

GXG

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BETTER ME

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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1817

ANNUAL REPORT 2020

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BETTER ME

CORPORATE INTRODUCTION

Mulsanne Group Holding Limited (the “**Company**”, “**Mulsanne**” or “**We**”, together with its subsidiaries, the “**Group**” or “**Mulsanne Group**”) is a leading fashion menswear company based in China, which also covers sportswear market and other fashion segments. With our experience in the fashion industry, multi-brand development and execution capabilities, we have expanded our brands to capture future market opportunities. Our founders first launched our flagship GXG branded products in 2007, and we catered to different menswear styles by introducing gxg jeans in 2010 and brought our GXG series design philosophy into kidswear market by launching gxg.kids in 2012. With a view to expanding into the fast-growing sportswear, we introduced YAtlas in 2014 to offer athleisure apparel. Since early 2020, YAtlas has shifted its business focus from athleisure to high-end commuting smart menswear. In 2020, we launched Free Volt, a casual wear brand that is sports-styled and lifestyle-friendly, and MODE COMMUTER, a high-quality commuting apparel brand, which helped strengthen the brand portfolio of our Group. Both brands cover menswear and womenswear, further expanding our customer base. Each of our brands has a uniquely defined design identity and encompasses a range of products, offered in a variety of fits, fabrics, finishes, styles and price points intended to appeal a broad spectrum of customers.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. YU Yong (*Chief Executive Officer*)

Non-Executive Directors

Mr. HUANG Hanji (*Chairman*)

Mr. YANG Herong

Mr. LIN Lin

Mr. WANG Jun

Mr. Ravinder Singh THAKRAN⁽¹⁾

Mr. Chintamani Aniruddha BHAGAT⁽²⁾

Mr. CHEN Scott Yue⁽³⁾

Independent Non-Executive Directors

Mr. GU Jiong

Mr. YUAN Tao

Mr. Paolo BODO

AUDIT COMMITTEE

Mr. GU Jiong (*Chairman*)

Mr. YUAN Tao

Mr. Paolo BODO

REMUNERATION COMMITTEE

Mr. GU Jiong (*Chairman*)

Mr. YUAN Tao

Mr. Paolo BODO

Mr. YANG Herong

Mr. LIN Lin

NOMINATION COMMITTEE

Mr. HUANG Hanji (*Chairman*)

Mr. GU Jiong

Mr. YUAN Tao

JOINT COMPANY SECRETARIES

Mr. DING Dade

Ms. NG Sau Mei (*FCC, FCS*)

AUTHORIZED REPRESENTATIVES

Mr. YU Yong

Ms. NG Sau Mei

AUDITOR

Ernst & Young

Certified Public Accountants and

Registered Public Interest Entity Auditor

REGISTERED OFFICE

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HEADQUARTERS

No. 111, Shanshan Road

Wangchun Industrial Park

Haishu District

Ningbo, Zhejiang Province

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F., Tower Two, Times Square

1 Matheson Street

Causeway Bay

Hong Kong

THE CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

PRINCIPAL BANKS

China Construction Bank Corporation

Industrial and Commercial Bank of China Limited

STOCK CODE

1817

COMPANY'S WEBSITE

www.gxggroup.cn

Notes:

- (1) Mr. Ravinder Singh THAKRAN resigned as a non-executive Director on 22 May 2020.
- (2) Mr. Chintamani Aniruddha BHAGAT was appointed as a non-executive Director on 2 July 2020 and resigned on 26 March 2021.
- (3) Mr. CHEN Scott Yue was appointed as a non-executive Director on 26 March 2021.

CHAIRMAN'S STATEMENT



The Group will keep developing at a steady pace to continuously maximise returns to our shareholders and deliver products and services of higher quality to our loyal customers.

In early 2020, the outbreak of the novel coronavirus (“COVID-19”) pandemic brought unprecedented challenges to both the Chinese government and its people. Measures such as city lockdowns and home isolation during the Chinese New Year hit the Chinese economy, in particular offline retail consumption. Stores of the Company chose temporary closure in response to the endeavors and call of the government to counter the pandemic. As a result, the offline performance of the Company recorded a significant decline in the first half of the year. However, with the restrained pandemic and enhanced consumption confidence, together with a series of optimization policies, the Company experienced a performance turnaround in the second half of the year, with an increase in average store sales as compared with the same period in 2019.

The pandemic brought risks to Chinese apparel companies, but opportunities to the e-commerce economy with accelerated development. The Group benefited from its multi-brand and internationalisation strategy and its apparent strength in online channels. Amid the severe pandemic and sluggish consumption environment, by virtue of the big-data-oriented new retail marketing model, and with the joint efforts of its staff, the e-commerce channel sales of the Company accounted for more than 50% for the first time, representing a steady year-on-year increase of 5%. The Group recorded a revenue of RMB2,861 million.

Mulsanne Group has recently successfully realized the upgrade of talents, products, and markets. As at 31 December 2020, the cash flow of the Company remained abundant, with cash and cash equivalents of approximately RMB772 million, and a significant growth in operating cash flow of RMB199 million to RMB247 million

CHAIRMAN'S STATEMENT



as compared with the same period last year, which was sufficient to support the Company's subsequent high-quality development. Meanwhile, the inventory of the Group as at the end of the period decreased by approximately RMB265 million as compared with the same period last year (representing a year-on-year decrease of approximately 24.7%). During the closure of offline stores, destocking through discount sales on e-commerce Mini Programs was effective and contributed to satisfactory sales.

The Group continued to practise its development strategy of multi-brand and internationalisation, actively sought cooperation with fashion IP brands and penetrated into market segments. The Company launched jointly-developed products with nearly 20 IPs, including Keith Haring, IN NOM UH NIT, Diego Occhino, Takashi Kumagai, KktP, Coolrain LABO, BLUNDLUND, PEANUTS, Études, The Smurfs, Chinese comics Outcas, TikTok Creative Culture, PAC-MAN, Godzilla, 7UP, MEIHUA, BEYOND CLOSET, SNOOPY, Gaspard et Lisa, Jason Freeny etc. and launched the first super self-developed IP "Youth Down Maker". Meanwhile, we also enhanced the bond with and the loyalty of followers. During the year, we launched Free Volt, a casual wear brand that is sports-styled and lifestyle-friendly, and MODE COMMUTER, a high-quality commuting apparel brand, which helped strengthen the brand portfolio of the Group. Both brands cover menswear and womenswear, further expanding our customer base. At this point, Mulsanne Group owns six brands including GXG, gxg jeans, gxg kids, YAtlas, Free Volt and MODE COMMUTER. Mulsanne is on the way to become a fashion group which continuously enriches its product offerings to cater to the dressing needs of different consumer groups in various occasions.

Looking ahead, Mulsanne remains confident in its future as a leading fashion company in China. We will proactively expand new and innovative online sales channels, such as TikTok and WeChat Mini Programs, while continuously enhance the Group's competitive edge in traditional online channels such as Tmall, Taobao and VIPshop. Offline stores that are under-performing or incurring losses will be closed to optimise the structure of offline sales channels and uplift the sales density. We develop new product portfolio and brand metric through multi-brand strategy in order to further integrate online new retail channels with offline ones and the supply chain system and optimise the organisational structure in ways that enhance the Group's operational efficiency and improve member's experience and attract more followers.

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

HUANG Hanji

Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS OVERVIEW AND OUTLOOK

In 2020, China's apparel industry suffered a significant blow as a result of the COVID-19 pandemic. The Group's business for the year of 2020, particularly its offline retail channels, was also affected. However, as the Chinese government has put in place a number of policies to support its citizens and businesses, the Group believes that the public's spending power will gradually pick back up and that its performance in 2021 will recover. Moreover, benefiting from its multi-brand strategy and its strength in online sales channel to well adapt to the accelerated change of customer shopping behavior from offline to online during and after the COVID-19 pandemic, the Group remains confident towards its future as a leading fashion company in China. To help develop the fashion apparel industry in China, the Group is committed to implementing the following growth strategies:

- Proactively expand new and innovative online sales channels, such as TikTok and WeChat Mini Programs, while continuously enhancing the Group's competitive edge in traditional online channels such as Tmall, Taobao and Vipshop, to better adapt to the accelerated change of customers' shopping behavior from offline channels to online channels during and after the COVID-19 pandemic and enhance customer loyalty;
- Close offline stores that are under-performing or incurring losses to optimize the structure of offline sales channels, and position offline stores as the channel to display brand image, enhance customer experience and attract offline customers to online sales channels to further integrate online channels with offline ones. In the second half of 2020, the operation of the Group's offline channels had been gradually resumed to a level comparable to that in the same period in 2019 as a result of the improved situation of the COVID-19 pandemic in China. Through abovementioned effective consolidation, the Group's average store sales increased in the second half of 2020 as compared to that in the same period in 2019;
- Develop new product portfolio and brand metric through multi-brand strategy in order to further integrate online sales channels with offline sales channels and adjust existing brand strategy as well as launch new product lines to address market needs;

MANAGEMENT DISCUSSION AND ANALYSIS

- Attract more followers by introducing continuous innovative marketing measures and big data analysis, and enhance members' experience through new retail technology and advantages;
- Further develop its leading supply chain system, improve its ability to serve its customers, and satisfy customers' needs by providing products and services in high quality; and
- Improve operational efficiency by optimizing organization structure and business model in order to respond to the market in a faster manner.

REVENUE

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

For the year ended 31 December 2020 (the "Period"), the total sales revenue recorded was RMB2,861.5 million, representing a decrease of 23.1%, or RMB859.9 million, from RMB3,721.4 million in 2019. Such decrease was primarily because the Group's revenue from offline retail channels suffered a significant decrease as a result of the COVID-19 pandemic in 2020.

Revenue by brand

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
GXG	2,106,142	73.6	2,355,606	63.3
gxg jeans	444,512	15.5	649,571	17.5
gxg.kids	212,385	7.4	598,135	16.1
Yatlas	30,392	1.1	60,467	1.6
2XU	17,007	0.6	15,939	0.4
Others	51,058	1.8	41,658	1.1
Total	2,861,496	100.0	3,721,376	100.0

For the Period, sales revenue from the Group's main brands, namely GXG, gxg jeans and gxg.kids, declined by 10.6%, or RMB249.5 million, 31.6%, or RMB205.1 million, and 64.5%, or RMB385.7 million, respectively, as compared to that in 2019. Such decreases were primarily due to (i) a significant decrease in the number of offline stores as a result of the Group's closure of offline stores that were under-performing or incurring losses, and (ii) a relatively higher discount rates provided for the promotion of products among all brands in order to better respond to the significant impact of the COVID-19 pandemic.



MANAGEMENT DISCUSSION AND ANALYSIS

Yatlas's revenue for the Period decreased by 49.8%, or RMB30.1 million, as compared to that in 2019, mainly due to the Group's adjustment of brand positioning by reducing the number of stores to enhance store efficiency. Due to an increase in e-commerce sales and new product development, all of the sales of 2XU and other brands increased during the Period.

Revenue by sales channel

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Sales of apparel products				
Offline channels				
Self-owned stores	750,731	26.2	921,229	24.8
Partnership stores	167,836	5.9	334,315	9.0
Distributor stores	422,306	14.8	1,027,084	27.6
Online channels	1,497,305	52.3	1,425,806	38.3
Sales of other products	7,731	0.3	12,942	0.3
Consignment services	15,587	0.5	–	–
Total	2,861,496	100.0	3,721,376	100.0

Due to the closure of offline stores as a result of the significant impact of COVID-19 pandemic and an increase in the Group's subsidies to partnership stores and distributor stores, (i) sales from self-owned stores for the Period decreased by 18.5%, or RMB170.5 million, to RMB750.7 million; (ii) sales from partnership stores for the Period decreased by 49.8%, or RMB166.5 million, to RMB167.8 million; and (iii) sales from distributor stores for the Period decreased by 58.9%, or RMB604.8 million, to RMB422.3 million, as compared to that in 2019.

Online channel sales for the Period maintained healthy growth with an increase of 5.0%, or RMB71.5 million, to RMB1,497.3 million as compared to that in 2019. Due to (i) the accelerated change of customer shopping behavior from offline to online, and (ii) the Group's enhanced promotion efforts through additional online sales channels, including TikTok and WeChat Mini Programs, during the COVID-19 pandemic, online channel sales was ranked first with 52.3% in terms of the Group's revenue composition for the Period.

The Group recorded revenue from consignment services of RMB15.6 million for the Period. The Group started to provide consignment services to its distributor for gxg.kids in 2020, which were primarily in relation to the sales and promotion of low-margin off-season products held by such distributor through the Group's e-commerce platform.

MANAGEMENT DISCUSSION AND ANALYSIS

Number of stores by brand

	As at 31 December			
	2020		2019	
	<i>Number of stores</i>	%	<i>Number of stores</i>	%
GXG	999	77.0	1,118	64.4
gxg jeans	183	14.1	336	19.3
gxg.kids	97	7.5	249	14.3
Yatlas	7	0.5	29	1.7
Others	11	0.9	5	0.3
Total	1,297	100.0	1,737	100.0

During the Period, the Group closed offline stores that were under-performing or incurring losses in order to better adapt to the changed market environment under the COVID-19 pandemic. As a result, the total number of offline stores decreased to 1,297 as at 31 December 2020 from 1,737 as at 31 December 2019.

Number of stores by channel

	As at 31 December			
	2020		2019	
	<i>Number of stores</i>	%	<i>Number of stores</i>	%
Self-owned stores	385	29.7	387	22.3
Partnership stores	171	13.2	345	19.9
Distributor stores	741	57.1	1,005	57.8
Total	1,297	100.0	1,737	100.0

Due to the relocation of shopping areas in offline channels, market factors such as the increase in store operating cost, the upgrade and consolidation of its offline channels and the significant impact of COVID-19 pandemic, the Group adjusted its store network during the Period by closing its offline stores that failed to reach designated sales targets, causing a decrease in the number of offline stores from 1,737 as at 31 December 2019 to 1,297 as at 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group recorded a total gross profit of RMB1,224.7 million for the Period, representing a decrease of 31.9%, or RMB574.0 million, from RMB1,798.7 million in 2019. Gross profit margin decreased from 48.3% for 2019 to 42.8% for the Period.

Gross profit and gross profit margin by brand

	Year ended 31 December			
	2020		2019	
	Gross Profit <i>RMB'000</i>	Gross Profit Margin %	Gross Profit <i>RMB'000</i>	Gross Profit Margin %
GXG	942,940	44.8	1,204,009	51.1
gxc jeans	165,161	37.2	297,476	45.8
gxc.kids	90,600	42.7	253,862	42.4
Yatlas	5,283	17.4	22,885	37.8
2XU	5,694	33.5	6,431	40.3
Others	14,977	29.3	14,072	33.8
Total	1,224,655	42.8	1,798,735	48.3

During the Period, in response to the significant impact of COVID-19 pandemic, the Group provided higher discount rates to promote products among all brands and higher subsidies to its distributors and partners, which caused a decline in the gross profit margin of most of its brands.

Gross profit and gross profit margin by sales channel

	Year ended 31 December			
	2020		2019	
	Gross Profit <i>RMB'000</i>	Gross Profit Margin %	Gross Profit <i>RMB'000</i>	Gross Profit Margin %
Sales of apparel products				
Offline channels				
Self-owned stores	498,707	66.4	603,427	65.5
Partnership stores	53,557	31.9	150,518	45.0
Distributor stores	189,434	44.9	476,611	46.4
Online channels	480,277	32.1	567,296	39.8
Sales of other products	401	5.2	883	6.8
Consignment services	2,279	14.6	–	–
Total	1,224,655	42.8	1,798,735	48.3

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit of self-owned stores for the Period decreased by RMB104.7 million as compared to that in 2019 primarily due to the closure of offline stores as a result of the significant impact of COVID-19 pandemic, while gross profit margin remained relatively stable at 66.4% for the Period as compared to 65.5% in 2019. Gross profit of partnership stores for the Period decreased by RMB96.9 million with gross profit margin decreasing by 13.1 percentage points to 31.9% as compared to that in 2019. The decreases in gross profit and gross profit margin of partnership stores during the Period were mainly due to the higher subsidies the Group provided to such stores in response to the significant impact of COVID-19 pandemic on the Group's offline retail channels. The gross profit of distributor stores for the Period decreased by RMB287.2 million as compared to that in 2019, mainly because (i) a portion of the Group's gross profit in 2019 was a result of a one-time buyout from an offline national distributor, which entailed a relatively higher gross profit; and (ii) the higher subsidies were provided by the Group to distributor stores in response to the significant impact of COVID-19 pandemic on the Group's offline retail channels. Gross profit margin of distributor stores decreased by 1.5 percentage points to 44.9% as compared to that in 2019, mainly due to the higher subsidies the Group provided to such stores in response to the significant impact of COVID-19 pandemic on the Group's offline retail channels.

Gross profit of online channels for the Period decreased by RMB87.0 million with gross profit margin decreasing by 7.7 percentage points as compared to that in 2019. This was due to the Group's active participation in promotional activities, which included the offering of higher discount rates on e-commerce platforms in order to maintain its influence on those platforms.

Gross profit of consignment services for the Period was RMB2.3 million with gross profit margin of 14.6%. The Group started to provide consignment services to its distributor for gxg.kids in 2020, which were primarily in relation to the sales and promotion of low-margin off-season products held by such distributor through the Group's e-commerce platform.

OTHER INCOME AND GAINS

Other income and gains for the Period were RMB27.0 million, representing a decrease of 48.7%, or RMB25.6 million, as compared to RMB52.6 million in 2019, mainly due to the decreases in government subsidies and fair value gain on derivative financial instruments.

SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses for the Period decreased by 14.7%, or RMB167.2 million, to RMB973.9 million as compared to RMB1,141.1 million in 2019, primarily due to (i) the closure of offline stores that were under-performing or incurring losses, and (ii) the rent waivers granted to the Group's self-owned stores from the lessors. Selling and distribution expenses as a percentage of the Group's total revenue increased to 34.0% from 30.7% in 2019, mainly because the decrease in total revenue outpaced the decrease in selling and distribution expenses during the Period.

ADMINISTRATIVE EXPENSES

Total administrative expenses for the Period remained relatively stable at RMB225.1 million as compared to RMB229.7 million in 2019. Total administrative expenses as a percentage of the Group's total revenue increased to 7.9% from 6.2% in 2019, mainly because the decrease in total revenue outpaced the decrease in administrative expenses during the Period.

IMPAIRMENT LOSSES ON FINANCIAL ASSETS, NET

Impairment losses on financial assets, net, for the Period increased by RMB209.7 million to RMB264.5 million as compared to RMB54.8 million in 2019. This was mainly due to an increase in aged trade receivables and an increase in the related expected credit loss rates.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER EXPENSES

The Group's other expenses for the Period increased by 68.3%, or RMB9.5 million, to RMB23.4 million as compared to RMB13.9 million in 2019, mainly due to an increase in the (i) one-off expenses of residual value of store decoration caused by closing self-owned stores and (ii) cost of raw materials sold.

FINANCE COSTS

Finance costs for the Period decreased by 36.5%, or RMB32.5 million, to RMB56.5 million as compared to RMB89.0 million in 2019. The decrease was mainly due to a decrease in interest on bank loans.

LOSS BEFORE TAX

The Group's loss before tax for the Period was RMB291.3 million, representing a decrease of RMB614.2 million, from a profit before tax of RMB322.9 million in 2019. The decrease was mainly due to the decrease in gross profit.

INCOME TAX EXPENSE

Income tax expense for the Period was RMB7.9 million, representing a decrease of RMB106.8 million, as compared to the income tax expense of RMB114.7 million in 2019.

LOSS FOR THE PERIOD

As a result of the foregoing factors, loss for the Period was RMB299.2 million, representing a decrease of RMB507.4 million, as compared to a profit of RMB208.2 million in 2019.

OPERATING CASH FLOWS

Net operating cash inflow for the Period was RMB246.6 million, primarily due to the cash inflow from operating profit of RMB151.6 million and a decrease in working capital of RMB95.0 million. The Group's net operating cash inflow for the Period increased by RMB198.7 million as compared to a net operating cash inflow of RMB47.9 million in 2019, mainly due to its enhanced efforts in (i) promotion and sales of inventories, and (ii) payment collection with respect to trade receivables from customers.

CAPITAL EXPENDITURES

The Group's capital expenditures include payments for logistic base construction, property, plant and equipment and intangible assets. During the Period, the Group's capital expenditures amounted to RMB134.3 million, representing a decrease of 2.8%, or RMB3.8 million, from RMB138.1 million in 2019.

FINANCIAL POSITION

The Group generally funds its operations with bank borrowings. As at 31 December 2020, the Group had bank borrowings of RMB1,041.2 million. Bank borrowings were denominated in RMB and U.S. dollars as at 31 December 2019 and 2020. As at 31 December 2020, the Group did not have fixed-rate bank borrowings. For details, see note 24 of the "Notes to Financial Statements".

The Group's cash and cash equivalents and pledged short-term deposits totalled RMB784.7 million as at 31 December 2020, representing a decrease of 7.7%, or RMB65.7 million, from RMB850.4 million at the end of 2019. Cash and cash equivalents as at 31 December 2020 were RMB771.7 million, among which 85.2% was denominated in RMB, 14.6% in U.S. dollars, 0.1% in Hong Kong dollars, and 0.1% in Macau Pataca. Pledged short-term deposits as at 31 December 2020 were RMB13.0 million, all of which were denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

GEARING RATIO

The Group's gearing ratio is calculated by dividing the Group's total borrowings by the Group's total assets. As at 31 December 2020, the Group's gearing ratio was 32.3%.

SIGNIFICANT INVESTMENTS HELD

For the Period, the Group did not hold any significant investments.

FUNDING AND TREASURY POLICY

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

MATERIAL ACQUISITIONS AND FUTURE PLANS FOR MAJOR INVESTMENT

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group operates mainly in China with most of its transactions settled in Renminbi. However, the Group is exposed to foreign exchange risk arising mainly from debt denominated in the U.S. dollars. During the Period, the Group did not use any financial instrument for hedging purpose.

PLEDGE OF ASSETS

As at 31 December 2020, the Group's US\$226 million bank loans were secured by:

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

As at 31 December 2020, the Group's RMB26.1 million and RMB27.7 million bank loans were secured by mortgages over the Group's leasehold land.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no significant contingent liabilities.

EVENTS AFTER THE PERIOD

As at the date of this report, no material event has occurred after 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2020, the number of employees of the Group was 842 as compared to 811 as at 31 December 2019. In order to attract, retain and develop the knowledge, skills and quality of employees, the Group places a strong emphasis on training and development. The Group provides training periodically across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training. The Group also offers competitive remuneration packages which include salaries, bonuses and other benefits. In general, the Group determines employee salaries based on each employee's qualifications, experience, position and seniority. The total cost of staff, including basic salary and wages, social insurance and bonus, for the Period was RMB140.6 million as compared to RMB112.4 million in 2019. The total cost of staff for the Period represents 4.9% of the Group's revenue as compared to 3.0% in 2019. The increase was mainly because the Company granted the restricted share units, representing 11,900,000 ordinary shares of the Company, to certain selected employees pursuant to the restricted share unit scheme of the Company during the Period.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Director

Mr. YU Yong (余勇), aged 43, was appointed as an executive Director in August 2018. Mr. Yu is the Chief Executive Officer of the Group. He is principally responsible for formulating the development strategies and annual and investment plans, reviewing the financial budgeting and general policies and overseeing the capital operation of the Group. Mr. Yu concurrently holds various positions at subsidiaries of the Company, including the general manager of Ningbo Chisage Mulsanne E-commerce Co., Ltd. ("**Chisage Mulsanne E-commerce**"), a director and the general manager of each of Ningbo Chisage Mulsanne Holding Co., Ltd. ("**Chisage Mulsanne**") and Ningbo Mulsanne E-commerce Co., Ltd. ("**Mulsanne E-commerce**"), an executive director and manager of Ningbo Mulsanne Maisi Brand Management Co., Ltd., the chairman of the board of directors of TwoXu Sports (Ningbo) Co., Ltd. ("**TwoXu Sports**"), and an executive director and the general manager of Shanghai Yuexing Brand Management Co., Ltd.. He has over 20 years of business operation experience in the apparel manufacturing industry. From January 2001 to April 2002, Mr. Yu worked as a general manager at the Changchun branch of Ningbo Beyond Holding Group Co., Ltd. (寧波博洋控股集團有限公司), an apparel manufacturing company, where he managed its daily operations. He also served as the sales director at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877), from May 2002 to February 2007, during which he was responsible for overseeing the sales of apparel products. Since March 2007, Mr. Yu has been the Chief Executive Officer of the Group.

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

Non-executive Directors

Mr. HUANG Hanji (黃晗躋), aged 49, was appointed as a non-executive Director in October 2016 and as the chairman of the nomination committee of the Company (the "**Nomination Committee**") in April 2019. Mr. Huang is the chairman of the Board. He is principally responsible for coordinating board affairs and providing strategic advice on the business development and management of the Group. Mr. Huang is concurrently a director of each of Joy Sonic Limited ("**Joy Sonic**"), Alpha Sonic Ltd and Chisage Mulsanne. Mr. Huang once worked at Intel Capital, Affinity Equity Partners and D. E. Shaw & Co., Hong Kong. Since June 2010, he has been the Partner of L Catterton Asia Advisors ("**L Catterton**"), which is the Asian business of L Catterton Management Limited ("**LCML**"), a global, consumer-focused private equity firm. L Catterton Asia Advisors ("**LCAA**"), a subsidiary of LCML, is one of the Company's substantial shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")), and manages L Capital Asia 2 Pte. Ltd., one of the Company's controlling shareholders (as defined in the Listing Rules).

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. YANG Herong (楊和榮), aged 57, was appointed as a non-executive Director in August 2018 and as a member of the remuneration committee of the Company (the "**Remuneration Committee**") in April 2019. He is primarily responsible for providing strategic advice on the business development, operations and management of the Group. Mr. Yang is concurrently the chairman of the board of directors of each of Chisage Mulsanne, Chisage Mulsanne E-commerce and Mulsanne E-commerce, a director of Joy Sonic and an executive director of Yatlas Shanghai. Prior to founding the Group in March 2007, Mr. Yang worked at China Construction Bank Corporation (中國建設銀行股份有限公司), where he was the president of the Yinzhou branch from October 1997 to December 2001. During the period between December 2001 to April 2005, he served as the chairman of the board of directors of Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司). Mr. Yang became the chairman of the board of directors of Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司) from May 2005 to October 2007. Since November 2007, he has been the chairman of the board of directors of Zhejiang Chisage Holding Group Co., Ltd. (浙江中哲控股集團有限公司) (currently known as Chisage Holding Group Co., Ltd. (中哲控股集團有限公司) ("**Chisage Holding**").

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

Mr. LIN Lin (林林), aged 48, was appointed as a non-executive Director in August 2018 and as a member of the Remuneration Committee in April 2019. He is responsible for providing strategic advice on the business development and management of the Group. He is concurrently a director of each of Joy Sonic, Chisage Mulsanne and TwoXu Sports. Mr. Lin possesses over 20 years of experience in finance and investment. From July 2000 to March 2004, he served at Morgan Stanley group of companies as an associate in the investment banking division in Hong Kong. Mr. Lin later worked at Credit Suisse (Hong Kong) Limited Shanghai Representative office, where his last capacity was a director in China Investment Banking Division, from July 2005 to July 2008. Since July 2008, he has also been serving as the executive partner of a private equity firm Crescent HydePark Advisors (Shanghai) Co., Ltd. (海益得凱欣投資諮詢(上海)有限公司), the investment advisor for Crescent Fund Management Pte. Ltd..

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Jun (王俊), aged 43, was appointed as a non-executive Director in August 2019. Mr. Wang is responsible for providing strategic advice on the business development and management of the Group. He has over a decade of experience in private equity investing, strategic consulting and consumer related sectors. Mr. Wang is an advisor of L Catterton, which is the Asian business of LCML, a global, consumer-focused private equity firm. LCAA, a subsidiary of LCML, is one of the Company's substantial shareholders (as defined in the Listing Rules) and manages L Capital Asia 2 Pte. Ltd., one of the Company's controlling shareholders (as defined in the Listing Rules). He is also the founding partner of Being Capital Partner, an asset management firm. He has gained and built a strong foundation of consumer expertise, analytical capabilities and investment expertise from his professional experience in the United Kingdom, the United States, China and South East Asia.

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

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

Mr. CHEN Scott Yue (陳悅), aged 44, was appointed as a non-executive Director in March 2021. Mr. Chen is a managing partner of L Catterton, which is the Asian business of LCML, a global, consumer-focused private equity firm. LCAA, a subsidiary of LCML, is one of the Company's substantial shareholders (as defined in the Listing Rules) and manages L Capital Asia 2 Pte. Ltd., one of the Company's controlling shareholders (as defined in the Listing Rules). Mr. Chen is also a non-executive director of various portfolio companies owned by investment funds managed by LCAA. Prior to joining L Catterton, Mr. Chen spent nearly 20 years at TPG Capital ("TPG") investing across the broad consumer and healthcare landscape throughout Asia Pacific, most recently serving as Partner and Managing Director. During the second decade at TPG, Mr. Chen led TPG's investments in Greater China and drove the expansion of TPG's China franchise. Prior to joining TPG, he worked in the Technology Mergers & Acquisitions Group of Lehman Brothers in New York.

Mr. Chen received a bachelor's degree in Business Administration with honors from University of Colorado.

Independent Non-executive Directors

Mr. GU Jiong (顧炯), aged 48, joined the Group in April 2019 when he was appointed as an independent non-executive Director, the chairman of each of the audit committee of the Company (the "Audit Committee") and the Remuneration Committee and a member of the Nomination Committee. Mr. Gu is mainly responsible for providing independent judgment and advice to the Board. From July 1995 to April 2004, he had worked for Ernst & Young's Shanghai Office and was the senior manager of audit department when he left. Mr. Gu subsequently joined UTStarcom Holdings Corp., a global telecom infrastructure provider of packet optical transport and broadband access products to network operators which is listed on NASDAQ (ticker symbol: UTSI), from April 2004 to December 2009, and he was a financial controller when he left the company. During the period between January 2010 to August 2013, he served as the chief financial officer at BesTV New Media Co., Ltd. (百視通新媒體股份有限公司), which principally provides technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through media source platforms and listed on Shanghai Stock Exchange (stock code: 600637). From June 2015 to November 2020, Mr. Gu had been an independent non-executive director of Chen Xing Development Holdings Limited (辰興發展控股有限公司) (a real estate development company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 2286). From June 2019 to November 2020, Mr. Gu was an independent non-executive director of Tu Yi Holding Company Limited (途屹控股有限公司) (an outbound travel products and service provider, stock code: 1701).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

Mr. YUAN Tao (袁濤), aged 51, joined the Group in April 2019 when he was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He is principally responsible for providing independent judgment and advice to the Board. Mr. Yuan is known as a pioneer and leader in the Chinese music and entertainment industries, with over 24 years of extensive experience in building brand images and public relations.

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

Mr. Paolo BODO, aged 79, joined the Group in April 2019 when he was appointed as an independent non-executive Director and a member of each of the Audit Committee and the Remuneration Committee. He is primarily responsible for providing independent judgment and advice to the Board. Mr. Bodo has extensive experience in apparel and fashion industry. Prior to joining us, he served at Sixty Far East Limited, an apparel and accessories manufacturers, as the chief executive officer and was responsible for business development in different countries from 2002 to 2011. In October 2014, Mr. Bodo founded an apparel retail company Nipi Italia Srl and has been the chairman of its board of directors since then. Mr. Bodo has also been a director of Fashion Box S.P.A., which manufactures and distributes casual wear, accessories and footwear, since May 2017. Mr. Bodo is also the chairman of the board of directors of the Italian group Sixty S.P.A.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. DING Dade (丁大德), aged 45, is the Chief Financial Officer and vice president of finance of the Group and a joint company secretary of the Company. He is primarily responsible for making major operational and management decisions, providing financial advice on the Group's operations, management, business development and project investment, and advising on risk management. Mr. Ding has been a director of Chisage Mulsanne E-commerce since September 2010 and Mulsanne E-commerce since August 2014. Prior to joining the Group, Mr. Ding served as a financial manager at Ningbo Hehe Import & Export Co., Ltd (寧波合和進出口有限公司), a company engaged in exports and imports of apparel, from July 2002 to June 2010. During the period between September 2010 and August 2016, he worked as a financial manager at Ningbo Zhonghui Investment Co., Ltd. (寧波中匯投資有限公司). Mr. Ding was appointed as the Chief Financial Officer and vice president of finance of Chisage Mulsanne in September 2016.

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

Ms. TU Guangjun (屠光君), aged 43, is the president of new strategies and brand channels of the Group. She is primarily responsible for managing the daily operation of our new brands and designing and developing each brand channel. Ms. Tu is concurrently a director of TwoXu Sports. Ms. Tu has over 20 years of working experience in the apparel manufacturing industry. Before joining us in July 2007, she served as sales manager at Ningbo Shanshan Ruixiang Sweater Co., Ltd (寧波杉杉瑞祥毛衫有限公司), a company manufacturing and selling apparel products, from June 2000 to December 2002. From May 2003 to August 2006, Ms. Tu worked as manager of marketing department at Ningbo Peacebird Fashion Co., Ltd. (寧波太平鳥時尚服飾股份有限公司), which engaged in design, manufacture and sales of apparel and listed on the Shanghai Stock Exchange (stock code: 603877). She then joined Ningbo Hehe Jessica Clothing Co., Ltd. (寧波合和杰斯卡服飾有限公司), the predecessor of Chisage Mulsanne, as marketing manager at in September 2007 and marketing director in June 2011, and was subsequently promoted as the Chief Operating Officer and vice president of operations at Chisage Mulsanne in September 2016.

Mr. WU Lei (吳磊), aged 33, is the e-commerce president and the general manager of the GXG brand of the Group. He is primarily responsible for transforming the sales mode (online and offline sales) of the GXG brand, operating and managing brands image and each brand under the e-commerce companies of the Group. Mr. Wu is concurrently an executive director and manager of Ningbo Muxin-buer E-commerce Co., Ltd.. When Mr. Wu joined Ningbo Hehe Jessica E-commerce Co., Ltd. (寧波合和杰斯卡電子商務有限公司), the predecessor of Chisage Mulsanne E-commerce, in July 2010, he served as a senior operation officer and became the operation director in April 2012. He was later promoted as vice president of retail and general manager of e-commerce of Chisage Mulsanne in August 2014.

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

DIRECTORS' REPORT

The Board is pleased to announce the annual report (the “**Annual Report**”) and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

GLOBAL OFFERING

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

PRINCIPAL BUSINESS

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

BUSINESS REVIEW

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

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

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

Principal Risks and Uncertainties

Principal risks and uncertainties faced by the Group include:

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the transaction amounts of the Group's five largest customers accounted for 13.5% of the Group's total revenue (2019: 19.3%), while the transaction amounts of the largest customer accounted for 9.9% of the Group's total revenue (2019: 8.5%).

For the year ended 31 December 2020, the transaction amounts of the Group's five largest suppliers accounted for 23.2% of the Group's total purchase cost (2019: 22.5%), while the transaction amounts of the largest supplier accounted for 5.9% of the Group's total purchase cost (2019: 5.5%).

During the year ended 31 December 2020, Mr. YANG Herong, being a non-executive Director, held more than 5% of the interests in one of the Group's five largest suppliers, Ningbo Chisage Apparel Co., Ltd.. Save as disclosed above, none of the other Directors, their respective associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in any of the five largest customers or suppliers of the Group during the year ended 31 December 2020.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the financial statements on pages 52 to 147 of this report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020.

DIVIDEND POLICY

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

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 148 of this report. The summary does not form part of the audited consolidated financial statements.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group for the year ended 31 December 2020 are set out in note 24 to the financial statements.

DIRECTORS' REPORT

USE OF PROCEEDS FROM THE LISTING

The Company was listed on the Main Board of the Stock Exchange on 27 May 2019 and issued 200,000,000 new ordinary shares. After deducting the underwriting fees, commissions and estimated expenses, the total net proceeds from the listing were approximately RMB704.9 million (equivalent to approximately HK\$802.7 million). As at 31 December 2020, a total of approximately RMB570.5 million (equivalent to approximately HK\$643.1 million) of the proceeds have been used. These proceeds have been used for the purposes as stated in the Prospectus and the announcement of the Company dated 22 May 2019 (the "Price Reduction Announcement") as follows:

Item	Approximate percentage of total amount	Planned use of proceeds (RMB million)	Actual amount used in 2020 (RMB million)	Actual amount used as at 31 December 2020 (RMB million)	Unutilised amount as at 31 December 2020 (RMB million)
To repay the Group's existing indebtedness and reduce the Group's financial expenses	45%	317	–	317	–
To expand the Group's brand and product portfolio by pursuing brand acquisitions or strategic alliances	15%	106	106	106	–
To upgrade the Group's offline retail stores to smart stores	10%	70	68	70	–
To purchase land and establish the Group's self-owned advanced smart logistics centre	20%	141	7	7	134
To provide funding for working capital and other general corporate purposes	10%	71	63	71	–
Total	100%	705	244	571	134

As at 31 December 2020, the remaining proceeds of approximately RMB134.4 million (equivalent to approximately HK\$159.6 million) will continue to be used in accordance with the purposes as set out in the Prospectus and the Price Reduction Announcement and are expected to be fully utilized within the next 18 months.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2020 are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital for the year ended 31 December 2020 are set out in note 26 to the financial statements.

EQUITY-LINKED AGREEMENT

There was no equity-linked agreement entered into by the Company or any of its subsidiaries during the year ended 31 December 2020 or subsisted at the end of the year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 28 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the reserves of the Company available for distribution to its Shareholders amounted to approximately RMB3,437.7 million (2019: approximately RMB3,719.2 million).

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

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

DONATIONS

For the year ended 31 December 2020, charitable donations made by the Group amounted to RMB20,000 (2019: RMB50,000).

DIRECTORS' REPORT

DIRECTORS

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

Executive Director

Mr. YU Yong (*Chief Executive Officer*)

Non-Executive Directors

Mr. HUANG Hanji (*Chairman*)

Mr. YANG Herong

Mr. LIN Lin

Mr. WANG Jun

Mr. Ravinder Singh THAKRAN (resigned on 22 May 2020)

Mr. Chintamani Aniruddha BHAGAT (appointed on 2 July 2020 and resigned on 26 March 2021)

Mr. CHEN Scott Yue (appointed on 26 March 2021)

Independent Non-Executive Directors

Mr. GU Jiong

Mr. YUAN Tao

Mr. Paolo BODO

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

In accordance with article 84 of the Articles of Association, Mr. YU Yong, Mr. YUAN Tao and Mr. Paolo BODO will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The particulars of Directors who are subject to re-election at the forthcoming annual general meeting are set out in the circular to the Shareholders dated 29 April 2021.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

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

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

EMOLUMENT POLICY

As at 31 December 2020, the Group had a total of 842 employees. The Group provides training periodically across operational functions, including introductory training for new employees, technical training, professional and management training, team-building and communications training. The Group also offers competitive remuneration packages which include salaries, bonuses and other benefits. In general, the Group determines employee salaries based on each employee's qualifications, experience, position and seniority. The Remuneration Committee was set up for reviewing the Group's emolument policy and structure of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. The remuneration received by Directors and senior management include salaries, bonuses, allowances and benefits in kind and pension scheme contributions complied with the requirements under applicable laws, rules and regulations.

Details of the emoluments of the Directors and the five highest paid individuals for the year ended 31 December 2020 are set out in notes 8 and 9 to the financial statements.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S 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 in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Company/Name of Group company	Nature of interest	Number of shares	Approximate percentage of shareholding ⁽⁴⁾
Mr. YU Yong ^{(2) (3)}	Company	Interest in controlled corporation	213,750,000 (L)	22.50%
		Beneficial Owner	2,000,000 (L)	0.21%
			215,750,000 (L)	22.71%
Mr. YANG Herong ⁽²⁾	Company	Interest in controlled corporation	213,750,000 (L)	22.50%

Notes:

- (1) The letter "L" denotes the person's long position in such shares of the Company (the "Shares").
- (2) Each of Mr. YU Yong and Mr. YANG Herong is entitled to exercise or control the exercise of one-third of the voting power at general meetings of Madison International Limited (which holds the entire equity interest in GXG Trading Limited), and is therefore deemed to be interested in the Shares in which GXG Trading Limited is interested.
- (3) Mr. YU Yong is interested in restricted share units ("RSUs") granted by the Company, representing 2,000,000 Shares held on trust on his behalf by the Trustee (as defined below). For details of the grant of RSUs to Mr. YU Yong, please see the announcement of the Company dated 29 December 2020 and the section headed "Restricted Share Unit Scheme" in this report.
- (4) As at 31 December 2020, the Company had 950,000,000 ordinary shares in issue.

Save as disclosed above, as at 31 December 2020, none of the Directors or the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

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

As at 31 December 2020, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO or which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

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

DIRECTORS' REPORT

Notes:

- (1) The letter "L" denotes the person's long position in such Shares.
- (2) Each of L Capital Asia 2 Pte. Ltd. (as the controlling shareholder of Great World Glory Pte. Ltd.), L Capital Asia 2 Sing LP and L Capital Asia 2 LP (as the limited partners of L Capital Asia 2 Pte. Ltd.), L Capital Asia 2 Sing GP Pte. Ltd. and L Capital Asia 2 GP (as the general partners of L Capital Asia 2 Sing LP and L Capital Asia 2 LP, respectively), L Catterton Asia Advisors (as the sole shareholder of L Capital Asia 2 Sing GP Pte. Ltd. and L Capital Asia 2 GP), L Catterton Asia Holdings Limited (as the sole shareholder of L Catterton Asia Advisors), L Catterton Management Limited (as the sole shareholder of L Catterton Asia Holdings Limited), Catterton Holdings, LLC (as the controlling shareholder of L Catterton Management Limited), L Catterton, L.P. (as the sole shareholder of Catterton Holdings, LLC), L Catterton GP, LLC (as the general partner of L Catterton, L.P.) and Mr. J. Michael Chu and Mr. Scott A. Dahnke (as managing members of L Catterton GP, LLC) is deemed to be interested in the shares. Mr. J. Michael Chu and Mr. Scott A. Dahnke disclaim beneficial ownership of the Shares.
- (3) Each of Crescent Capital Investments Ltd. (as the sole voting shareholder of Crescent Glory Singapore Pte. Ltd.), Crescent GP Ltd. (as the controlling shareholder of Crescent Capital Investments Ltd.) and Mr. David McKee Hand (as the controlling shareholder of Crescent GP Ltd.) are deemed to be interested in the Shares. Mr. David McKee Hand disclaims beneficial ownership of the Shares.
- (4) As at 31 December 2020, the Company had 950,000,000 ordinary shares in issue.

Save as disclosed above, as at 31 December 2020, no person (other than the Directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO or which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

RESTRICTED SHARE UNIT SCHEME

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

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

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

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

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

DIRECTORS' REPORT

Further details of the principal terms of the RSU Scheme are set out in the section headed "Statutory and General Information – D. Share Incentive Scheme" in Appendix IV to the Prospectus. As at 31 December 2020, an aggregate of 25,600,000 Shares were held by the Trustee, representing approximately 2.69% of the Shares in issue as at the date of this report. As at 31 December 2020, RSUs in respect of an aggregate of 11,900,000 Shares, representing approximately 1.25% of the Shares in issue as at the date of this report, had been granted to 12 RSU Participants pursuant to the RSU Scheme.

During the year ended 31 December 2020, RSUs in respect of an aggregate of 11,900,000 Shares have been granted under the RSU Scheme and no RSU has been cancelled or lapsed.

Details of the RSUs granted under the RSU Scheme and details of the movements in RSUs during the year ended 31 December 2020 are set out below:

Name of grantee	Positions held with the Group	Number of Shares represented by RSUs as at 1 January 2020	Date of grant	Exercise price (HK\$)	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 December 2020
Director									
Mr. YU Yong	Executive Director and chief executive officer of the Group ⁽¹⁾	-	29 December 2020	2.634	2,000,000	-	-	-	2,000,000
Other senior management of the Company and director of subsidiaries of the Company									
Three senior management of the Company and one director of subsidiaries of the Company		-	29 December 2020	2.634	4,900,000	-	-	-	4,900,000
Other employees of the Group									
Seven employees of the Group		-	29 December 2020	2.634	5,000,000	-	-	-	5,000,000
Total					11,900,000	-	-	-	11,900,000

Note:

(1) For details of Mr. YU Yong's positions held with the Group, please see the section headed "Biographical Details of Directors and Senior Management" in this report.

Details of the movements in the RSUs under the RSU Scheme are also set out in note 27 to the financial statements.

The grantees of the RSUs granted under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSUs under the RSU Scheme. The RSUs granted on 29 December 2020 shall vest immediately upon grant.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

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

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

Based on the information and confirmation provided by the Covenantor, the independent non-executive Directors have reviewed the implementation of non-competition undertaking for the year ended 31 December 2020 and are satisfied that the Covenantor has complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

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

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

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

TwoXu Sports was an indirect non-wholly-owned subsidiary of the Company during the year ended 31 December 2020 and directly controlled by 2XU HK Limited, hence a connected subsidiary (as defined in the Listing Rules) of the Company.

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

DIRECTORS' REPORT

1. Premises leased from Ningbo Songhe and Chisage Holding

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

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

The proposed annual cap for leasing arrangement under the above leases for the year ended 31 December 2020 was RMB11,407,098. The annual cap under these leases were determined with reference to the historical rental amounts with reference to a three-year rental period, as well as the valuation report issued by Ningbo Zheng Ping Assets Evaluation Co., Ltd., an independent property valuer, who confirmed that the rent payable under the above leases reflects the prevailing market rates. The total rent payable by the Group to Ningbo Songhe and Chisage Holding for the year ended 31 December 2020 was RMB4,210,325.

2. Premises leased from Wenmo Garment

Chisage Mulsanne, as tenant, entered into a lease agreement (the "**2020 Wenmo Garment Lease Agreement**") with Ningbo Wenmo Garment Co., Ltd. ("**Wenmo Garment**"), which is a company controlled by Mr. YANG Herong, hence an associate of Mr. YANG Herong and a connected person of the Company under the Listing Rules. Pursuant to such lease, Wenmo Garment, as landlord, agreed to lease to Chisage Mulsanne certain premises in Ningbo, the PRC, with gross floor area of approximately 57,000 square metres for warehouse purpose. The term of the lease is for a period of ten years, commenced from 1 November 2020 and ending on 31 October 2030.

The estimated total value of right-of-use assets relating to the lease is approximately RMB62,790,218. The annual rentals were determined with reference to the location and size of the subject premises, the prevailing market rates of comparable premises, the relevant taxes payable and the potential increase in market value of the subject premises. The rental is payable semiannually in advance. The depreciation of right-of-use assets and interest expense on lease liabilities under the 2020 Wenmo Garment Lease Agreement for the year ended 31 December 2020 was RMB1,416,359. The aggregate amount of rental prepayment (including taxes) paid by the Group to Wenmo Garment for the year ended 31 December 2020 was approximately RMB3,333,333.

DIRECTORS' REPORT

3. Manufacturing agreement with 2XU Pty Ltd.

The Group entered into a manufacturing agreement with 2XU Pty Ltd., pursuant to which the Group is authorized to design, manufacture and exclusively distribute, as approved by 2XU Pty Ltd., certain products under 2XU brand name, in the PRC (excluding Hong Kong, Macau and Taiwan). The term of the manufacturing agreement commenced on 5 May 2017 and ended on 24 December 2020. The Group paid 2XU Pty Ltd., on a quarterly basis, a royalty fee calculated based on the Group's revenue generated from such sales.

The proposed annual cap for aggregate annual royalty fee payable by the Group for the year ended 31 December 2020 was RMB6,099,400. The annual cap under the manufacturing agreement was determined with reference to the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities and the amount of sales projections for apparel products under this agreement as agreed with 2XU Pty Ltd.. The aggregate annual royalty fee payable by the Group to 2XU Pty Ltd. for the year ended 31 December 2020 was RMB475,808.

4. Distribution agreement with 2XU Pty Ltd. and 2XU HK Limited

The Group entered into a distribution agreement with 2XU Pty Ltd. and 2XU HK Limited, pursuant to which the Group is the exclusive distributor of 2XU products in the PRC (excluding Hong Kong, Macau and Taiwan). The term of the distribution agreement commenced on 5 May 2017 and ended on 24 December 2020. The purchase prices were determined as a certain percentage of the recommended retail prices. The recommended retail prices typically referred to the recommended retail prices in the United States, or by mutual consent between 2XU Pty Ltd. and TwoXu Sports.

The proposed annual cap for aggregate annual purchase amount payable by the Group for the year ended 31 December 2020 was RMB33,553,900. The annual cap under the distribution agreement was determined with reference to the ever-increasing consumer demands in performance sportswear industry, the potential business expansion plan and promotion activities, the amount of purchase projections for apparel products under this agreement as agreed with 2XU Pty Ltd. and 2XU HK Limited, the recommended retail prices in the United States and the potential increase in procurement volume of compression wear products. The aggregate annual purchase amount payable by the Group to 2XU Pty Ltd. and 2XU HK Limited for the year ended 31 December 2020 was RMB616,921.

5. Loan service framework agreement with TwoXu Sports

The Group entered into a loan services framework agreement with TwoXu Sports, pursuant to which the Group agreed to provide loan services as permitted by PRC laws and regulations for TwoXu Sports to fund certain of TwoXu Sports' general working capital. The term of the loan service framework agreement commenced on 21 December 2018 and ended on 24 December 2020. The interest rate was determined with reference to the interest rates for loans of similar types offered for the same period by commercial banks offered to the Group.

The proposed annual cap for annual balance of the principal and interests of the loans provided by the Group for the year ended 31 December 2020 was RMB40,000,000. The annual cap under the loan service framework agreement was determined with reference to the historical figures, the potential increase in financial and operational needs of TwoXu Sports based on potential business expansion plans and the benchmark lending rate published by People's Bank of China from time to time. The annual balance of the principal and interests of the loan provided by the Group to TwoXu Sports as at 31 December 2020 was nil.

DIRECTORS' REPORT

6. Framework apparel manufacturing agreement with Ningbo Chisage Apparel

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

The proposed annual cap for aggregate annual procurement amount payable by the Group for the year ended 31 December 2020 was RMB117,000,000. The annual cap under the framework apparel manufacturing agreement was determined with reference to the forecast on production capacity available to the Group and the flexibility of supply chains of Ningbo Chisage Apparel, the historical figures, the potential increase in procurement volume due to the Group's business expansion plans and the potential increase in labor costs. The aggregate annual procurement amount payable by the Group to Ningbo Chisage Apparel for the year ended 31 December 2020 was RMB49,038,023.

7. Framework apparel manufacturing agreement with Huaian Chisage Industrial

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

The proposed annual cap for aggregate annual procurement amount payable by the Group for the year ended 31 December 2020 was RMB35,000,000. The annual cap under the framework apparel manufacturing agreement was determined with reference to the forecast on production capacity available to the Group and the availability on the supply of product types of Huaian Chisage Industrial, the historical figures, the potential increase in procurement volume due to the Group's business expansion plans and the potential increase in labor costs. The aggregate annual procurement amount payable by the Group to Huaian Chisage Industrial for the year ended 31 December 2020 was RMB3,474,339.

Waivers from the Stock Exchange

The transactions described in the paragraph headed "Connected Transactions" above constitute the Group's non-exempt connected transactions and would normally require reporting and announcement but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules. The Stock Exchange has granted the Company a waiver for the non-exempt continuing connected transactions in paragraphs (1), (3) to (7) above from strict compliance with the announcement requirement under Rule 14A.105 of the Listing Rules, subject to the condition that the annual transaction value shall not exceed the estimated annual cap (as stated above). The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2020, and will immediately inform the Stock Exchange if there are any changes to the non-exempt continuing connected transactions.

DIRECTORS' REPORT

Renewal of Connected Transactions

In December 2020, the Group renewed certain leases with Ningbo Songhe and Chisage Holding, the terms of which expired on 31 December 2020, for office, warehouse and other ancillary purposes. Details of the renewal of leases were set out in the announcement of the Company dated 31 December 2020.

Annual Review of the Continuing Connected Transactions

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

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal or better commercial terms; and
- (c) in accordance with the agreements governing such transactions, the terms of which are fair and reasonable, and are in the interest of the Shareholders as a whole.

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

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

Save as disclosed in this report, there were no connected transactions or continuing connected transactions which are required to be disclosed by the Company for the year ended 31 December 2020 in accordance with the provisions concerning the disclosure of connected transactions under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings in the Shares.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" above and in this report, no Director or any controlling shareholder has a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, any of its subsidiaries or fellow subsidiaries was a party for the year ended 31 December 2020 and up to the date of this report.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2020 was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or any of their spouses or minor children were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this report, none of the Directors or their associates had any interest in any business which directly or indirectly competes or may compete with the businesses of the Group for the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association and subject to the applicable laws, the Company has arranged for appropriate insurance to cover all costs, charges, losses, expenses and liabilities incurred by any Directors or officers in the execution and discharge of his duties or in relation thereto. The relevant provisions in the Articles of Association and such directors and officers liability insurance were in force during the year ended 31 December 2020 and as at the date of this report.

PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee has jointly reviewed with the Board the accounting principles and practices adopted by the Group, and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results of the Group for the year ended 31 December 2020.

AUDITOR

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 31 December 2020, the Group has complied with the "comply or explain" provisions in the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules. Further details of the Group's environmental, social and governance ("ESG") matters will be set out in the ESG report to be published by the Company separately in due course and will be made available on the website of the Company and that of the Stock Exchange.

By Order of the Board

HUANG Hanji

Chairman

Hong Kong, 26 March 2021

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and enhance its corporate value and accountability. After listing, the Company has adopted the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2020, the Company has complied with the applicable code provisions of the Code. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with the Code.

BOARD OF DIRECTORS

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

From 1 January 2020 to 21 May 2020, the Board comprised nine Directors, with one executive Director, namely Mr. YU Yong; five non-executive Directors, namely Mr. HUANG Hanji (Chairman), Mr. YANG Herong, Mr. LIN Lin, Mr. WANG Jun and Mr. Ravinder Singh THAKRAN; and three independent non-executive Directors, namely Mr. GU Jiong, Mr. YUAN Tao and Mr. Paolo BODO.

On 22 May 2020, Mr. Ravinder Singh THAKRAN resigned as a non-executive Director.

On 2 July 2020, Mr. Chintamani Aniruddha BHAGAT was appointed as a non-executive Director.

On 26 March 2021, Mr. Chintamani Aniruddha BHAGAT resigned as a non-executive Director and Mr. CHEN Scott Yue was appointed as a non-executive Director.

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

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

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

The executive Director has entered into a service contract with the Company, and the Company has issued a letter of appointment to each of the non-executive Directors and independent non-executive Directors. The principal particulars of these service contract and letters of appointment are (i) for a term of three years commencing from 26 April 2019 for all Directors, except Mr. WANG Jun (whose term of appointment is three years commencing from 27 August 2019), Mr. Chintamani Aniruddha BHAGAT (whose term of appointment is three years commencing from 2 July 2020) and Mr. CHEN Scott Yue (whose term of appointment is three years from 26 March 2021) and (ii) subject to termination in accordance with their respective terms. The term of the service contract and the letters of appointment may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

CORPORATE GOVERNANCE REPORT

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

The aggregate remuneration (including fees, salaries, bonuses, allowances, benefits in kind and pension scheme contributions) payable to the Directors for the year ended 31 December 2020 was approximately RMB9.2 million.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors for the year ended 31 December 2020 are set out in note 8 to the financial statements. In addition, pursuant to code provision B.1.5 of the Code, the annual remuneration of members of the senior management by band for the year ended 31 December 2020 is set out below:

Remuneration band	Number of senior management member
HK\$3,000,001 to HK\$4,000,000	1
HK\$5,000,001 to HK\$6,000,000	1
HK\$8,000,001 to HK\$9,000,000	1

During the year ended 31 December 2020, no amounts have been paid by the Group to the Directors or the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year ended 31 December 2020, the Company has three independent non-executive Directors, which meets the requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board and should not be less than three, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Directors have access to the services of the joint company secretaries to ensure that the Board procedures are followed. Mr. DING Dade was appointed as a joint company secretary of the Company in April 2019. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. NG Sau Mei of TMF Hong Kong Limited, a company secretarial service provider, as another joint company secretary of the Company, to assist Mr. DING Dade with the duties of the company secretary of the Company. Mr. DING Dade is the primary contact person of Ms. NG Sau Mei in the Company. During the year ended 31 December 2020, Mr. DING Dade and Ms. NG Sau Mei have undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

According to the code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the year, the Directors participated in continuous professional development by reading materials on the related areas to develop and refresh their knowledge and skills. The following table sets out the compliance status of all Directors of the Company in respect of code provision A.6.5 during the year ended 31 December 2020:

Director	In compliance with code provision A.6.5
Executive Director	
Mr. YU Yong (<i>Chief Executive Officer</i>)	√
Non-Executive Directors	
Mr. HUANG Hanji (<i>Chairman</i>)	√
Mr. YANG Herong	√
Mr. LIN Lin	√
Mr. WANG Jun	√
Mr. Ravinder Singh THAKRAN ⁽¹⁾	√
Mr. Chintamani Aniruddha BHAGAT ⁽²⁾	√
Independent Non-Executive Directors	
Mr. GU Jiong	√
Mr. YUAN Tao	√
Mr. Paolo BODO	√

Notes:

(1) Mr. Ravinder Singh THAKRAN resigned as a non-executive Director on 22 May 2020.

(2) Mr. Chintamani Aniruddha BHAGAT was appointed as a non-executive Director on 2 July 2020 and resigned on 26 March 2021.

During the year ended 31 December 2020, the Board held six meetings, at which the Board discussed and approved the proposals of Company's overall strategy and connected transaction issues, considered and approved the proposals of Company's 2019 annual results announcement, 2019 annual report, 2019 ESG report, 2020 interim results announcement, 2020 interim report and the change of non-executive Directors. An annual general meeting of the Company was held on 15 June 2020.

CORPORATE GOVERNANCE REPORT

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2020:

Director	Number of Board meetings requiring attendance	Number of Board meetings attended
Executive Director		
Mr. YU Yong	6	6
Non-Executive Directors		
Mr. HUANG Hanji	6	6
Mr. YANG Herong	6	2
Mr. LIN Lin	6	1
Mr. WANG Jun	6	6
Mr. Ravinder Singh THAKRAN ⁽¹⁾	2	1
Mr. Chintamani Aniruddha BHAGAT ⁽²⁾	3	1
Independent Non-Executive Directors		
Mr. GU Jiong	6	6
Mr. YUAN Tao	6	6
Mr. Paolo BODO	6	1

Notes:

(1) Mr. Ravinder Singh THAKRAN resigned as a non-executive Director on 22 May 2020.

(2) Mr. Chintamani Aniruddha BHAGAT was appointed as a non-executive Director on 2 July 2020 and resigned on 26 March 2021.

Code provision E.1.2 of the Code requires that the chairman of the Board and the chairmen of the audit, remuneration and nomination committees (or another member of the committee in their absence) should attend the general meeting. Other than Mr. YU Yong and Mr. YANG Herong who attended the annual general meeting of the Company on 15 June 2020, all other Directors did not attend such annual general meeting due to COVID-19 pandemic.

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

During the year ended 31 December 2020, the Audit Committee held two meetings to consider the Company's 2019 annual results announcement, 2019 annual report, 2020 interim results announcement and 2020 interim report. The Audit Committee also assessed the Company's risk management and internal control measures and the effectiveness of the Company's internal audit function.

The table below sets out the details of meeting attendance of each member of the Audit Committee during the year ended 31 December 2020:

Director	Number of meetings requiring attendance	Number of meetings attended
Mr. GU Jiong	2	2
Mr. YUAN Tao	2	2
Mr. Paolo BODO	2	1

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Remuneration Committee held one meeting to review the remuneration of the Directors and senior management of the Company, as well as the remuneration policy and structure of Directors and senior management of the Company.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2020:

Director	Number of meeting requiring attendance	Number of meeting attended
Mr. GU Jiong	1	1
Mr. YUAN Tao	1	0
Mr. Paolo BODO	1	0
Mr. YANG Herong	1	1
Mr. LIN Lin	1	0

NOMINATION COMMITTEE

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

During the year ended 31 December 2020, the Nomination Committee held one meeting to consider the appointment of Mr. Chintamani Aniruddha BHAGAT.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2020:

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

CORPORATE GOVERNANCE REPORT

Nomination Process

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

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

- (i) the Nomination Committee will, giving the consideration to the current composition and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;
- (ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from Shareholders with due consideration given to the criteria set out in the Nomination Policy;
- (iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;
- (iv) upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;
- (v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment and the proposed remuneration package; and
- (vi) the Board will have the final authority in determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

Board Diversity Policy

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

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

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

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

CORPORATE GOVERNANCE REPORT

Nomination Criteria

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

During the year ended 31 December 2020, for nomination and appointment of Mr. Chintamani Aniruddha BHAGAT as a non-executive Director, the process and criteria set out above have been applied.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Procedures to identify, evaluate and manage significant risks

1. **Establishment of the risk context:** evaluating and reviewing the effectiveness of the risk management and internal control systems of the Group to reduce the costs of operational risk and ensure compliant operation of the Company.
2. **Formulation of the risk management policies:** ensuring that the Group carries out consistent procedures and criteria for risk identification, measurement and reporting.
3. **Identification of the risks:** identifying any potential risks of various business segments and key procedures.
4. **Evaluation on the risks:** evaluating the impact on business and its likelihood of the risks identified.
5. **Response to the risks:** evaluating the risk management solutions and the effectiveness of risk management.
6. **Report and monitor:** monitoring and reviewing the policies and procedures for risk management, and the measures for managing and effectiveness of controlling significant risks, and reporting the findings to the Board.

CORPORATE GOVERNANCE REPORT

Procedures and internal controls for the handling and dissemination of inside information

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

During the year ended 31 December 2020, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group once to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions, as well as the effectiveness of the internal audit functions of the Company. The review was made by discussions with the management of the Company, its internal auditors and the assessment conducted by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Upon specific enquiries made to all Directors, each of them has confirmed that he has complied with the required standards set out in the Model Code during the year ended 31 December 2020 and up to the date of this report, except that Mr. Yu Yong, an executive Director, was in breach of Rules A.3 and B.8 of the Model Code on 11 February 2021 for transactions of 1,500 Shares during the blackout period for Directors' dealings prior to the publication of the 2020 annual results announcement without notification to the chairman of the Board.

To avoid the recurrence of similar incidents in the future, the Company reminded all Directors again of the dealing restrictions during the blackout period and other Model Code requirements immediately following the above non-compliance incident. Going forward, the Company plans to arrange trainings for all Directors at least once a year to reinforce their knowledge and awareness of continuing duties and obligations as directors of a listed company.

EXTERNAL AUDITOR

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

For the year ended 31 December 2020, the fees paid or payable to Ernst & Young for the audit of the financial statements of the Group were RMB3.7 million.

Fees paid or payable to Ernst & Young for non-audit services provided to the Group in the year were RMB0.2 million. The non-audit services conducted include consultancy on tax issues of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditor about its reporting responsibilities on the financial statements is set out on pages 46 to 51 of this report. In preparing the financial statements for the year ended 31 December 2020, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. According to the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more member(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020 and up to the date of this report, there has been no change to the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company (www.gxggroup.cn) and that of the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT



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Independent auditor's report

To the shareholders of Mulsanne Group Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Mulsanne Group Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 147, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="172 405 443 433"><i>Impairment of inventories</i></p> <p data-bbox="172 454 778 584">As at 31 December 2020, the net carrying value of inventories amounted to RMB806,389,000, after netting off a provision for impairment of RMB88,497,000, representing 25.0% of the Group's total assets.</p> <p data-bbox="172 627 778 929">The Group's inventories are carried at the lower of cost and net realisable value which requires management's significant estimation of the net realisable value of the inventories of different seasons with different brands based on the historical experience, current market condition, customer demands and fashion trends, expected selling prices, estimated costs to sell and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items.</p> <p data-bbox="172 972 778 1037">The Group's disclosures about impairment of inventories are included in notes 2.4 and 3 to the financial statements.</p>	<p data-bbox="817 454 1425 864">We evaluated management's assessment of the inventories provisions by reviewing the analyses of the ageing with reference to the specification of the inventories which are categorised into different seasons with different brands, and assessing historical and forecasted sale of inventories. We assessed the expected selling prices for each season with different brands by making reference to the historical pricing of the inventories and estimated costs to sell by reviewing the costs incurred historically. We also attended physical inventory counts, on a sample basis, to assess the condition of the inventories and to evaluate the provision for slow moving and obsolete inventories.</p>
<p data-bbox="172 1052 596 1080"><i>Variable consideration for rights of return</i></p> <p data-bbox="172 1101 778 1338">The Group provides rights of return to its customers for certain products within a specified period. These arrangements result in deductions to gross revenue and give rise to obligations for the Group to provide customers with rights of return. Considerations received or receivable from the customers for products that are expected to be returned are recognised as refund liabilities.</p> <p data-bbox="172 1381 778 1640">The Group uses the expected value method to estimate the amount of products that will be returned from its customers which requires management significant judgement and estimation in determining an appropriate expected sales return rate for the products sold by each brand and their product lifecycle based on the contracted sales return rate, the Group's sales return policy, marketing strategy and the historical sales return rate.</p> <p data-bbox="172 1683 778 1791">The Group's disclosures about estimating variable consideration for rights of return by distributors are included in notes 2.4 and 3 to the financial statements.</p>	<p data-bbox="817 1101 1425 1403">We reviewed customer contracts on a sample basis to test the terms and conditions related to sales returns. We evaluated management's estimates on the expected sales returns by comparing historical sales returns, contracted sales return rate, the Group's sales return policy and the actual level of returns recorded subsequent to the period end. We also reviewed the calculation of the expected sales returns and the deduction from revenue and recognition of refund liabilities.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="172 405 504 433"><i>Impairment of trade receivables</i></p> <p data-bbox="172 454 778 584">As at 31 December 2020, the net carrying value of trade receivables amounted to RMB585,251,000, after netting off a loss allowance for impairment of RMB296,045,000, representing 18.2% of the Group's total assets.</p> <p data-bbox="172 627 778 929">The impairment of trade receivables is assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and forward-looking information. The assessment is highly judgmental.</p> <p data-bbox="172 972 778 1069">The Group's disclosures about impairment of trade receivables are included in notes 2.4, 3 and 18 to the financial statements.</p>	<p data-bbox="817 454 1425 896">We evaluated the expected credit loss provision methodology used by the Group. We also evaluated management's assessment on the estimates of customers' current financial positions and the forward-looking adjustments by reviewing the detailed analyses of the ageing of the receivables, testing on a sample basis, payments received subsequent to year end and historical payment patterns, reviewing correspondence related to any disputes between the parties involved and market information about the credit status of the counterparties, where available, and evaluating the analyses of influence from macroeconomics on the loss rates of the Group's customers.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report and the Corporate Governance Report, which are expected to be made available to us after that date.

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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Chairman's Statement, the Directors' Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	2,861,496	3,721,376
Cost of sales		(1,636,841)	(1,922,641)
Gross profit		1,224,655	1,798,735
Other income and gains	5	26,992	52,595
Selling and distribution expenses		(973,918)	(1,141,136)
Administrative expenses		(225,073)	(229,673)
Impairment losses on financial assets, net	6	(264,485)	(54,784)
Other expenses		(23,421)	(13,869)
Finance costs	7	(56,467)	(88,956)
Share of profits/(losses) of associates		446	(50)
(LOSS)/PROFIT BEFORE TAX	6	(291,271)	322,862
Income tax expense	10	(7,921)	(114,694)
(LOSS)/PROFIT FOR THE YEAR		(299,192)	208,168
Attributable to:			
Owners of the parent		(301,348)	209,547
Non-controlling interests		2,156	(1,379)
		(299,192)	208,168
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	RMB(33.0) cents	RMB24.1 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(LOSS)/PROFIT FOR THE YEAR	(299,192)	208,168
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	10,645	2,837
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	44,552	(13,904)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	55,197	(11,067)
TOTAL COMPREHENSIVE (LOSS)/INCOME	(243,995)	197,101
Attributable to:		
Owners of the parent	(246,151)	198,480
Non-controlling interests	2,156	(1,379)
	(243,995)	197,101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	176,603	146,981
Right-of-use assets	14(a)	238,418	273,642
Intangible assets	15	28,913	10,758
Investments in associates	16	10,446	–
Deferred tax assets	25	159,311	119,823
Total non-current assets		613,691	551,204
CURRENT ASSETS			
Inventories	17	806,389	1,070,922
Right-of-return assets		45,077	63,791
Trade and notes receivables	18	632,214	1,032,574
Prepayments, other receivables and other assets	19	339,963	330,813
Due from a related party	32(b)(i)	228	230
Pledged short-term deposits	20	12,960	29,566
Cash and cash equivalents	20	771,692	820,788
Total current assets		2,608,523	3,348,684
CURRENT LIABILITIES			
Trade and notes payables	21	621,148	886,193
Other payables and accruals	23	275,890	249,359
Refund liabilities	5(iii)	135,237	183,212
Contract liabilities	22	50,845	57,133
Interest-bearing bank and other borrowings	24	284,034	134,240
Lease liabilities	14(b)	87,028	131,127
Tax payable		18,109	109,414
Due to a related party	32(b)(ii)	131	126
Total current liabilities		1,472,422	1,750,804
NET CURRENT ASSETS		1,136,101	1,597,880
TOTAL ASSETS LESS CURRENT LIABILITIES		1,749,792	2,149,084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,749,792	2,149,084
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	757,168	1,006,002
Lease liabilities	14(b)	126,398	101,940
Deferred tax liabilities	25	51,512	4,717
Total non-current liabilities		935,078	1,112,659
Net assets		814,714	1,036,425
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	8,343	8,343
Reserves	28	805,988	1,029,855
		814,331	1,038,198
Non-controlling interests		383	(1,773)
Total equity		814,714	1,036,425

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Huang Hanji
Director

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Yu Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the parent											
	Note	Share capital	Share premium account	Merger reserve	Capital reserve	Statutory surplus reserve	Share award reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		RMB'000 (note 26)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000 (note 28)	RMB'000 (note 27)	RMB'000 (note 28)	RMB'000	RMB'000	RMB'000
At 1 January 2019		-	-	(205,542)	765,360	113,879	-	(6,951)	(567,154)	99,592	(1,281)	98,311
Profit for the year		-	-	-	-	-	-	-	209,547	209,547	(1,379)	208,168
Other comprehensive loss for the year:												
Exchange differences on translation of foreign operations		-	-	-	-	-	-	(11,067)	-	(11,067)	-	(11,067)
Total comprehensive income for the year		-	-	-	-	-	-	(11,067)	209,547	198,480	(1,379)	197,101
Acquisition of non-controlling interests		-	-	(2,887)	-	-	-	-	-	(2,887)	887	(2,000)
Issue of shares to the then shareholders	26	2	(2)	-	-	-	-	-	-	-	-	-
Capitalisation issue	26	6,585	(6,585)	-	-	-	-	-	-	-	-	-
Issue of shares for the initial public offering	26	1,756	769,294	-	-	-	-	-	-	771,050	-	771,050
Share issue expenses		-	(28,037)	-	-	-	-	-	-	(28,037)	-	(28,037)
Transfer to statutory surplus reserve		-	-	-	-	21,625	-	-	(21,625)	-	-	-
At 31 December 2019		8,343	734,670*	(208,429)*	765,360*	135,504*	-*	(18,018)*	(379,232)*	1,038,198	(1,773)	1,036,425

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

		Attributable to owners of the parent										
	Note	Share capital RMB'000 (note 26)	Share premium account RMB'000 (note 28)	Merger reserve RMB'000 (note 28)	Capital reserve RMB'000 (note 28)	Statutory surplus reserve RMB'000 (note 28)	Share award reserve RMB'000 (note 27)	Exchange fluctuation reserve RMB'000 (note 28)	Accumulated losses RMB'000	Non-controlling interests Total RMB'000	Total equity RMB'000	
At 1 January 2020		8,343	734,670	(208,429)	765,360	135,504	-	(18,018)	(379,232)	1,038,198	(1,773)	1,036,425
Loss for the year		-	-	-	-	-	-	-	(301,348)	(301,348)	2,156	(299,192)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		-	-	-	-	-	-	55,197	-	55,197	-	55,197
Total comprehensive loss for the year		-	-	-	-	-	-	55,197	(301,348)	(246,151)	2,156	(243,995)
Equity-settled share award arrangements	27	-	-	-	-	-	22,284	-	-	22,284	-	22,284
At 31 December 2020		8,343	734,670*	(208,429)*	765,360*	135,504*	22,284*	37,179*	(680,580)*	814,331	383	814,714

* These reserve accounts comprise the consolidated reserves of RMB805,988,000 (2019: RMB1,029,855,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(291,271)	322,862
Adjustments for:			
Impairment of trade and other receivables, net	18, 19	264,485	54,784
Impairment of property, plant and equipment	13	2,303	9,899
Impairment of right-of-use assets	14(a)	2,841	–
(Reversal of write-down)/write-down of inventories to net realisable value	6	(26,634)	52,907
Depreciation of property, plant and equipment	13	72,019	121,635
Depreciation of right-of-use assets	14(a)	155,518	133,922
Amortisation of intangible assets	15	3,511	6,070
Loss/(gain) on disposal of items of property, plant and equipment, net	6	10,848	(105)
Foreign exchange differences, net	6	(2,657)	323
Finance costs	7	56,467	88,956
Share of (profits)/losses of associates	16	(446)	50
Investment income from time deposits	5	(3,259)	–
Waive of debt in a subsidiary from the non-controlling shareholder	5	(1,875)	–
(Gain)/loss on terminations of leases, net	14(c)	(2,519)	997
Fair value gain on derivative financial instruments – transactions not qualifying as hedges	5	–	(11,496)
Covid-19-related rent concessions from lessors	14(b)	(18,069)	–
Equity-settled share award expenses	27	22,284	–
		243,546	780,804
Decrease/(increase) in trade and notes receivables		106,507	(361,454)
Increase in prepayments, other receivables and other assets		(46,037)	(68,024)
Increase in amounts due from related parties		–	(146)
Decrease/(increase) in inventories		291,167	(157,667)
Decrease in right-of-return assets		18,714	45,940
Decrease in pledged short-term deposits		16,606	4,429
(Decrease)/increase in trade and notes payables		(263,170)	103,213
Increase/(decrease) in other payables and accruals		25,426	(105,409)
Decrease in refund liabilities		(47,975)	(80,985)
(Decrease)/increase in contract liabilities		(6,288)	16,398
Decrease in amounts due to related parties	29(b)	–	(127)
Cash generated from operations		338,496	176,972
Income tax paid		(91,919)	(129,110)
Net cash flows from operating activities		246,577	47,862

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(132,340)	(131,672)
Purchases of intangible assets	15	(1,916)	(6,476)
Proceeds from disposal of derivative financial instruments		–	30,462
Investment income received from time deposits		3,259	–
Proceeds from disposal of items of property, plant and equipment		485	352
Purchase of a shareholding in an associate		(10,000)	–
Net cash flows used in investing activities		(140,512)	(107,334)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings	29(b)	957,798	468,190
Proceeds from issue of shares		–	771,050
Share issue expense		–	(20,423)
Acquisition of non-controlling interests		–	(2,000)
Repayment of bank and other borrowings	29(b)	(921,202)	(741,834)
Principal portion of lease payments	29(b)	(122,240)	(141,684)
Decrease in amounts due to related parties	29(b)	–	(30,190)
Interest paid		(56,119)	(87,407)
Net cash flows (used in)/from financing activities		(141,763)	215,702
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		820,788	653,502
Effect of foreign exchange rate changes, net		(13,398)	11,056
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	771,692	820,788
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	771,692	820,788

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION *(continued)*Information about subsidiaries *(continued)*Particulars of the Company's subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ningbo Yuexing Brand Management Co., Ltd. <i>(ii)</i>	PRC/ Mainland China	RMB5,000,000	–	100	Marketing and sale of apparel products
Shanghai Yuexing Brand Management Co., Ltd. <i>(ii)</i>	PRC/ Mainland China	RMB5,000,000	–	100	Marketing and sale of apparel products
Beijing Yuexing Brand Management Co., Ltd. <i>(ii)</i>	PRC/ Mainland China	RMB1,000,000	–	100	Marketing and sale of apparel products
Yatlas (Shanghai) Brand Management Co., Ltd. ("Yatlas Shanghai") <i>(i)</i>	PRC/ Mainland China	RMB10,000,000	–	100	Design, marketing and sale of apparel products
Ningbo Mulsanne Maisi Brand Management Co., Ltd. ("Mulsanne Maisi") <i>(ii), (iii)</i>	PRC/ Mainland China	RMB20,500,000	–	100	Design, marketing and sale of apparel products
TwoXu Sports (Ningbo) Co., Ltd. <i>(ii)</i>	PRC/ Mainland China	RMB15,000,000	–	70	Design, marketing and sale of apparel products
GXG Macau Limited ("GXG Macau")	Macau	Macau Pataca ("MOP") 100,000	–	100	Marketing and sale of apparel products
Ningbo Muxin-buer E-commerce Co., Ltd. <i>(ii)</i>	PRC/ Mainland China	RMB5,000,000	–	100	Design, marketing and sale of apparel products

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

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

Notes:

- (i) These entities are wholly-foreign-owned companies established under PRC law.
- (ii) These entities are limited liability enterprises established under PRC law.
- (iii) During the year, the registered capital of this entity increased from RMB10,000,000 to RMB20,500,000.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) 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; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's shopping malls, standalone stores, warehouses and offices have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB18,069,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 17	<i>Insurance Contracts³</i>
Amendments to IFRS 17	<i>Insurance Contracts^{3,5}</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>
Amendments to IAS 1	<i>Disclosure of Accounting Policies³</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates³</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to IFRS Standards 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ²

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

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in US\$ and RMB based on the London Interbank Offered Rate ("LIBOR") and Loan Prime Rate ("LPR") in Mainland China, respectively, as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Amendments to IAS 1 replace the requirement to disclose “significant” accounting policies with a requirement to disclose “material” accounting policies. Guidance and illustrative examples are added in IFRS Practice Statement 2 Making Materiality Judgements to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments are effective for annual periods starting on or after 1 January 2023. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to IAS 8 introduce a new definition of accounting estimates. Accounting estimates are defined as “monetary amounts in financial statements that are subject to measurement uncertainty”. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Property, plant and equipment and depreciation**

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Software

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

Trademarks

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

Leases

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

Group as a lessee

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

(a) *Right-of-use assets*

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

Leasehold land	40 years
Leasehold shopping malls, standalone stores, warehouses and offices	2 – 10 years

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases** (continued)**Group as a lessee** (continued)*(b) Lease liabilities*

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

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

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

(c) Short-term leases

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

Group as a lessor

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

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

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

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

Simplified approach

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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

(a) Sale of products – distributors and partnership

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue recognition** (continued)**Revenue from contracts with customers** (continued)**(a) Sale of products – distributors and partnership** (continued)

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

(i) Rights of return

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

(ii) Volume rebates

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

(b) Sale of products – retail

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

(c) Loyalty points programme

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Other income

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

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

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

Contract liabilities

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

Right-of-return assets

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

Refund liabilities

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share unit scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each financial year/period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

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

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

The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Retirement benefits

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

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

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

Dividends

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

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Determining the method to estimate variable consideration and assessing the constraint

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

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

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

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

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

Estimating variable consideration for right of return

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Estimation uncertainty** (continued)**Estimating variable consideration for right of return** (continued)

The Group updates its assessment of expected returns quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customers' actual returns in the future. As at 31 December 2020, the amount recognised as refund liabilities was RMB99,147,000 (2019: RMB145,224,000) for the expected returns.

Provision for expected credit losses on trade receivables

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

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

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

Leases – Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses and deductible temporary differences at 31 December 2020 were RMB16,817,000 (2019: Nil) and RMB189,287,000 (2019: RMB176,498,000), respectively. The amounts of unrecognised tax losses and deductible temporary differences at 31 December 2020 were RMB80,208,000 (2019: RMB66,680,000) and RMB45,093,000 (2019: RMB9,359,000), respectively. Further details are contained in note 25 to the financial statements.

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

When necessary, allowance is provided for obsolete and slow-moving inventories to adjust the carrying value of inventories to the lower of cost and net realisable value. Management has estimated the allowance for obsolete and slow-moving inventories based on review of an ageing analysis of inventories at the end of the reporting period. The assessment of the provision requires management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. As at 31 December 2020, the Group's inventories amounted to RMB806,389,000 (2019: RMB1,070,922,000).

4. OPERATING SEGMENT INFORMATION

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

4. OPERATING SEGMENT INFORMATION *(continued)*

Segment information by sales channels:

	Year ended 31 December 2020			
	Apparel products			Total RMB'000
	Offline channels RMB'000	Online channels RMB'000	Others RMB'000	
Segment revenue				
Sales to external customers	1,340,873	1,497,305	23,318	2,861,496
Total revenue	1,340,873	1,497,305	23,318	2,861,496
Segment results	741,698	480,277	2,680	1,224,655
Other income and gains				26,992
Selling and distribution expenses				(973,918)
Administrative expenses				(225,073)
Impairment losses on financial assets, net				(264,485)
Other expenses				(23,421)
Finance costs				(56,467)
Share of profit of an associate				446
Loss before tax				(291,271)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

4. OPERATING SEGMENT INFORMATION *(continued)*Segment information by sales channels: *(continued)*

	Year ended 31 December 2019			
	Apparel products		Others <i>RMB'000</i>	Total <i>RMB'000</i>
	Offline channels <i>RMB'000</i>	Online channels <i>RMB'000</i>		
Segment revenue				
Sales to external customers	2,282,628	1,425,806	12,942	3,721,376
Total revenue	2,282,628	1,425,806	12,942	3,721,376
Segment results	1,230,556	567,296	883	1,798,735
Other income and gains				52,595
Selling and distribution expenses				(1,141,136)
Administrative expenses				(229,673)
Impairment losses on financial assets, net				(54,784)
Other expenses				(13,869)
Finance costs				(88,956)
Share of losses of associates				(50)
Profit before tax				322,862

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

4. OPERATING SEGMENT INFORMATION *(continued)***Geographic information****(a) Revenue from external customers**

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	2,860,190	3,713,683
Macau	1,306	7,693
Total	2,861,496	3,721,376

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

(b) Non-current assets

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	442,985	423,890
Hong Kong	949	1,448
Macau	–	6,043
Total	443,934	431,381

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

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue during the year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
Sale of apparel products		
Online channels	1,497,305	1,425,806
Offline channels		
Self-owned stores	750,731	921,229
Partnership stores	167,836	334,315
Distributor stores	422,306	1,027,084
Sale of other products	7,731	12,942
Consignment services	15,587	–
Total	2,861,496	3,721,376

Revenue from contracts with customers

(i) Disaggregated revenue information

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Timing of revenue recognition		
Goods transferred at a point in time	2,845,909	3,721,376
Services transferred at a point in time	15,587	–
Total revenue from contracts with customers	2,861,496	3,721,376

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS (continued)**Revenue from contracts with customers** (continued)**(i) Disaggregated revenue information** (continued)

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

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	57,133	40,735

	2020 RMB'000	2019 RMB'000
Revenue recognised from performance obligations satisfied in previous periods:		
Sale of goods not previously recognised due to constraints on variable consideration	3,920	14,980

(ii) Performance obligations

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

Sale of apparel products

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

As at 31 December 2020, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS *(continued)*Revenue from contracts with customers *(continued)*

(iii) Refund liabilities

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Refund liabilities arising from sales return	99,147	145,224
Refund liabilities arising from sales rebates	36,090	37,988
	135,237	183,212

Other income and gains

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank interest income	4,046	3,140
Investment income from time deposits	3,259	–
Penalty charges received from distributors	2,860	2,153
Rental income	–	1,205
Government grants*	8,274	32,741
Foreign exchange gains, net	2,657	–
Gain on terminations of leases, net	2,519	–
Waive of debt in a subsidiary from the non-controlling shareholder	1,875	–
Sale of raw materials	386	–
Gain on disposal of items of property, plant and equipment	–	105
Fair value gain on derivative financial instruments – transactions not qualifying as hedges	–	11,496
Others	1,116	1,755
	26,992	52,595

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

NOTES TO FINANCIAL STATEMENTS

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6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold		1,650,167	1,869,734
Cost of services provided		13,308	–
Cost of raw materials sold		6,185	–
Depreciation of property, plant and equipment	13	72,019	121,635
Impairment of property, plant and equipment	13	2,303	9,899
Impairment of right-of-use assets	14(a)	2,841	–
Depreciation of right-of-use assets	14(a)	155,518	133,922
(Gain)/loss on terminations of leases, net	14(c)	(2,519)	997
Amortisation of intangible assets*	15	3,511	6,070
Impairment of trade receivables, net	18	225,663	52,382
Impairment of other receivables, net	19	38,822	2,402
(Reversal of write-down)/write-down of inventories to net realisable value**		(26,634)	52,907
Lease payments not included in the measurement of lease liabilities	14(c)	32,778	51,257
Auditor's remuneration		3,740	3,740
Listing expenses		–	25,342
Loss/(gain) on disposal of items of property, plant and equipment, net		10,848	(105)
Waive of debt in a subsidiary from the non-controlling shareholder		(1,875)	–
Foreign exchange differences, net		(2,657)	323
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		110,307	94,291
Equity-settled share award expenses		18,442	–
Pension scheme contributions		7,750	13,368
Staff welfare expenses		7,516	13,628
		144,015	121,287

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

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

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans	47,045	76,690
Interest on lease liabilities	9,422	12,266
	56,467	88,956

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Fees	900	600
Other emoluments:		
Salaries, allowances and benefits in kind	842	520
Performance related bonuses	3,572	4,191
Equity-settled share award expenses	3,842	–
Pension scheme contributions	4	30
	8,260	4,741
	9,160	5,341

During the year, certain directors were granted share awards, in respect of their services to the Group, under the restricted share unit scheme ("RSU scheme") of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such restricted share units ("RSUs"), which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)**(a) Independent non-executive directors**

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

	2020	2019
	RMB'000	RMB'000
GU Jiong	300	200
YUAN Tao	300	200
Paolo BODO	300	200
	900	600

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(b) Executive director, non-executive directors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity- settled share award expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Executive director:					
YU Yong (chief executive)	842	3,572	3,842	4	8,260
Non-executive directors:					
HUANG Hanji	-	-	-	-	-
YANG Herong	-	-	-	-	-
LIN Lin	-	-	-	-	-
Ravinder Singh THAKRAN*	-	-	-	-	-
WANG Jun**	-	-	-	-	-
Chintamani Aniruddha BHAGAT*	-	-	-	-	-
	-	-	-	-	-
	842	3,572	3,842	4	8,260

NOTES TO FINANCIAL STATEMENTS

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

(b) Executive director, non-executive directors and the chief executive (continued)

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

* Ravinder Singh THAKRAN resigned as a non-executive director on 22 May 2020 and Chintamani Aniruddha BHAGAT was appointed as a non-executive director on 2 July 2020.

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

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

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director who is also the chief executive (2019: one director who is also the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, allowances and benefits in kind	1,815	1,738
Performance related bonuses	6,578	4,709
Equity-settled share award expenses	10,428	–
Pension scheme contributions	78	120
	18,899	6,567

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

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$4,000,000	2	1
HK\$5,000,001 to HK\$6,000,000	1	–
HK\$8,000,001 to HK\$9,000,000	1	–
	4	4

During the year, RSUs were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such RSUs, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX

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

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

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax is provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. The Hong Kong subsidiary, Joy Sonic, is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax:		
Charge for the year	1,783	134,845
Overprovision in prior years	(1,169)	–
Deferred tax (<i>note 25</i>)	7,307	(20,151)
Total tax charge for the year	7,921	114,694

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX *(continued)*

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

	2020	2019
	RMB'000	RMB'000
(Loss)/profit before tax	(291,271)	322,862
At the PRC statutory income tax rate of 25%	(72,818)	80,716
Lower tax rates for specific provinces or enacted by local authority	3,589	30
Expenses not deductible for tax	17,141	23,541
Adjustments in respect of current tax of previous years	(1,169)	–
Tax losses utilised from previous years	(932)	–
Profit attributable to an associate	(22)	–
Temporary differences and tax losses not recognised	10,901	10,407
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries <i>(note 25)</i>	51,231	–
Tax charge at the Group's effective rate	7,921	114,694

11. DIVIDENDS

The board of directors did not recommend the payment of any final dividend for the year (2019: Nil).

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12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss (2019: earnings) for the year per share amounts is based on the loss (2019: profit) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 912,500,000 (2019: 869,452,055) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the RSU Scheme.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares arising from the RSUs granted by the Company.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2020 RMB'000	2019 RMB'000
(Loss)/earnings (Loss)/profit attributable to ordinary equity holders of the parent	(301,348)	209,547

	Number of shares	
	2020	2019
Shares Weighted average number of ordinary shares in issue during the year used in the basic loss/earnings per share calculation	912,500,000	869,452,055
Effect of dilution – weighted average number of ordinary shares arising from the RSUs	54,781	–
	912,554,781*	869,452,055

* Because the diluted loss per share amount is decreased when taking RSUs into account, the RSUs had an anti-dilutive effect on the basic loss per share for the year and were ignored in the calculation of diluted loss per share. Therefore, the diluted loss per share amount is the same as the basic loss per share amount for the year.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020:							
Cost	-	269,744	9,863	10,931	45,014	24,590	360,142
Accumulated depreciation and impairment	-	(168,852)	(3,952)	(5,833)	(34,524)	-	(213,161)
Net carrying amount	-	100,892	5,911	5,098	10,490	24,590	146,981
At 1 January 2020, net of accumulated depreciation and impairment	-	100,892	5,911	5,098	10,490	24,590	146,981
Additions	-	34,624	265	1,623	2,368	96,251	135,131
Depreciation provided during the year (note 6)	-	(61,839)	(3,380)	(2,179)	(4,621)	-	(72,019)
Impairment (note 6)	-	(2,303)	-	-	-	-	(2,303)
Disposals	-	(10,932)	(21)	(340)	(40)	-	(11,333)
Transfers	-	2,189	6,463	-	337	(28,816)	(19,827)
Exchange realignment	-	(27)	-	-	-	-	(27)
At 31 December 2020, net of accumulated depreciation and impairment	-	62,604	9,238	4,202	8,534	92,025	176,603
At 31 December 2020:							
Cost	-	222,212	16,565	10,100	47,498	92,025	388,400
Accumulated depreciation and impairment	-	(159,608)	(7,327)	(5,898)	(38,964)	-	(211,797)
Net carrying amount	-	62,604	9,238	4,202	8,534	92,025	176,603

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The recoverable amounts of certain leasehold improvements and right-of-use assets for non-performing shopping malls and standalone stores have been determined to be nil since management has a plan to shut down these non-performing shopping malls and standalone stores in the near future and no material cash flow is expected. Impairment provisions of RMB2,303,000 (2019: RMB9,899,000) and RMB2,841,000 (2019: Nil) (note 14(a)) were recognised in profit or loss for leasehold improvements and right-of-use assets, respectively.

14. LEASES**The Group as a lessee**

The Group has lease contracts for shopping malls, standalone stores, warehouses and offices used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 years, and no ongoing payments will be made under the terms of these land leases. Leases of shopping malls and standalone stores generally have lease terms between 2 and 5 years, while warehouses generally have lease terms between 3 and 10 years and offices generally have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Leasehold land RMB'000	Properties RMB'000	Total RMB'000
As at 1 January 2019	22,976	263,791	286,767
Additions	–	151,900	151,900
Reductions as a result of lease terminations	–	(31,103)	(31,103)
Depreciation charge	(661)	(133,261)	(133,922)
As at 31 December 2019 and 1 January 2020	22,315	251,327	273,642
Additions	–	146,804	146,804
Reductions as a result of lease terminations	–	(23,331)	(23,331)
Depreciation charge	(661)	(154,857)	(155,518)
Impairment	–	(2,841)	(2,841)
Exchange realignment	–	(338)	(338)
As at 31 December 2020	21,654	216,764	238,418

At 31 December 2020, the Group's leasehold land with a net carrying amount of approximately RMB21,654,000 was pledged to secure general banking facilities granted to the Group (note 24(b)).

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14. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) Lease liabilities

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount at 1 January	233,067	252,957
New leases	146,804	151,900
Reductions as a result of lease terminations	(25,850)	(30,106)
Accretion of interest recognised during the year	9,422	12,266
Covid-19-related rent concessions from lessors	(18,069)	–
Payments	(131,662)	(153,950)
Exchange realignment	(286)	–
Carrying amount at 31 December	213,426	233,067
Analysed into:		
Current portion	87,028	131,127
Non-current portion	126,398	101,940

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

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain shopping malls, standalone stores, warehouses and offices during the year.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on lease liabilities	9,422	12,266
Depreciation charge of right-of-use assets	155,518	133,922
(Gain)/loss on terminations of leases, net	(2,519)	997
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in selling and distribution expenses and administrative expenses) <i>(note 6)</i>	32,778	51,257
Covid-19-related rent concessions from lessors	(18,069)	–
Impairment of right-of-use assets	2,841	–
Total amount recognised in profit or loss	179,971	198,442

(d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS

	Software RMB'000	Trademarks RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	8,763	1,995	10,758
Additions	1,744	172	1,916
Transfers	19,827	–	19,827
Amortisation provided during the year	(3,093)	(418)	(3,511)
Exchange realignment	–	(77)	(77)
At 31 December 2020	27,241	1,672	28,913
At 31 December 2020:			
Cost	41,401	2,270	43,671
Accumulated amortisation	(14,160)	(598)	(14,758)
Net carrying amount	27,241	1,672	28,913
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	4,560	5,779	10,339
Additions	6,184	292	6,476
Amortisation provided during the year	(1,981)	(4,089)	(6,070)
Exchange realignment	–	13	13
At 31 December 2019	8,763	1,995	10,758
At 31 December 2019:			
Cost	19,830	6,398	26,228
Accumulated amortisation	(11,067)	(4,403)	(15,470)
Net carrying amount	8,763	1,995	10,758

NOTES TO FINANCIAL STATEMENTS

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16. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Investments in associates	10,446	–

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

Particulars of the associates are as follows:

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

The Group's shareholdings in these associates all comprise equity shares. The shareholdings in Naizuo Clothing, Moka Clothing and Songwaxiaxia which were set up in June 2018 were held through Mulsanne E-commerce, a subsidiary of the Company. The shareholding in EUME which was set up in December 2019 was held through Mulsanne Maisi, a subsidiary of the Company.

The Group has discontinued the recognition of its share of losses of associates, namely Naizuo Clothing, Moka Clothing and Songwaxiaxia, because the share of losses of the associates exceeded the Group's interests in the associates and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB433,000 (2019: RMB1,124,000) and RMB1,630,000 (2019: RMB1,197,000), respectively.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

16. INVESTMENTS IN ASSOCIATES *(continued)*

EUME, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the marketing and sale of apparel products and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of EUME and reconciled to the carrying amount in the consolidated financial statements:

	2020 RMB'000
Current assets	56,649
Non-current assets	2,481
Current liabilities	(6,901)
Net assets	52,229
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	20%
Carrying amount of the investment	10,446
Revenue	21,728
Profit and total comprehensive income for the year	2,229

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

	2020 RMB'000	2019 <i>RMB'000</i>
Share of the associates' losses for the year	-	(50)

NOTES TO FINANCIAL STATEMENTS

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17. INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	3,949	11,860
Decorations	12,502	17,843
Finished goods	789,938	1,041,219
	806,389	1,070,922

18. TRADE AND NOTES RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	881,296	1,030,706
Notes receivable	46,963	72,250
	928,259	1,102,956
Impairment of trade receivables	(296,045)	(70,382)
	632,214	1,032,574

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

Included in the Group's trade receivables are amounts due from the Group's related parties of RMB500,000 (2019: RMB623,000) which are repayable on credit terms similar to those offered to the major customers of the Group.

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

NOTES TO FINANCIAL STATEMENTS

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18. TRADE AND NOTES RECEIVABLES (continued)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Less than 3 months	350,691	463,182
Between 3 and 6 months	63,922	243,035
Between 6 and 12 months	81,053	183,283
Between 1 and 2 years	303,409	135,496
Over 2 years	82,221	5,710
	881,296	1,030,706

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	70,382	18,000
Impairment losses, net (note 6)	225,663	52,382
At end of year	296,045	70,382

The increase (2019: increase) in the loss allowance was mainly due to the following significant changes in the gross carrying amount:

- (i) Increase in the loss allowance of RMB205,051,000 mainly due to an increase in trade receivables aged over one year (2019: increase in the loss allowance of RMB47,922,000 mainly due to an increase in trade receivables aged over six months) and the increase in the related expected credit loss rates; and
- (ii) Increase in the loss allowance of RMB20,133,000 for trade receivables aged less than 6 months mainly due to the increase in the expected credit loss rate.

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

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

NOTES TO FINANCIAL STATEMENTS

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18. TRADE AND NOTES RECEIVABLES *(continued)*

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

As at 31 December 2020

	Gross carrying amount <i>RMB'000</i>	Expected credit loss rate	Expected credit loss <i>RMB'000</i>
Defaulted receivables	18,680	100.00%	18,680
Trade receivables from online channels and self-owned stores	154,399	0.06%	85
Other trade receivables aged:			
Less than 6 months	262,201	8.85%	23,197
Between 7 and 12 months	79,861	13.73%	10,968
Between 1 and 2 years	297,025	58.58%	173,985
Over 2 years	69,130	100.00%	69,130
	881,296	33.59%	296,045

As at 31 December 2019

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

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18. TRADE AND NOTES RECEIVABLES (continued)

As at 31 December 2020, the Group discounted certain notes receivable (the "Discounted Notes") with carrying amounts in aggregate of RMB46,463,000 (2019: RMB68,190,000) (the "Discount"). The Discounted Notes have a maturity from one to five months as at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Discounted Notes have a right of recourse against the Group if the PRC banks or the counterparties default.

As at 31 December 2020, the Group recognised the proceeds received from the discount of the Discounted Notes with an amount of RMB46,463,000 (2019: RMB68,190,000) as short-term loans (note 24), because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Notes.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020	2019
	RMB'000	RMB'000
Other receivables	253,486	257,897
Prepaid expenses	44,904	37,166
Prepayments	70,591	16,330
Tax recoverable	9,589	22,889
Others	866	886
	379,436	335,168
Impairment	(39,473)	(4,355)
	339,963	330,813

Other receivables mainly represent deposits and advances to third parties. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, except for the defaulted other receivables of RMB36,781,000 (2019: RMB1,343,000), the probability of default applied ranged from 0.05% to 2.00% (2019: 0.05% to 2.00%) and the loss given default was estimated to be 100% (2019: 100%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there were no comparable companies as at 31 December 2020 was 2.00% (2019: 2.00%).

Included in the prepayment, other receivables and other assets are prepayments of RMB17,558,000 (2019: RMB10,147,000) to the Group's related party and other receivables of RMB2,000,000 (2019: Nil) from the Group's related party, respectively.

NOTES TO FINANCIAL STATEMENTS

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	4,355	3,653
Impairment losses, net	38,822	2,402
Amount written off as uncollectible	(1,769)	(1,700)
Exchange realignment	(1,935)	–
	39,473	4,355

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash and bank balances	771,692	820,788
Short-term deposits	12,960	29,566
	784,652	850,354
Less: Pledged short-term deposits:		
Pledged for notes payable	(12,960)	(29,566)
Cash and cash equivalents	771,692	820,788
Denominated in RMB	659,234	590,108
Denominated in US\$	112,317	144,997
Denominated in HK\$	32	85,366
Denominated in MOP	109	317
Cash and cash equivalents	771,692	820,788

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

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

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21. TRADE AND NOTES PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	491,748	631,663
Notes payable	129,400	254,530
	621,148	886,193

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	456,777	606,574
3 to 6 months	20,981	17,999
6 to 12 months	8,288	3,663
1 to 2 years	4,959	2,804
Over 2 years	743	623
	491,748	631,663

Included in the trade and notes payables are trade payables of RMB13,239,000 (2019: RMB17,124,000) due to the Group's related parties which are repayable within 120 days, which represents credit terms similar to those offered by the related parties to their major customers.

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

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22. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term advances received from customers		
Sale of products	47,301	53,929
Loyalty points programme	3,544	3,204
Total contract liabilities	50,845	57,133

Contract liabilities include short-term advances received to deliver products. The decrease in contract liabilities in 2020 was mainly due to the decrease in short-term advances received from customers in relation to the sale of products at the end of the year.

23. OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Other payables	110,435	135,243
Accrued payroll	62,847	60,299
Accrued expenses	52,121	43,198
Taxes payable other than corporate income tax	50,487	8,933
Interest payable	–	1,686
	275,890	249,359

Included in the other payables and accruals are other payables of nil (2019: RMB1,545,000) due to the Group's related parties.

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

NOTES TO FINANCIAL STATEMENTS

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24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Current portion of long-term bank loan – secured US\$226,000,000 bank loan	1-month LIBOR plus 3.90%	Within 2021	234,171	1-month LIBOR plus 2.50%	Within 2020	66,050
Current portion of long-term bank loan – secured RMB26,118,000 bank loan	5-year LPR	Within 2021	1,650	–	–	–
Current portion of long-term bank loan – secured RMB27,698,000 bank loan	5-year LPR	Within 2021	1,750	–	–	–
Discounted notes receivable (note 18)	–	Within 2021	46,463	–	Within 2020	68,190
			<u>284,034</u>			<u>134,240</u>
Non-current						
Bank loan – secured US\$226,000,000 bank loan	1-month LIBOR plus 3.90%	2022	706,752	1-month LIBOR plus 2.50%	2021–2022	1,006,002
Bank loan – secured RMB26,118,000 bank loan	5-year LPR	2022–2028	24,468	–	–	–
Bank loan – secured RMB27,698,000 bank loan	5-year LPR	2022–2028	25,948	–	–	–
			<u>757,168</u>			<u>1,006,002</u>
			<u>1,041,202</u>			<u>1,140,242</u>

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

24. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	284,034	134,240
In the second year	714,652	250,367
In the third to fifth years, inclusive	23,700	755,635
Beyond five years	18,816	–
	1,041,202	1,140,242

Notes:

- (a) The US\$226,000,000 bank loan are secured by:
- i. mortgages and fixed charges over the Company's equity interests in Joy Sonic and Alpha Sonic; and
 - ii. mortgages and fixed charges over Joy Sonic's equity interests in Chisage Mulsanne and YAtlas Shanghai.
- (b) The bank loans of RMB26,118,000 and RMB27,698,000 are secured by mortgages over the Group's leasehold land, which had a net carrying value at the end of the reporting period of approximately RMB21,654,000 (note 14(a)).
- (c) Except for the bank loan of US\$226,000,000 which is denominated in United States dollars, all loans are in RMB.

NOTES TO FINANCIAL STATEMENTS

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25. DEFERRED TAX

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

Deferred tax assets

	Impairment of trade and other receivables RMB'000	Impairment of inventories RMB'000	Provision of sales return RMB'000	Accrued employee benefits RMB'000	Accrued sales rebate RMB'000	Accrued expenses RMB'000	Decelerated depreciation for tax purposes RMB'000	Impairment of property, plant and equipment RMB'000	Lease liabilities RMB'000	Unrealised profit from inter- company transactions RMB'000	Tax losses deferred tax assets RMB'000	Total deferred tax assets RMB'000
At 1 January 2019	5,411	15,407	28,042	11,865	10,574	14,162	4,121	3,500	-	1,873	-	94,955
Deferred tax credited/(charged) to profit or loss during the year (note 10)	13,086	12,497	8,264	(3,966)	(1,077)	(827)	(1,823)	(1,164)	56,941	(388)	-	81,543
At 31 December 2019 and 1 January 2020	18,497	27,904	36,306	7,899	9,497	13,335	2,298	2,336	56,941	1,485	-	176,498
Deferred tax credited/(charged) to profit or loss during the year (note 10)	57,073	(6,335)	(22,788)	(1,859)	(474)	160	(1,477)	(1,308)	(10,363)	160	16,817	29,606
At 31 December 2020	75,570	21,569	13,518	6,040	9,023	13,495	821	1,028	46,578	1,645	16,817	206,104

NOTES TO FINANCIAL STATEMENTS

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25. DEFERRED TAX *(continued)*

The movements in deferred tax assets and liabilities during the year are as follows: *(continued)*

Deferred tax liabilities

	Right-of- use assets <i>RMB'000</i>	Withholding taxes <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	–	–	–
Deferred tax charged to profit or loss during the year <i>(note 10)</i>	61,392	–	61,392
At 31 December 2019 and 1 January 2020	61,392	–	61,392
Deferred tax charged/(credited) to profit or loss during the year <i>(note 10)</i>	(14,318)	51,231	36,913
At 31 December 2020	47,074	51,231	98,305

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	159,311	119,823
Net deferred tax liabilities recognised in the consolidated statement of financial position	(51,512)	(4,717)
	107,799	115,106

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

25. DEFERRED TAX (continued)**Deferred tax liabilities** (continued)

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Tax losses	80,208	66,680
Deductible temporary differences	45,093	9,359
	125,301	76,039

The Group has tax losses arising in Mainland China of RMB63,438,000 (2019: RMB53,471,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Macau of RMB16,770,000 (2019: RMB13,209,000) that will expire in one to three years for offsetting against future taxable profits of GXG Macau in which the losses arose.

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

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated since 1 January 2008.

At 31 December 2020, except for unremitted earnings of certain PRC subsidiaries of RMB1,024,620,000 (2019: Nil), no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future due to the Group's business development in Mainland China. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB42,688,000 at 31 December 2020 (2019: RMB1,228,008,000).

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

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26. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Authorised: 10,000,000,000 (2019: 10,000,000,000) ordinary shares of HK\$0.01 each	88,181	88,181
Issued and fully paid: 950,000,000 (2019: 950,000,000) ordinary shares of HK\$0.01 each	8,343	8,343

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2019	1,560	–
New issues on 26 April 2019 (<i>note a</i>)	198,440	2
Capitalisation issue (<i>note a</i>)	749,800,000	6,585
New issues on 27 May 2019 (<i>note b</i>)	200,000,000	1,756
At 31 December 2019, 1 January 2020 and 31 December 2020	950,000,000	8,343

Notes:

- (a) On 26 April 2019, an amount of HK\$2,000 standing to the credit of the Company's share premium account was capitalised by the issue of 198,440 shares fully paid at par value of HK\$0.01 each to the shareholders in proportion to their then existing holding of shares.
- Pursuant to an ordinary resolution passed on 26 April 2019, 749,800,000 shares of HK\$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appeared on the register of members of the Company at the close of business on 26 April 2019 in proportion to their respective shareholdings. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (b) below.
- (b) In connection with the Company's initial public offering, 200,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$4.39 per share for a total cash consideration, before expenses, of approximately HK\$878,000,000 (equivalent to RMB771,050,000). Dealings in these shares on the Stock Exchange commenced on 27 May 2019.

NOTES TO FINANCIAL STATEMENTS

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27. SHARE AWARD SCHEME

The Company operates an RSU Scheme for the purpose to incentivise executives for their contribution to the Group and to motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group. Eligible participants of the RSU Scheme include the existing or past employees, directors (whether executive or non-executive, but excluding independent non-executive directors), consultants or officers of the Company or any of its subsidiaries. The RSU Scheme is valid and effective for a period of ten years, commencing from 27 May 2019 or until it is terminated pursuant to the RSU Scheme, whichever is earlier.

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

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

The following RSUs were outstanding under the RSU Scheme during the year:

	2020	
	Weighted average exercise price <i>HK\$ per share</i>	Number of RSUs <i>'000</i>
At 1 January	–	–
Granted during the year	2,634	11,900
At 31 December	2,634	11,900

The exercise period is from the grant date to the end of the effective period of the RSU Scheme.

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27. SHARE AWARD SCHEME *(continued)*

The fair value of the RSUs granted during the year was RMB22,284,000 (2019: Nil), which the Group recognised as share award expenses during the year ended 31 December 2020.

The fair value of equity-settled RSUs granted was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the awards were granted. The following table lists the key assumptions that the model used:

	2020
Expected volatility (%)	43.2
Risk-free interest rate (%)	0.76
Expected life of awards (year)	10
Weighted average share price (HK\$ per share)	3.933

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the RSUs granted was incorporated into the measurement of fair value.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on pages 56 to 57 of this report.

Share premium

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

Statutory surplus reserve

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

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28. RESERVES *(continued)*

Exchange fluctuation reserve

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

Merger reserve

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

Capital reserve

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

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB146,804,000 (2019: RMB151,900,000) and RMB146,804,000 (2019: RMB151,900,000), respectively, in respect of lease arrangements for shopping malls, standalone stores, warehouses and offices.

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29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)***(b) Changes in liabilities arising from financing activities****Interest-bearing bank and other borrowings**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	1,140,242	1,495,560
Changes from financing cash flows:		
Proceeds from bank and other borrowings	957,798	468,190
Repayment of bank and other borrowings	(921,202)	(741,834)
Non-cash changes:		
Discounted notes receivable derecognised on maturity	(68,190)	(107,321)
Deferred finance charges	2,015	2,741
Foreign exchange movement	(69,461)	22,906
At end of year	1,041,202	1,140,242

Lease liabilities

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	233,067	252,957
Changes from financing cash flows:		
Principal portion of lease payments	(122,240)	(141,684)
Interest paid	(9,422)	(12,266)
Non-cash changes:		
New leases	146,804	151,900
Interest expense	9,422	12,266
Covid-19-related rent concessions from lessors	(18,069)	–
Reduction as a result of lease terminations	(25,850)	(30,106)
Foreign exchange movement	(286)	–
At end of year	213,426	233,067

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29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**(b) Changes in liabilities arising from financing activities** (continued)**Due to related parties**

	2020	2019
	RMB'000	<i>RMB'000</i>
At beginning of year	126	31,633
Changes from financing cash flows:		
Repayment to related parties	–	(30,190)
Interest paid	–	(1,192)
Changes from operating cash flows:		
Repayment to related parties	–	(127)
Non-cash changes:		
Foreign exchange movement	5	2
At end of year	131	126

(c) Total cash outflow for leases

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

	2020	2019
	RMB'000	<i>RMB'000</i>
Within operating activities	32,778	51,257
Within financing activities	131,662	153,950
	164,440	205,207

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30. CONTINGENT LIABILITIES

The Company entered into a joint venture agreement (the “JV Agreement”) with Million Success Resources Limited (“Million Success”) with effect from 2 December 2019 to establish a joint venture company in the PRC. On 30 July 2020, the Company received a letter (the “Letter”) from the PRC legal advisers to Million Success asserting, among other things, termination of the JV Agreement, breach of the JV Agreement by the Company and a claim for liquidated damages of RMB50,000,000. The Company does not accept any allegations made in the Letter and intends to rigorously defend its rights under the JV Agreement and any proceedings that may be brought by Million Success. The directors, based on the advice from the Group’s PRC legal counsel and the current circumstances known to them, have grounds to believe that the Company has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the allegation.

31. COMMITMENTS

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contracted, but not provided for:		
Buildings	60,969	7,730
Machinery and equipment	9,800	–
	70,769	7,730

NOTES TO FINANCIAL STATEMENTS

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32. RELATED PARTY TRANSACTIONS

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

Name	Relationship
Glory Cayman Holding Limited ("Glory Cayman")	An entity controlled by a controlling shareholder
Glorious Cayman Ltd. ("Glorious Cayman")	An entity controlled by a controlling shareholder
2XU Pty Ltd.	An entity controlled by a controlling shareholder
2XU HK Limited	An entity controlled by a controlling shareholder
Ningbo Chisage Wenmo Branding Management Co., Ltd. ("Chisage Wenmo")	An entity controlled by a director
Ningbo Chisage Wenmo E-Commerce Co., Ltd. ("Wenmo E-Commerce")	An entity controlled by a director
Ningbo Wenmo Garment Co., Ltd. Co., Ltd. ("Wenmo Garment")	An entity controlled by a director
Chisage Holding Group Co., Ltd. ("Chisage Holding")	An entity controlled by a director
Ningbo Songhe Apparel Co., Ltd. ("Songhe Apparel")	An entity controlled by a director
Ningbo Chisage Industrial Technology Co., Ltd. (formerly known as Ningbo Chisage Apparel Co., Ltd.) ("Ningbo Chisage Industrial")	An entity controlled by a director
Huaian Chisage Industrial Co., Ltd. ("Huaian Chisage Industrial")	An entity controlled by a director
Joy Asia International Limited ("Joy Asia")	An entity controlled by a director
Ningbo Moka Clothing Co., Ltd. ("Moka Clothing")	An associate

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

32. RELATED PARTY TRANSACTIONS *(continued)*

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

	Notes	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Purchases of products from:			
Huaian Chisage Industrial	(i)	3,474	16,719
Ningbo Chisage Industrial	(i)	49,038	63,880
2XU Pty Ltd.	(i)	617	5,198
Depreciation of right-of-use assets:			
Songhe Apparel	(ii)	3,643	3,643
Chisage Holding	(ii)	6,224	6,224
Wenmo Garment	(ii)	982	–
Interest expense on lease liabilities:			
Songhe Apparel	(ii)	135	307
Chisage Holding	(ii)	230	525
Wenmo Garment	(ii)	434	–
Royalty fee to:			
2XU Pty Ltd.	(iii)	476	234
Rental income from:			
Chisage Wenmo	(iv)	–	1,060
Wenmo E-Commerce	(iv)	–	145
Repayment of loans to:			
Joy Asia	(v)	–	20,190
Repayment of interest to:			
Joy Asia	(v)	–	1,192

Notes:

- (i) The purchases from related parties were made according to the published prices and conditions offered by the related parties to their major customers.
- (ii) The depreciation of right-of-use assets and interest expense on lease liabilities were charged to profit or loss under IFRS 16 relating to the lease of the warehouses and offices from related parties pursuant to the terms of the agreements signed between the Group and the related parties. The Group's lease liabilities due to the related parties are included in note 14(b) to the financial statements.
- (iii) The royalty fee was determined as certain percentages of the actual revenue generated from sales of designated products.
- (iv) The rental income was received for the leases of the warehouses to related parties. The rental income was charged pursuant to the terms of the agreements signed between the Group and the related parties.
- (v) The loans from Joy Asia were used as temporary working capital. The loans were unsecured with interest at 5% per annum and were repaid in January 2019.

NOTES TO FINANCIAL STATEMENTS

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32. RELATED PARTY TRANSACTIONS *(continued)***(b) Outstanding balances with related parties:****(i) Due from a related party**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Glorious Cayman	228	230

(ii) Due to a related party

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Glory Cayman	131	126

(iii) Trade receivables

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Moka Clothing	500	500
Wenmo E-Commerce	–	123
	500	623

(iv) Trade payables

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Ningbo Chisage Industrial	9,884	17,124
Huaian Chisage Industrial	3,355	–
	13,239	17,124

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

32. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

(v) Prepayments, other receivables and other assets

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Huaian Chisage Industrial	17,558	10,147
Wenmo Garment	2,000	–
	19,558	10,147

(vi) Other payables and accruals

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Songhe Apparel	–	1,545

The balances with related parties are unsecured, interest-free and repayable on demand, except for the balances detailed elsewhere in notes 18, 19 and 21 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

32. RELATED PARTY TRANSACTIONS (continued)**(c) Compensation of key management personnel of the Group:**

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term employee benefits	11,662	10,352
Pension scheme contributions	57	120
Equity-settled share award expenses	12,103	–
Total compensation paid to key management personnel	23,822	10,472

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

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

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets**31 December 2020**

	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and notes receivables	632,214	632,214
Financial assets included in prepayments, other receivables and other assets	214,013	214,013
Due from a related party	228	228
Pledged short-term deposits	12,960	12,960
Cash and cash equivalents	771,692	771,692
	1,631,107	1,631,107

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial assets (continued)

31 December 2019

	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
	Debt investments <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes receivables	4,000	1,028,574	1,032,574
Financial assets included in prepayments, other receivables and other assets	–	253,542	253,542
Due from a related party	–	230	230
Pledged short-term deposits	–	29,566	29,566
Cash and cash equivalents	–	820,788	820,788
	4,000	2,132,700	2,136,700

Financial liabilities at amortised cost

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade and notes payables	621,148	886,193
Financial liabilities included in other payables and accruals	162,556	180,127
Interest-bearing bank and other borrowings	1,041,202	1,140,242
Due to a related party	131	126
Lease liabilities	213,426	233,067
	2,038,463	2,439,755

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2020 were assessed to be insignificant.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

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

The Group did not have any financial assets measured at fair value as at 31 December 2020.

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

31 December 2020

	Increase/ (decrease) in basis points	(Increase)/ decrease in loss before tax RMB'000	Increase/ (decrease) in equity RMB'000
US\$	50	(4,705)	(4,705)
US\$	(50)	4,705	4,705
RMB	50	(269)	(269)
RMB	(50)	269	269

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*Interest rate risk *(continued)*

31 December 2019

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax <i>RMB'000</i>	Increase/ (decrease) in equity <i>RMB'000</i>
US\$	50	(5,360)	(5,360)
US\$	(50)	5,360	5,360

Foreign currency risk

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

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

2020

	Increase/ (decrease) in rate of foreign currency %	(Increase)/ decrease in loss before tax <i>RMB'000</i>	Increase/ (decrease) in equity <i>RMB'000</i>
If the RMB weakens against the US\$	5	(41,588)	(43,419)
If the RMB strengthens against the US\$	(5)	41,588	43,419
If the RMB weakens against the HK\$	5	33	33
If the RMB strengthens against the HK\$	(5)	(33)	(33)
If the RMB weakens against the MOP	5	114	86
If the RMB strengthens against the MOP	(5)	(114)	(86)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Foreign currency risk** (continued)**2019**

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
If the RMB weakens against the US\$	5	(46,613)	(45,753)
If the RMB strengthens against the US\$	(5)	46,613	45,753
If the RMB weakens against the HK\$	5	4,298	4,298
If the RMB strengthens against the HK\$	(5)	(4,298)	(4,298)
If the RMB weakens against the MOP	5	132	157
If the RMB strengthens against the MOP	(5)	(132)	(157)

Credit risk

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Credit risk** *(continued)***Maximum exposure and year-end staging**

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

As at 31 December 2020

	12-month ECLs				
	Lifetime ECLs				Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	–	–	–	881,296	881,296
Notes receivable**	46,963	–	–	–	46,963
Financial assets included in prepayments, other receivables and other assets					
– Normal**	216,705	–	–	–	216,705
– Doubtful**	–	–	36,781	–	36,781
Due from a related party	228	–	–	–	228
Pledged deposits					
– Not yet past due	12,960	–	–	–	12,960
Cash and cash equivalents					
– Not yet past due	771,692	–	–	–	771,692
	1,048,548	–	36,781	881,296	1,966,625

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

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

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

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

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

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by sales channels. At 31 December 2020, the Group had certain concentrations of credit risk as 24.7% (2019: 27.5%) and 41.1% (2019: 43.1%) of the Group's trade receivables were due from the Group's largest debtor and five largest debtors, respectively.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

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

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

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

	As at 31 December 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	35,176	289,197	775,186	21,614	1,121,173
Trade and notes payables	–	530,147	91,001	–	–	621,148
Financial liabilities included in other payables and accruals	162,556	–	–	–	–	162,556
Due to a related party	131	–	–	–	–	131
Lease liabilities	–	26,443	71,689	106,440	35,051	239,623
	162,687	591,766	451,887	881,626	56,665	2,144,631

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)***Capital management**

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest-bearing bank and other borrowings	1,041,202	1,140,242
Lease liabilities	213,426	233,067
Trade and notes payables	621,148	886,193
Other payables and accruals	275,890	249,359
Due to a related party	131	126
Less: Cash and cash equivalents	(771,692)	(820,788)
Pledged short-term deposits	(12,960)	(29,566)
Net debt	1,367,145	1,658,633
Equity attributable to owners of the parent	814,331	1,038,198
Capital and net debt	2,181,476	2,696,831
Gearing ratio	63%	62%

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT ASSETS		
Intangible assets	9	10
Investments in subsidiaries	4,054,929	4,557,000
Total non-current assets	4,054,938	4,557,010
CURRENT ASSETS		
Prepayments, other receivables and other assets	1,140	189
Due from subsidiaries	201,049	221,847
Due from a related party	215	230
Cash and cash equivalents	89,026	195,954
Total current assets	291,430	418,220
CURRENT LIABILITIES		
Other payables and accruals	902	2,284
Interest-bearing bank and other borrowings	234,171	66,050
Due to a related party	131	140
Total current liabilities	235,204	68,474
NET CURRENT ASSETS	56,226	349,746
TOTAL ASSETS LESS CURRENT LIABILITIES	4,111,164	4,906,756
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	706,752	1,006,002
Net assets	3,404,412	3,900,754
EQUITY		
Share capital	8,343	8,343
Reserves (<i>note</i>)	3,396,069	3,892,411
Total equity	3,404,412	3,900,754

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

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

(continued)

Note:

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

	Share premium account RMB'000	Capital reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2019	–	765,317	–	113,815	2,700,213	3,579,345
Total comprehensive loss for the year	–	–	–	59,375	(480,979)	(421,604)
Issue of shares to the then shareholders	(2)	–	–	–	–	(2)
Issue of shares for the initial public offering	769,294	–	–	–	–	769,294
Capitalisation issue	(6,585)	–	–	–	–	(6,585)
Share issue expenses	(28,037)	–	–	–	–	(28,037)
At 31 December 2019 and 1 January 2020	734,670	765,317	–	173,190	2,219,234	3,892,411
Total comprehensive loss for the year	–	–	–	(237,137)	(281,489)	(518,626)
Equity-settled share award arrangements	–	–	22,284	–	–	22,284
At 31 December 2020	734,670	765,317	22,284	(63,947)	1,937,745	3,396,069

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2021.

FIVE YEAR FINANCIAL SUMMARY

Results	Year ended 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	2,861,496	3,721,376	3,787,042	3,510,301	3,017,838
Gross profit	1,224,655	1,798,735	2,032,207	1,899,479	1,617,610
(Loss)/Profit before tax	(291,271)	322,862	507,684	587,403	573,309
Income tax expenses	(7,921)	(114,694)	(133,182)	(165,612)	(173,629)
(Loss)/Profit for the year	(299,192)	208,168	374,502	421,791	399,680

Assets, Liabilities and Equity	As at 31 December				
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Total assets	3,222,214	3,899,888	3,176,976	2,962,967	2,446,731
Total liabilities	2,407,500	2,863,463	3,078,665	3,193,464	1,439,251
Total equity	814,714	1,036,425	98,311	(230,497)	1,007,480