings with a net book value of RMB459,918,000 (2019: RMB336,885,000) were pledged as collateral for the Group's borrowings (Note 33).

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of sales	925	2,085
Selling and marketing expenses	21,585	11,102
General and administrative expenses	71,476	83,886
	93,986	97,073

18 Leases

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

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Right-of-use assets		
Properties	449,382	441,101
Land use rights	73,512	75,421
	522,894	516,522
Lease liabilities		
Current	214,434	199,147
Non-current	215,855	165,880
	430,289	365,027

Additions to the right-of-use assets during the 2020 financial year were approximately RMB500,816,000.

As at 31 December 2020, land use rights of approximately RMB23,153,000 (2019: RMB23,705,000) were pledged as collateral for the Group's borrowings (Note 33).

18 Leases (Continued)

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

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

	Note	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets			
Properties		(355,808)	(134,549)
Land use rights		(1,909)	(2,022)
		(357,717)	(136,571)
Impairment of right-of-use-assets	17(a)	47,773	–
Interest expense (included in finance expenses)	13	22,492	9,963
Expense relating to short-term leases and leases of low-value assets that are not shown above as short-term leases (included in selling and marketing expense and general and administrative expenses)	9	13,063	27,330
Expense relating to variable lease payments not included in lease liabilities (included in selling and marketing expense)	9	162,141	605,313
Expense relating to early termination of lease agreement (included in general and administrative expenses)	9	12,306	4,357

The total cash outflow for leases in 2020 was RMB513,691,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 5 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes except for those with land use right certification.

(d) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For retail stores, up to 29% of lease payments are on the basis of variable payment terms with percentages ranging from 35% to 40% of sales. Variable payment terms are used for a variety of reasons. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

(e) COVID-19-related rent concessions amounted to RMB24,822,000 has been included in selling and marketing expenses.

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19 Intangible assets

	Goodwill RMB'000	Acquired trademark RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2019				
Cost	2,887	10,216	72,071	85,174
Accumulated amortization	–	(4,659)	(35,543)	(40,202)
Net book amount	2,887	5,557	36,528	44,972
Year ended 31 December 2019				
Opening net book amount	2,887	5,557	36,528	44,972
Additions	–	150	6,493	6,643
Disposal	–	–	(4,137)	(4,137)
Amortization charge (Note 9)	–	(969)	(6,638)	(7,607)
Closing net book amount	2,887	4,738	32,246	39,871
At 31 December 2019				
Cost	2,887	10,366	74,427	87,680
Accumulated amortization	–	(5,628)	(42,181)	(47,809)
Net book amount	2,887	4,738	32,246	39,871
Year ended 31 December 2020				
Opening net book amount	2,887	4,738	32,246	39,871
Additions	–	–	2,085	2,085
Disposal	–	–	(400)	(400)
Amortization charge (Note 9)	–	(351)	(7,230)	(7,581)
Closing net book amount	2,887	4,387	26,701	33,975
At 31 December 2020				
Cost	2,887	10,366	72,457	85,710
Accumulated amortization	–	(5,979)	(45,756)	(51,735)
Net book amount	2,887	4,387	26,701	33,975

19 Intangible assets (Continued)

Amortization of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income within selling and marketing expenses and general and administrative expenses of RMB2,369,000 (2019: RMB2,261,000) and RMB5,212,000 (2019: RMB5,346,000), respectively.

Impairment review on goodwill of the Group has been conducted by management as at 31 December 2020 and 31 December 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 5% (2019: not more than 3%). The growth rates used do not exceed the industry growth forecast for the market in which the Group operates. The discount rate used of 19% (2019: 19%) is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

20 Investment in joint ventures and an associate

The carrying amount of equity-accounted investments has changed as follows in the year ended 31 December 2020:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Beginning of the year	285,174	165,790
Additions	999	116,389
Share of profit for the year	8,934	2,995
End of the year	295,107	285,174

Notes to the Consolidated Financial Statements

20 Investment in joint ventures and an associate (Continued)

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2020	2019			2020	2019
		%	%			RMB'000	RMB'000
Guangdong Dongdu Holdings Limited	PRC	19.9	19.9	Joint venture (Note (a))	Equity method	18,658	19,520
Zhong Rui Run He (Ningbo) Investment Management Company Limited	PRC	40	40	Associate (Note (b))	Equity method	–	–
Jinghedu (Dongguan) Equity Investment Management Company Limited	PRC	60	60	Joint venture (Note (c))	Equity method	29,478	19,499
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership)	PRC	38.72	38.72	Joint venture (Note (c))	Equity method	242,000	242,000
Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership)	PRC	30	30	Joint venture (Note (c))	Equity method	3,000	3,000
Shantou Lianda Technology Company Limited	PRC	19.99	19.99	Joint venture (Note (d))	Equity method	972	1,155
Shantou Lianxin Inspection Company Limited	PRC	19.99	–	Joint venture (Note (e))	Equity method	999	–

Notes:

- (a) Guangdong Dongdu Holdings Limited is primarily engaged in developing an industrial centre in Shaoguan, Guangdong Province.
- (b) Zhong Rui Run He (Ningbo) Investment Management Company Limited is primarily engaged in investments and assets management.
- (c) Jinghedu (Dongguan) Equity Investment Management Company Limited, Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) and Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership) are primarily engaged in assets management and equity investment.
- (d) Shantou Lianda Technology Company Limited is primarily engaged in producing and selling intimate wear products.
- (e) Shantou Lianxin Inspection Company Limited is primarily engaged in inspection of intimate wear products.

21 Financial assets at fair value through other comprehensive income

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Unlisted equity investments	67,893	74,414

22 Deposits, prepayments and other receivables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Prepayments for acquisition of property, plant and equipment and intangible assets	8,736	105,816
Value added tax recoverable	258,563	220,138
Prepayments and deposits	9,139	8,509
Prepaid expenses in respect of stores under cooperative arrangements	89,746	181,954
Prepayments for purchase of goods	37,014	79,703
Prepayments for purchase of raw materials	65,498	123,640
Other receivables from agents	46,224	43,345
Other receivables from staffs	9,682	13,396
Dividend receivables	6,655	–
Others	58,263	57,813
Less: provision for impairment of other receivables	(1,995)	(26,403)
	587,525	807,911
Less: non-current portion	(13,396)	(113,757)
Current portion	574,129	694,154

As at 31 December 2020, the carrying amounts of the Group's deposits and other receivables are denominated in RMB and approximate their fair values.

As at 31 December 2020, the Group's deposits and other receivables are fully performing under normal business terms except that certain other receivables of RMB2,906,000 (2019: RMB24,283,000) (Note 12) have been fully impaired. Note 3.1 sets out information about the impairment of financial assets and the Group's exposure to credit risk and foreign currency risk.

Notes to the Consolidated Financial Statements

23 Deferred income tax

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	15,832	106,569
Deferred tax assets to be recovered within 12 months	195,394	71,875
	211,226	178,444

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

	Provision for inventories	Impairment of trade receivables	Provision for sales return	Deferred income	Amortization of right-of-use assets	Tax losses	Accrued interest	Impairment of property, plant and equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	15,957	1,114	775	3,861	-	36,553	21,723	-	-	79,983
Credited to the profit or loss (Note 14)	122,880	13,692	(322)	(3,522)	446	(36,553)	(3,191)	5,031	-	98,461
At 31 December 2019	138,837	14,806	453	339	446	-	18,532	5,031	-	178,444
Credited to the profit or loss (Note 14)	(83,467)	(1,476)	(242)	(175)	6,484	93,598	8,834	7,736	1,490	32,782
At 31 December 2020	55,370	13,330	211	164	6,930	93,598	27,366	12,767	1,490	211,226

23 Deferred income tax (Continued)

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

	Intangible assets	
	2020	2019
	RMB'000	RMB'000
At 1 January	1,070	1,247
Credited to the statement of profit or loss (Note 14)	(177)	(177)
At 31 December	893	1,070

As at 31 December 2020, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB189,318,000 (2019: RMB359,964,000). Deferred tax liabilities of RMB18,932,000 (2019: RMB35,996,000) have not been recognized in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the PRC and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

24 Inventories

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	3,924	12,633
Work in progress	4,014	–
Finished goods	1,076,155	1,454,118
	1,084,093	1,466,751
Less: provision for impairment	(290,363)	(786,906)
	793,730	679,845

Inventories are valued at the lower of cost and estimated net realizable value. Provision is made for obsolete and slow-moving items. The inventory write-down and write-back recognized in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB65,362,000 and RMB561,905,000, respectively for the year ended 31 December 2020 (2019: RMB737,912,000 and RMB14,835,000 respectively).

Notes to the Consolidated Financial Statements

25 Trade and notes receivables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
– Due from third parties	383,745	349,347
Notes receivables	2,872	–
Less: loss allowance	(84,460)	(73,236)
Trade and notes receivables – net	302,157	276,111

- (a) As at 31 December 2020, the carrying amounts of the trade receivables of the Group approximate their fair values and are all denominated in RMB.
- (b) The Group's trade receivables are primarily derived from sales to certain franchise customers with an appropriate credit history. The Group generally grants franchise customers with a credit period of 60 to 90 days from the invoice date for seasonal products. The Group also gives franchise customers a credit period of 180 to 360 days for their first order of products for new outlets. The Group would also extend the credit period for certain franchise customers under certain circumstances. The ageing analysis of trade receivables based on invoice date, as at 31 December 2020 is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables, gross		
– Within 30 days	143,215	88,808
– Over 30 days and within 60 days	41,710	65,006
– Over 60 days and within 90 days	42,608	51,064
– Over 90 days and within 180 days	60,935	49,485
– Over 180 days and within 360 days	38,498	50,676
– Over 360 days	56,779	44,308
	383,745	349,347

25 Trade and notes receivables (Continued)

(b) (Continued)

Movements of loss allowance of trade receivables are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of year	73,236	4,774
Waiving of trade receivables (Note)	–	(326,602)
Loss allowance	12,983	395,267
Written-off during the year as uncollectible	(1,759)	–
Unused amounts reversed	–	(203)
At end of year	84,460	73,236

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

26 Financial assets at fair value through profit or loss

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Current asset		
Japan listed equity security	4,623	8,822
Non-current asset		
Entrusted investment (Note (a))	–	102,729
	4,623	111,551

Notes:

- (a) The amount represented an unlisted company through a third party investment management company. The Group entered into agreement with Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership) ("Jinghedu") to dispose the entrusted investment in 2019. As at 31 December 2019, the Group received advanced payment from Jinghedu of RMB100,000,000. The transaction was completed subsequently in early 2020.
- (b) Changes in fair value of financial assets at fair value through profit or loss of RMB6,927,000 are recorded in other gains/(losses) – net (2019: loss of RMB2,334,000).
- (c) Information about the Group's exposure to price risk is provided in Note 3.1(c). For information about the methods and assumptions used in determining fair value, please refer to Note 3.3.

Notes to the Consolidated Financial Statements

27 Bank balances and cash

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents	714,569	854,164
Term deposits with initial term of over three months (Note (a))	–	630
Restricted bank deposits (Note (b))	266,344	–
Total bank balances and cash	980,913	854,794
Denominated in:		
RMB	839,622	637,432
HK\$	48,077	87,646
Other currencies	93,214	129,716
	980,913	854,794

Notes:

- (a) As at 31 December 2019, the weighted average effective interest rate of the Group's term deposits with initial terms of over three months was 2.81% per annum.
- (b) The amount mainly represents restricted bank deposits that were pledged to banks as collateral for bank's acceptance bill.
- (c) The conversion of the RMB denominated balances maintained in the PRC into foreign currencies and remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

28 Share capital and share premium

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2019	2,256,234,213	140,755	1,866,386	2,007,141
Shares bought back on-market and cancelled (Notes (a) and (b))	(6,777,000)	(443)	(13,011)	(13,454)
Dividends	–	–	(196,706)	(196,706)
As at 31 December 2019	2,249,457,213	140,312	1,656,669	1,796,981
As at 31 December 2020	2,249,457,213	140,312	1,656,669	1,796,981

Notes:

- (a) 210,000 shares were purchased in late 2018 and cancelled in early 2019.
- (b) 6,567,000 shares purchased in 2019 from the market were cancelled during 2019.

29 Other reserves

	Merger reserve RMB'000 Note (a)	Shares held for share award scheme RMB'000 Note (d)	Statutory reserve RMB'000 Note (b)	Capital reserve RMB'000 Note (c)	Capital contribution reserve RMB'000	Equity- settled share- based compensation RMB'000	Financial assets at FVOCI RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2019	(8,938)	(20,658)	196,356	196,764	23,377	10,248	–	19,322	416,471
Equity-settled share-based compensation									
– Value of employee services	–	–	–	–	–	7,944	–	–	7,944
Shares purchased for share award scheme	–	(18,840)	–	–	–	–	–	–	(18,840)
Revaluation	–	–	–	–	–	–	(9,446)	–	(9,446)
Exchange differences	–	–	–	–	–	–	–	17,388	17,388
Appropriation to statutory reserves	–	–	5,290	–	–	–	–	–	5,290
At 31 December 2019	(8,938)	(39,498)	201,646	196,764	23,377	18,192	(9,446)	36,710	418,807
Equity-settled share-based compensation									
– Value of employee services	–	–	–	–	–	8,823	–	–	8,823
Transaction with non- controlling interest	–	–	–	(3,308)	–	–	–	–	(3,308)
Shares purchased for share award scheme	–	(18,064)	–	–	–	–	–	–	(18,064)
Revaluation	–	–	–	–	–	–	(2,122)	–	(2,122)
Exchange differences	–	–	–	–	–	–	–	(18,277)	(18,277)
Appropriation to statutory reserves	–	–	15,451	–	–	–	–	–	15,451
At 31 December 2020	(8,938)	(57,562)	217,097	193,456	23,377	27,015	(11,568)	18,433	401,310

Notes to the Consolidated Financial Statements

29 Other reserves (Continued)

Notes:

(a) Merger reserve

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

(b) Statutory reserve

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

(c) Capital reserve

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

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

On 6 June 2018, a senior officer of the Company, contributed RMB4,500,000 to Cosmo Lady (TianJin) E-commerce Company Limited, a subsidiary of the Company, obtained 5% of share of this subsidiary. The excess of total equity of Cosmo Lady (TianJin) E-commerce Company Limited over the share capital with the amount of RMB3,974,000 has been recognized as capital reserve in the consolidated balance sheet.

On 31 December 2020, the senior officer mentioned above exchanged his 5% share of Cosmo Lady (TianJin) E-commerce Company Limited with 10% share of Ordinfen (Tianjin) Fashion Company Limited and Ordinfen (Shanghai) Corporate Management Consulting Co., Ltd, another two subsidiaries of the Company, and an amount of RMB3,308,000 has been recognized as capital reserve in the consolidated balance sheet.

(d) Shares held for share award scheme

The Share Award Scheme is managed by the Share Scheme Trustee. According to the Share Award Scheme approved by the Board on 28 June 2019, the Board may from time to time determine the maximum number of ordinary shares of the Company which may be purchased by the Share Scheme Trustee in the open market on the Stock Exchange.

As at 31 December 2020, the Share Scheme Trustee withheld 48,485,800 ordinary shares of the Company (2019: 26,511,000) with funds provided by the Company by way of contributions, for an aggregate consideration of approximately RMB57,562,000 (2019: RMB39,498,000), which had been deducted from shareholders' equity.

30 Equity-settled share-based compensation

(a) 2016 Share Award Scheme

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

No awards have been granted under the 2016 Share Award Scheme by the Group since its adoption and up to 31 December 2020. This scheme has been terminated on 22 December 2020.

(b) Employee Option Plan

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

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

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

The benefits of the share options granted under the Employee Option Plan has been replaced by the benefits of the shares to be granted under the 2019 Share Award Scheme as mentioned in Note 30(c). As such, the remaining share option balance of RMB5,614,000 as at 31 December 2020 continues to be amortised over its remaining period when the conditions as defined in the plan are fulfilled.

(c) 2019 Share Award Scheme

The Board of Directors has approved the adoption of the 2019 Share Award Scheme on 28 June 2019. The purpose of the Share Award Scheme is to recognize and motivate the contribution of the employees of the Group and help the Group in retaining its existing members of management and attracting new talents to join the Group. The benefits under the Share Award Scheme serves to replace the benefits under the Company's share option plan established and approved by the Board on 31 October 2017. The vesting of the awarded shares is conditional upon the achievement of certain performance targets determined by the Board.

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

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

As at 31 December 2020, the number of shares to be granted under the Share Award Scheme to participating employees is 35,310,200.

Notes to the Consolidated Financial Statements

30 Equity-settled share-based compensation (Continued)

(d) Expenses arising from share-based payment transactions

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
General and administrative expenses 2019 Share Award Scheme	4,361	5,018
Selling and marketing expenses 2019 Share Award Scheme	4,462	2,926
	8,823	7,944

31 Trade and notes payables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables		
– Due to third parties	469,754	440,928
– Due to related parties (Note 38(c))	143	19,714
	469,897	460,642
Notes payables	249,665	–
	719,562	460,642

As at 31 December 2020, trade payables of the Group are non-interest bearing, and their fair values approximate their carrying amounts due to their short maturities.

31 Trade and notes payables (Continued)

As at 31 December 2020, trade payables are denominated in RMB. The ageing analysis of trade payables based on invoice date, as at 31 December 2020 is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables		
– Within 30 days	187,983	76,738
– Over 30 days and within 60 days	69,689	50,898
– Over 60 days and within 90 days	97,634	150,834
– Over 90 days and within 180 days	111,152	130,202
– Over 180 days and within 360 days	3,191	47,521
– Over 360 days	248	4,449
	469,897	460,642

32 Accruals and other payables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Payables for purchases of property, plant and equipment and intangible assets	35,031	17,734
Salaries and welfare payables	41,018	47,566
Accrued taxes other than income tax	8,462	4,271
Deposits from franchisees	79,665	53,658
Payable for logistics	40,885	40,480
Payable for advertisements	9,321	11,404
Provision for sales return	930	2,064
Deposit received for proposed disposal of financial assets at FVPL	–	100,000
Other accrued expenses and payables	105,795	93,115
	321,107	370,292

As at 31 December 2020, accruals and other payables of the Group are non-interest bearing, and their fair values, except for the provision for sales return and receipts in advance from customers which are not financial liabilities, approximate their carrying amounts due to their short maturities.

As at 31 December 2020, accruals and other payables of the Group are denominated in RMB.

Notes to the Consolidated Financial Statements

33 Borrowings

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current		
Secured bank borrowing (Note)	339,077	189,990
Unsecured bank borrowing	–	115,200
	339,077	305,190
Current		
Secured bank borrowing (Note)	190,300	–
Unsecured bank borrowing	8,374	150,000
	198,674	150,000
	537,751	455,190

Movements in borrowings are analysed as follows:

	RMB'000
Opening amount as at 1 January 2020	455,190
Repayments of bank borrowings	(186,723)
Proceeds from bank borrowings	269,284
Closing amount as at 31 December 2020	537,751

Note: The amount represents the bank borrowings that are secured by the Group's certain buildings and land use rights of approximately RMB483,071,000 (2019: RMB360,590,000).

The fair values of the non-current borrowings approximate their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.11% (2019: 6.46%) and are within level 2 of the fair value hierarchy.

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

34 Deferred income

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current	829	1,095
Current	267	436
	1,096	1,531

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

35 Notes to consolidated statement of cash flows

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Loss before income tax	(126,929)	(1,406,538)
Adjustments for:		
Depreciation of property, plant and equipment (Note 17)	93,986	97,073
Amortization of right-of-use assets (Note 18)	357,717	136,571
Amortization of intangible assets (Note 19)	7,581	7,607
Provision for impairment of other receivables (Note 12)	2,906	24,283
Provision for impairment of trade receivables (Note 12)	12,983	68,665
Waiving of trade receivables (Note 12)	–	326,602
Provision for inventories (Note 24)	65,362	737,912
Impairment of property, plant and equipment and right of use assets (Note 17)	28,031	23,071
Fair value losses on financial assets at FVPL (Note 8)	6,927	2,334
Finance income (Note 13)	(4,743)	(9,947)
Finance expense (Note 13)	55,434	30,287
Foreign exchange (gains)/losses (Note 8)	(13,838)	2,445
Equity-settled share-based compensation (Note 30)	8,823	7,944
Share of profit of equity investments (Note 20)	(8,934)	(2,995)
Investment income from financial assets at FVPL (Note 7)	(1,297)	(157)
Dividends from financial assets at FVOCI (Note 7)	(18,057)	–
(Gain)/loss on disposal of property, plant and equipment – net (Note 8)	(346)	2,522
Loss on disposal of intangible assets – net (Note 8)	400	4,137
	466,006	51,816
Changes in working capital:		
(Increase)/decrease in trade and notes receivables	(39,029)	154,249
Decrease in deposits, prepayments and other receivables	98,523	75,323
Increase in inventories	(179,247)	(252,824)
Increase/(decrease) in trade and notes payables	258,920	(250,463)
Increase in accruals and other payables	61,269	4,149
(Decrease)/increase in contract liabilities	(72,414)	47,912
Decrease in deferred income	(435)	(13,914)
	593,593	(183,752)
Cash generated from/(used in) operations	593,593	(183,752)

Notes to the Consolidated Financial Statements

35 Notes to consolidated statement of cash flows (Continued)

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net book amount of property, plant and equipment (<i>Note 17</i>)	3,340	4,241
Loss on disposal of property, plant and equipment – net (<i>Note 8</i>)	346	(2,522)
Proceeds from disposal of property, plant and equipment	3,686	1,719

(c) Reconciliation for net (debt)/cash after lease liabilities

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash	714,569	854,794
Liquid investment (<i>Note</i>)	4,623	8,822
Bank borrowings	(537,751)	(455,190)
Cash and liquid investment less bank borrowings	181,441	408,426
Lease liabilities	(430,289)	(365,027)
Net (debt)/cash after lease liabilities	(248,848)	43,399
Cash and liquid investment	719,192	863,616
Gross debt including lease liabilities		
– fixed interest rates	(438,663)	(555,017)
– variable interest rates	(529,377)	(265,200)
Net (debt)/cash after lease liabilities	(248,848)	43,399

35 Notes to consolidated statement of cash flows (Continued)

(c) Reconciliation for net (debt)/cash after lease liabilities (Continued)

	Other assets			Liabilities from financing activities		Total RMB'000
	Cash and cash equivalents	Term deposits	Liquid investment	Leases	Borrowings	
	RMB'000	RMB'000	(Note) RMB'000	RMB'000	RMB'000	
Net cash after lease liabilities as at 1 January 2019	1,496,163	630	7,885	(152,132)	(183,960)	1,168,586
Cash flows	(657,127)	–	–	218,115	(271,230)	(710,242)
Foreign exchange adjustments	15,128	–	–	–	–	15,128
Other non-cash movements	–	–	937	(431,010)	–	(430,073)
Net cash after lease liabilities as at 31 December 2019	854,164	630	8,822	(365,027)	(455,190)	43,399
Net cash after lease liabilities as at 1 January 2020	854,164	630	8,822	(365,027)	(455,190)	43,399
Cash flows	(134,846)	(630)	–	338,487	(82,561)	120,450
Foreign exchange adjustments	(4,749)	–	–	–	–	(4,749)
Other non-cash movements	–	–	(4,199)	(403,749)	–	(407,948)
Net debt after lease liabilities as at 31 December 2020	714,569	–	4,623	(430,289)	(537,751)	(248,848)

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

Notes to the Consolidated Financial Statements

36 Balance sheet and reserves of the Company

Balance sheet of the Company

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
Non-current assets		
Interests in subsidiaries <i>(Note (a))</i>	1,157,133	1,192,036
Current assets		
Other receivables	368	483
Amounts due from a subsidiary <i>(Note (b))</i>	420,731	472,865
Financial asset at fair value through profit or loss	4,623	8,822
Bank balances and cash	109,097	155,433
	534,819	637,603
Total assets	1,691,952	1,829,639
Equity		
Capital and reserves		
Share capital <i>(Note 28)</i>	140,312	140,312
Share premium <i>(Note 28)</i>	1,656,669	1,656,669
Other reserves	82,359	199,186
Accumulated losses	(193,379)	(175,051)
Total equity	1,685,961	1,821,116
Liabilities		
Current liabilities		
Accruals and other payables	5,991	8,523
Total liabilities	5,991	8,523
Total equity and liabilities	1,691,952	1,829,639

Zheng Yaonan
Director

Zhang Shengfeng
Director

36 Balance sheet and reserves of the Company (Continued)

Accumulated losses of the Company

	RMB'000
At 1 January 2019	(167,996)
Loss for the year	(7,055)
At 31 December 2019	(175,051)
Loss for the year	(18,328)
At 31 December 2020	(193,379)

Other reserves of the Company

	Shares held for share award scheme RMB'000	Capital contribution reserve RMB'000	Equity- settled share-based compensation RMB'000	Exchange reserve RMB'000	Total other reserves RMB'000
At 1 January 2019	(20,658)	18,429	9,589	162,556	169,916
Value of employee services	–	–	7,944	–	7,944
Shares purchased for share award scheme	(18,840)	–	–	–	(18,840)
Currency translation differences	–	–	–	40,166	40,166
At 31 December 2019	(39,498)	18,429	17,533	202,722	199,186
Value of employee services	–	–	8,823	–	8,823
Shares purchased for share award scheme	(18,064)	–	–	–	(18,064)
Currency translation differences	–	–	–	(107,586)	(107,586)
At 31 December 2020	(57,562)	18,429	26,356	95,136	82,359

Notes to the Consolidated Financial Statements

36 Balance sheet and reserves of the Company (Continued)

Other reserves of the Company (Continued)

Notes:

(a) Interests in subsidiaries

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital contribution relating to share-based payment	42,964	33,857
Loans to subsidiaries	1,114,169	1,158,179
	1,157,133	1,192,036

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

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

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

37 Commitments

As at 31 December 2020, the Group had the following capital commitments not provided for:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contracted but not provided for:		
Property, plant and equipment	14,795	96,584
Intangible assets	1,632	2,182
Investment in joint ventures	33,983	–
	50,410	98,766

38 Related party transactions

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

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and the balances arising from related party transactions as at 31 December 2020.

(a) Name and relationship with related parties

	Relationship with the Group
Mr. Zhang Shengfeng	Director
Mr. Lin Zonghong	Director
Shantou City Shengqiang Knitting Industrial Co., Ltd. ("Shantou Shengqiang")	Controlled by a brother of Mr. Zhang Shengfeng's spouse
Shantou City Maosheng Knitting Underwear Co., Ltd. ("Shantou Maosheng")	Controlled by a brother of Mr. Lin Zonghong
Cosmo Lady Guangdong Intelligent Industry Investment Co., Ltd. ("CLGIII")	Controlled by Mr. Zheng Yaonan
Shantou Lianxin Detection Company Limited	Joint venture

(b) Transactions with related parties – purchases of goods

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Continuing transactions:		
Shantou Shengqiang	15,681	30,208
Shantou Maosheng	1,470	1,818
	17,151	32,026

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

Notes to the Consolidated Financial Statements

38 Related party transactions (Continued)

(c) Balance with related party

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables balance (Note 31):		
Shantou Shengqiang	–	19,714
Shantou Maosheng	143	–
Prepayment:		
Shantou Shengqiang	191	–

The trade payables to related party were unsecured, non-interest bearing, repayable on demand and denominated in RMB.

(d) Key management compensation

The remuneration of directors of the Company and other members of key management of the Group is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	15,930	16,429
Pension costs – defined contribution plans	1,112	876
Equity-settled share-based compensation	2,149	3,266
	19,191	20,571

39 Particulars of the subsidiaries, associate and joint ventures of the Group

(a) Particulars of the subsidiaries of the Group as at 31 December 2020 are set out below:

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Directly held:					
Cosmo Lady (International) Holdings Company Limited	BVI	1 share of US\$1	100%	100%	Investment holding/ Hong Kong
Indirectly held:					
Cosmo Lady Guangdong Holdings Limited	PRC	RMB420,000,000	100%	100%	Sale of intimate wear/ PRC
Beijing Ziseyangguang Sale Co., Ltd.	PRC	RMB1,000,000	100%	100%	Sale of intimate wear/ PRC
Shenzhen Sisters Fashion Co., Ltd	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady Fashion (Guangzhou) Co., Ltd	PRC	RMB2,000,000	100%	100%	Sale of intimate wear/ PRC
Tianjin Dushifengshang Fashion Co., Ltd.	PRC	RMB30,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Chongqing) Co., Ltd	PRC	RMB20,000,000	100%	100%	Sale of intimate wear/ PRC
Fanxue Fashion (Shanghai) Co., Ltd	PRC	RMB3,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (TianJin) E-commerce Company Limited	PRC	RMB10,000,000	100%	95%	Sale of intimate wear/ PRC
Freeday (Tianjin) Fashion Company Limited	PRC	RMB15,000,000	100%	100%	Sale of intimate wear/ PRC
Ordinfen (Tianjin) Fashion Company Limited	PRC	RMB100,000,000	90%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Guang Dong) Technology Company Limited	PRC	RMB3,000,000	100%	100%	Sale of raw material/ PRC
Guangdong Cosmo Logistics Technology Company Limited	PRC	RMB45,000,000	80%	80%	Logistics warehousing and distribution services/PRC

Notes to the Consolidated Financial Statements

39 Particulars of the subsidiaries, associate and joint ventures of the Group (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2020 are set out below (Continued):

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Cosmo Lady (International) Company Limited	Hong Kong	10,000 shares of HK\$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Holdings Company Limited	Hong Kong	10,000 shares of HK\$1	100%	100%	Investment holding/ Hong Kong
Freeday (Hong Kong) Holdings Company Limited	Hong Kong	1 share of HK\$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Hong Kong) Holdings Company Limited	Hong Kong	1 share of HK\$1	100%	100%	Investment holding/ Hong Kong
Cosmo Lady (Hong Kong) Industrial Company Limited	Hong Kong	1 share of HK\$1	100%	100%	Investment holding/ Hong Kong
Ordifen (Shanghai) Corporate Management Consulting Co., Ltd	PRC	HK\$10,000,000	90%	100%	Corporate consulting/ PRC
Guangdong Qipao Living Goods Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Dongguan Jiali Intelligence Technology Goods Company Limited	PRC	RMB8,000,000	60%	60%	Sale of intimate wear/ PRC
Dongguan Liruiyao Textile Company Limited	PRC	RMB10,000,000	51%	51%	Sale of intimate wear/ PRC
Dongguan Cosmo Lady Sales Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Shenzhen Yueshang IT Company Limited	PRC	RMB5,000,000	100%	100%	Sale of intimate wear/ PRC
Cosmo Lady (Dongguan) E-commerce Company Limited	PRC	RMB5,000,000	100%	100%	Sale of intimate wear/ PRC

39 Particulars of the subsidiaries, associate and joint ventures of the Group (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2020 are set out below (Continued):

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Shenzhen Dushi Fashion Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Shangyue (Tianjin) Fashion Company Limited	PRC	RMB20,000,000	75%	75%	Sale of intimate wear/ PRC
Dongguan Yimaotong Supply Chain Management Company Limited	PRC	RMB10,000,000	100%	100%	Sale of raw material/ PRC
Shenzhen Yimaotong Supply Chain Management Company Limited	PRC	RMB10,000,000	100%	100%	Sale of raw material/ PRC
Dongguan Kejiayi Textile Company Limited	PRC	RMB10,000,000	51%	51%	Sale of raw material/ PRC
Dongguan Dushi Hengfeng Sales Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Dongguan Dushi Hengyao Sales Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Dongguan Dushi Hongfeng Sales Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Dongguan Dushi Yaoli Sales Company Limited	PRC	RMB10,000,000	100%	100%	Sale of intimate wear/ PRC
Shaoguan Dongdu Property Management Company Limited	PRC	RMB5,000,000	100%	100%	Property management services/PRC
Shaoguan Dushi Feiteng Logistics Company Limited	PRC	RMB2,000,000	100%	100%	Logistics warehousing and distribution services/PRC

Notes to the Consolidated Financial Statements

39 Particulars of the subsidiaries, associate and joint ventures of the Group (Continued)

(a) Particulars of the subsidiaries of the Group as at 31 December 2020 are set out below (Continued):

Company name	Place of incorporation	Paid-in capital/ registered capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Dongguan Lishe Brand Management Company Limited	PRC	RMB1,000,000	60%		– Brand management services/PRC
Lice Technology (Shanghai) Company Limited	PRC	RMB5,000,000	51%		– Computer technology services/PRC
Tianjin Yuemu E-commerce Company Limited	PRC	RMB1,000,000	100%		– Sale of intimate wear/ PRC
Shenzhen Ordifen Information Technology Service Company Limited	PRC	RMB10,000,000	100%		– Computer technology services/PRC

(b) Particulars of the associate of the Group as at 31 December 2020 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Zhong Rui Run He (Ningbo) Investment Management Company Limited	PRC	RMB10,000,000	40%	40%	Investment management/PRC

39 Particulars of the subsidiaries, associate and joint ventures of the Group (Continued)

(c) Particulars of the joint ventures of the Group as at 31 December 2020 is set out below:

Company name	Place of incorporation	Paid-in capital	Interests held by the Group		Principal activities/ place of operation
			2020	2019	
Guangdong Dongdu Holdings Limited	PRC	RMB110,000,000	19.9%	19.9%	Real estate development/PRC
Jinghedu (Dongguan) Equity Investment Management Company Limited	PRC	RMB10,000,000	60%	60%	Investment management/PRC
Jinghedu (Dongguan) Equity Investment Fund Partnership (Limited Partnership)	PRC	RMB625,000,000	38.72%	38.72%	Investment management/PRC
Jinghedu (Dongguan) Equity Investment Management Partnership (Limited Partnership)	PRC	RMB10,000,000	30%	30%	Investment management/PRC
Shantou Lianda Technology Company Limited	PRC	RMB10,000,000	19.99%	19.99%	Manufacturing and sales of intimate wear/PRC
Shantou Lianxin Inspection Company Limited	PRC	RMB5,000,000	19.99%	–	Textile inspection of intimate wear/PRC

The English names of the PRC companies referred to the above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out as follows:

	Year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	3,057,491	4,081,885	5,096,453	4,542,483	4,512,385
Gross profit	1,490,780	922,586	2,123,564	1,964,523	2,002,037
Gross profit margin	48.8%	22.6%	41.7%	43.2%	44.4%
Operating (loss)/profit	(85,172)	(1,389,193)	483,978	419,565	305,449
Operating (loss)/profit margin	-2.8%	-34.0%	9.5%	9.2%	6.8%
(Loss)/profit attributable to owners of the Company	(118,095)	(1,297,812)	378,229	317,002	241,961
Net (loss)/profit margin	-3.8%	-31.8%	7.4%	7.0%	5.4%

	As of 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Bank balances and cash	980,913	854,794	1,506,018	1,515,140	809,178
Borrowings	537,751	455,190	183,960	223,080	200,000
Non-current assets	1,839,859	1,826,313	1,121,244	807,084	760,100
Current assets	2,655,552	2,513,726	4,294,956	3,729,410	3,019,286
Non-current liabilities	556,654	473,235	13,734	228,129	201,601
Current liabilities	1,531,110	1,314,192	1,339,861	952,252	883,956
Net current assets	1,124,442	1,199,534	2,955,095	2,777,158	2,135,330
Total assets	4,495,411	4,340,039	5,416,200	4,536,494	3,779,386
Total liabilities	2,087,764	1,787,427	1,353,595	1,180,381	1,085,557
Total equity	2,407,647	2,552,612	4,062,605	3,356,113	2,693,829

	2020	2019	2018	2017	2016
Current ratio (times)	2	2	3	4	3
Average inventory turnover period (days)	172	107	140	160	142
Average trade receivables turnover period (days)	35	49	49	40	39
Average trade payables turnover period (days)	137	68	80	81	76