La Chapelle

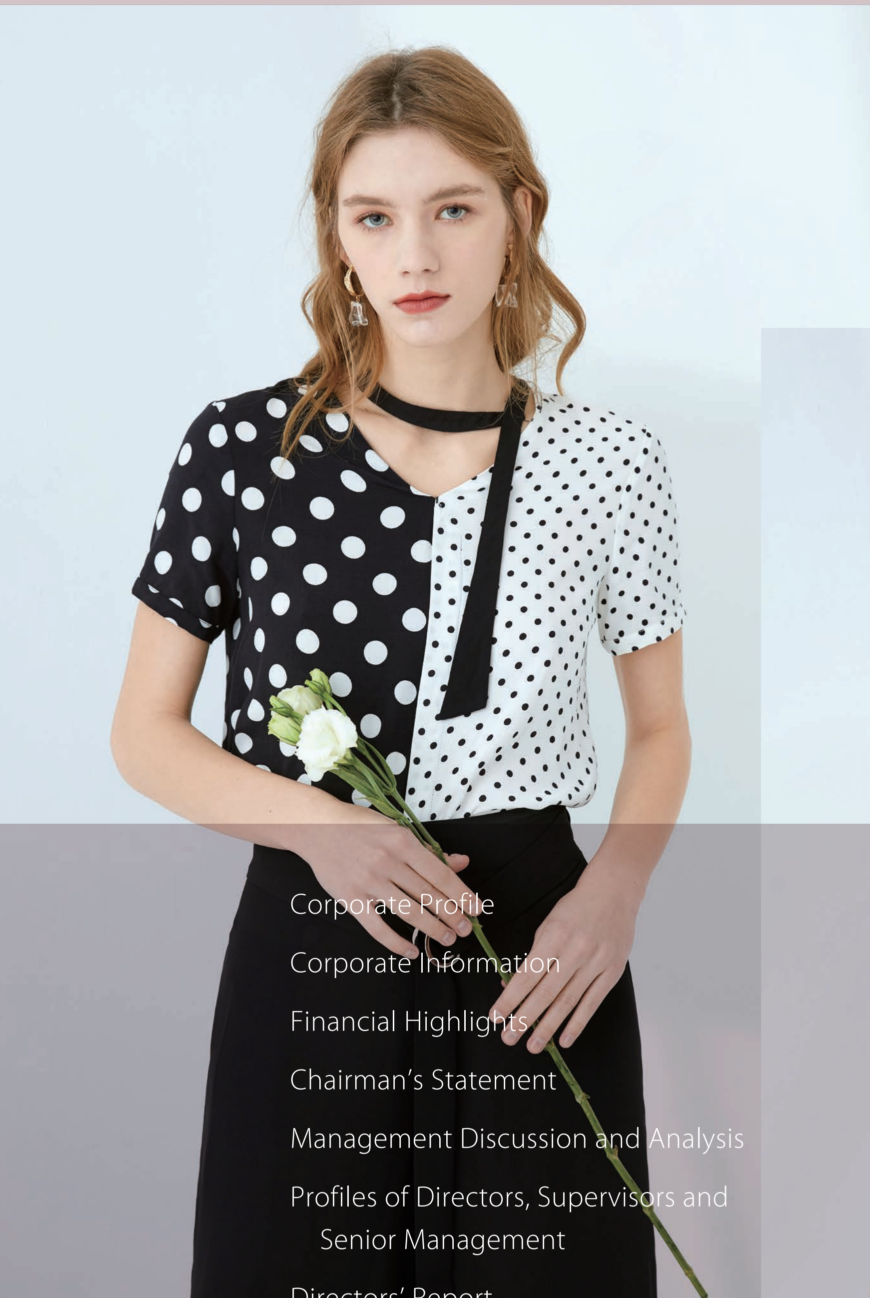
Shanghai La Chapelle Fashion Co., Ltd.

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

ANNUAL REPORT 2019

(Stock Code: 06116)

Contents



Corporate Profile

Shanghai La Chapelle Fashion Co., Ltd. (the "**Company**") was incorporated in the People's Republic of China (the "**PRC**" or "**China**") as a joint stock company on 23 May 2011 converting from its predecessor, Shanghai Xuhui La Chapelle Fashion Limited that was founded in 1998. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") since 9 October 2014 (the "**Hong Kong Listing Date**"), and the A shares of the Company have been listed on the Main Board of the Shanghai Stock Exchange since 25 September 2017.

The Company and its subsidiaries (the "**Group**") are a multi-brand and omni-channel operated fashion group in the PRC that designs, markets and sells apparel products with a focus on mass-market casualwear. Since its establishment, the Group has kept its focus on the apparel sector and adhered to the brand's core development concept of "designing for a better life". The Group has been committed to becoming a leading multi-brand, omni-channel, driven by data technology new fashion group in China. The Group has been dedicated to providing high-quality and fashionable apparel products and lifestyles to mass domestic consumers.

The Group now owns multiple brands such as La Chapelle, Puella, Candie's, 7 Modifier and La Babité which have different but complementary styles. They are mass-market women fashion brands that have interwoven and extensive customer positioning which satisfy the diverse needs of a wide range of female consumers.

The Group sells apparel products directly to retail customers through both physical retail points and online platforms. As at 31 December 2019, the Group's extensive nationwide retail network comprised 4,878 retail outlets, including 4,707 direct retail outlets and 757 franchising retail outlets situated at approximately 1,651 physical locations across all 31 provinces, autonomous regions and municipalities in Mainland China. In addition, due to the acquisition of the French brand Naf Naf during 2019, the Group added 586 retail outlets to its retail network in overseas region for the financial year ended 31 December 2019 (owned by Naf Naf).

Corporate Profile


Puella
Fabulous
Shirt

7MODIFIER


La babité

Corporate Information

REGISTERED CHINESE NAME

上海拉夏貝爾服飾股份有限公司

ENGLISH NAME

Shanghai La Chapelle Fashion Co., Ltd.

HEADQUARTERS IN THE PRC

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

REGISTERED OFFICE

Room 3300, Level 3, Block 1
270 Cao Xi Road
Xuhui District, Shanghai, PRC

PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
248 Queen's Road East
Wanchai, Hong Kong

COMPANY'S WEBSITE

www.lachapelle.cn

DIRECTORS

Executive Directors

Mr. Yin Xinzai *(President)*
Ms. Zhang Danling

Non-executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION AND APPRAISAL COMMITTEE

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

BUDGET COMMITTEE

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

STRATEGY AND DEVELOPMENT COMMITTEE

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

SUPERVISORS

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

COMPANY SECRETARY

Ms. Wong Wai Ling (ACS, ACIS)

AUTHORIZED REPRESENTATIVES

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

LEGAL ADVISERS

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

AUDITOR

PricewaterhouseCoopers
Zhong Tian LLP (resigned on 16 July 2019)
Ernst & Young Hua Ming LLP (appointed on 16 July 2019)

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

STOCK CODE

6116

* *for identification purpose only*


La babité

Financial Highlights

FINANCIAL SUMMARY

A summary of the consolidated results and of the consolidated assets, equity and liabilities of the Group for the last five financial years, is set as below:

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**7,666,229**	10,175,853	8,998,709	8,550,867	9,095,708
Gross profit	**4,423,450**	6,647,516	5,627,804	5,479,566	6,198,430
Gross profit margin	**57.70%**	65.33%	62.5%	64.1%	68.1%
Operating (loss)/profit	**(2,266,447)**	(151,681)	737,493	686,972	828,396
Operating (loss)/profit margin	**(29.56%)**	(1.49%)	8.2%	8.0%	9.1%
(Loss)/profit for the year	**(2,252,279)**	(199,182)	537,440	572,267	658,398
(Loss)/profit attributable to equity owners of the Company	**(2,166,306)**	(159,513)	498,527	531,963	615,251
Non-controlling interests	**(85,973)**	(39,669)	38,913	40,304	43,147

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets	**4,811,602**	3,473,479	2,817,072	2,224,927	1,538,487
Current assets	**3,199,921**	5,216,019	5,054,640	4,078,716	4,330,241
Total assets	**8,011,523**	8,689,498	7,871,712	6,303,643	5,868,728
EQUITY AND LIABILITIES					
Total equity	**1,126,196**	3,561,957	4,069,228	3,510,218	3,309,878
Non-current liabilities	**1,400,240**	407,752	67,039	68,939	57,573
Current liabilities	**5,485,087**	4,719,789	3,735,445	2,724,486	2,501,277
Total liabilities	**6,885,327**	5,127,541	3,802,484	2,793,425	2,558,850
TOTAL EQUITY AND LIABILITIES	**8,011,523**	8,689,498	7,871,712	6,303,643	5,868,728

The above summary does not form a part of the consolidated financial statements.

The Company has prepared its financial statements in accordance with the China Accounting Standards for Business Enterprises (the "**CAS**") since 28 July 2017, in light of the then proposed listing of the A Shares of the Company and in order to improve the efficiency and reduce the cost of disclosures and audit expenses. The consolidated results for 2016 shown were adjusted in accordance with the CAS, while the consolidated results for 2015 were still prepared in accordance with the International Financial Reporting Standards.

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "**Board**"), I am pleased to present to you the audited annual results of the Group for the year ended 31 December 2019.

For the year ended 31 December 2019, the Group recorded revenue and net loss attributable to shareholders of the Company of RMB7,666.229 million and RMB2,166.306 million, representing a decrease of 24.66% and an increase of 1,258.07% respectively as compared to 2018. The number of domestic operating outlets of the Group decreased from 9,269 as at 31 December 2018 to 4,878 as at 31 December 2019. The Group added 586 retail outlets in overseas region for the financial year ended 31 December 2019 due to the acquisition of the French brand Naf Naf during 2019.

In 2019, in the face of the complicated and severe international environment and the downward pressure of the global economy, the domestic economic growth rate has slowed down and residents showed reduced willingness to consume. The overall retail condition of the apparel industry was weak and competition intensified due to factors such as a slackened economy, low market demand and a warm winter in the fourth quarter. The apparel industry of China has entered a matured stage with industry consolidation driven by consumers. Against this backdrop, our brands enhanced their comprehensive strength through digitalisation, and used big data and new technology to achieve industrial upgrade. The integration of online and offline and an omni-channel marketing system have become new drivers for the industry's development which will ultimately enhance operation efficiency and consumer experience.

In 2019, facing changes in the internal and external operating environment, the Company adhered to the managing policy of "down-scaling and focusing, reducing costs and increasing efficiency and innovative development". The Group expedited its transformation and adjustment and thoroughly implemented structural reform which has laid a solid foundation for its long-term development and transformation.

Down-scaling of non-strategic operations, focusing on core business development

During the reporting period, the Company continued the down-scaling of non-strategic operations and focused on development of its core women's wear brands with the aim of optimizing its brands and business structure and improving profitability. The Company disposed of some investee brands which fundamentally failed to achieve the expected targets and divested operations that did not match the Company's development strategy so as to improve profitability by getting rid of the burden and moving ahead with reduced hindrance as soon as possible.

Actively promoting IP cooperation and enhancing vitality of women's wear brands

During 2019, based on the different market positioning and style characteristics of various brands, the Company enhanced the vitality and core value of women's wear brands through various ways such as celebrity promotion, IP cross-sector cooperation and creative marketing events. During the reporting period, the Company carried out cross-sector cooperation with fashion illustrator, street graffiti artist, literature and art writer, dance studio and owners of renowned IP to create a range of cultural and creative products. The Company will further establish the differentiated positioning of its core women's wear brands and expedite the shaping of its brand positioning to attract younger consumers through design planning, outlet image and innovative marketing.

Adjusting offline channel structure, reducing fixed cost and expenses

In 2019, the Company continued to implement a strategic contraction strategy on offline direct sales channels and close low-efficient and loss-making direct outlets in an effort to effectively reduce the pressure on profitability caused by fixed expenses such as wages and rents attributable to direct channels. In the future, the Company will continue to implement the management policy of "reducing costs and increasing efficiency", focusing on improving human efficiency and substantially reducing the fixed cost and expenses.

Exploring new retail business model based on consumers' demand

In 2019, the Company actively opened up the online and offline operating data and membership systems by focusing on customers' full-scenario social and interactive experiences. Meanwhile, it actively explored community e-commerce through new consumption channels such as LaCha Cloud, WeChat mini programs and social platforms, with the aim of enabling the always online of "people, goods and venue" and more possibilities of multi-scenario linkage and consumer scenario upgrade for members, laying foundation for the Company's exploration of transforming towards online channels and new retail models.

2020 is a crucial year for the Company's transformation and development. The Company will proactively and thoroughly implement structural reforms. Under the leadership of the fourth session of the Board, the Company will formulate and implement a series of reforms including the brand system, sales system, and operating system, expand the existing business system through cooperation, authorization, and custody, and promote the optimization and adjustment of the Company's own brand and channel structure. At the same time, the Company is actively further optimizing the Company's asset-liability structure by effectively revitalizing long-term stock assets, implementing receivable debt restructuring, exploring new retail business models, and increasing cooperation with external superior resources, and effectively improving the Company's overall profitability, striving for turning losses into profits in 2020.

On behalf of the Board, I would like to express sincere gratitude to the Group's shareholders, business partners, customers and employees for their unstinting support. Going forward, the Group will continue to strive for innovation and change, creating value for shareholders.

Duan Xuefeng
Chairman

29 June 2020


Candie's

Management Discussion and Analysis

INDUSTRY REVIEW

In 2019, in the face of the complicated and severe international environment and the downward pressure of the global economy, the domestic economic growth rate has slowed down and residents showed reduced willingness to consume. According to data from the National Bureau of Statistics, total consumer goods retail sales for the whole of 2019 reached RMB41,164.9 billion, representing an actual rate of growth of 6.0%. The retail sales of apparel, shoes, hats and textiles above certain amount reached RMB1,351.7 billion, representing a rate of growth of 2.9%, which was significantly lower than that of total consumer goods retail sales. The per capita consumption expenditure of Chinese residents on apparel for 2019 was RMB1,338, representing an increase of 3.8% as compared with last year, which showed a decrease of 0.3 percentage point in growth rate. According to the data from the China Nation Commercial Information Center, the retail sales of 100 major large-scale retail enterprises in China recorded a year-on-year decrease of 0.3%, with a rate of growth down by 1 percentage point as compared with last year.

The overall retail condition of the apparel industry was weak and competition intensified due to factors such as a slackened economy, low market demand and a warm winter in the fourth quarter. The apparel industry of China has entered a matured stage with industry consolidation driven by consumers. Against this backdrop, our brands enhanced their comprehensive strength through digitalisation, and used big data and new technology to achieve industrial upgrade. The integration of online and offline and an omni-channel marketing system have become new drivers for the industry's development which will ultimately enhance operation efficiency and consumer experience.

FINANCIAL REVIEW

Under the gross revenue method, the Group's revenue and operating loss for 2019 were RMB7,666.229 million and RMB2,266.447 million, respectively, representing a decrease of 24.66% from its revenue and an increase of 1,394.22% from its operating loss, respectively, as compared with 2018. The net loss attributable to shareholders of the Company for 2019 amounted to RMB2,166.306 million, representing an increase of 1,258.07% as compared with that of 2018.

Revenue

According to the New Revenue Standards (Gross Revenue Method), the Company's operating revenue decreased RMB2.51 billion from RMB10.18 billion last year to RMB7.67 billion in 2019, representing a year-on-year decrease of 24.66%. The decline in revenue during the Reporting Period was mainly attributable to the facts that: (1) the Company proactively implemented a strategic contraction strategy. During the Reporting Period, it continued to optimize offline direct sales channels and closed directly-operated stores with low efficiency and were loss-making. As at the end of 2019, the number of domestic operating outlets of the Company was 4,878, with a net decrease of 4,391 from 9,269 at the end of 2018, representing a drop of 47.37% in the number of domestic operating outlets; (2) as affected by the slowdown in consumption growth and the decline in customer flow in physical stores, the Company's offline direct sales during the Reporting Period were lower than the expected amount, and the same store sales ratio decreased by 24.79%; (3) as a result of warm winter and other climate factors, the Company's 2019 fourth-quarter revenue fell sharply by 38.20% as compared with last year, and the fourth-quarter revenue accounted for only 24.90% of the annual revenue; and (4) affected by online channels and the intensified competition among offline retail entities, revenue from the Company's concessionaire counters fell significantly. In 2019, revenue from concessionaire counters was RMB3.23 billion, representing a decrease of RMB1.67 billion compared with last year and a year-on-year decrease of 34.08%, with the proportion it accounted for in the total revenue also decreased from 48.08% to 42.07%.

Revenue by business channel

The following table sets out the revenue breakdown by business channel for the Reporting Period and last year:

	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	% of total	Revenue (RMB'000)	% of total
Concessionaire counters	**3,225,305**	**42.07**	4,893,042	48.08
Standalone retail outlets	**3,097,356**	**40.40**	3,806,358	37.41
Online platform	**816,164**	**10.65**	1,437,569	14.13
Franchise/Associates	**509,527**	**6.65**	7,798	0.07
Others	**17,877**	**0.23**	31,086	0.31
Total	**7,666,229**	**100.00**	10,175,853	100.00

The revenue from concessionaire counters decreased from RMB4,893.0 million in 2018 to RMB3,225.3 million in 2019, representing a decrease of 34.08%. The revenue from standalone retail outlets decreased from RMB3,806.4 million in 2018 to RMB3,097.4 million in 2019, representing a decrease of 18.63%. The decreases in revenue from concessionaire counters and standalone retail outlets during the Reporting Period were mainly due to the decrease in the number of retail outlets due to the active contraction strategy implemented by the Group. The number of retail outlets represented by concessionaire counters and standalone retail outlets decreased approximately 51.1% and 46.3%, respectively, as compared with the number of retail outlets at the end of 2018. Revenue from franchise and associates stores of the Company in 2019 accounted for 6.65% of the Group's total revenue in 2019, representing an increase of 6.58 percentage point as compared with last year, mainly due to the Company's channel adjustment strategy implemented in 2019 and the acquisition of Naf Naf during the Reporting Period.

Revenue by brand

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

	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	% of total	Revenue (RMB'000)	% of total
La Chapelle	**1,617,394**	**21.1**	2,278,000	22.39
Puella	**1,282,699**	**16.73**	1,844,072	18.12
7 Modifier	**1,162,231**	**15.16**	1,717,182	16.88
La Babité	**980,862**	**12.79**	1,514,509	14.88
Candie's	**683,109**	**8.91**	822,683	8.08
Men's wear brands (2)	**346,820**	**4.52**	656,677	6.45
8ém	**152,780**	**1.99**	205,061	2.02
Naf Naf (3)	**996,983**	**13**	–	–
Other brands	**425,474**	**5.55**	1,106,583	10.87
Others (4)	**17,877**	**0.23**	31,086	0.31
Total	**7,666,229**	**100.00**	10,175,853	100.00

Note:

1. Unless otherwise stated, the operating revenue in this report represents the operating revenue based on the gross revenue method under the New Revenue Standards released by the Ministry of Finance in 2017.

2. Menswear brands comprise JACK WALK, Pote and MARC ECKŌ brands.

3. During the Reporting Period, the Company completed the acquisition of 60% of the equity interest in LaCha Apparel II Sarl in June 2019 and the revenue generated from the Naf Naf brand, which recorded an operating revenue of RMB996,983,000 between June and December 2019, has been consolidated into the revenue of the Group.

4. "Other brands" mainly included brands invested and controlled by the Company, namely Siastella, DrömGalaxy and GARTINE.

5. "Others" mainly included labour revenue.

During the Reporting Period, due to the decreased number of stores of the Company, the operating revenue of various brands declined to varying degrees. Among them: the contribution of top five domestic womenswear brands accounted for 74.70%, down 5.65 percentage points from the previous year. Revenue of La Chapelle decreased 29.01% year-on-year; revenue of Puella decreased 30.44% year-on-year; revenue of La Babité decreased 35.24% year-on-year; revenue of 7 Modifier decreased 32.32% year-on-year; revenue of Candie's decreased 16.97% year-on-year. Revenue of menswear brand (Jack walk, pote and MARC ECKŌ) decreased by 47.19% year-on-year, and revenue of kidswear brand, 8eM, decreased by 25.50% year-on-year. In addition, the Company acquired the French brand, Naf Naf, in 2019, and its revenue contribution accounted for 13.00%.

Revenue by tier of cities

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

	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
First-tier cities	**1,103,569**	**14.40**	1,283,936	12.62
Second-tier cities	**2,782,798**	**36.30**	4,389,669	43.14
Third-tier cities	**1,484,055**	**19.36**	2,433,044	23.91
Other cities	**1,298,824**	**16.94**	2,069,204	20.33
Overseas region	**996,983**	**13.00**	–	–
Total	**7,666,229**	**100.00**	10,175,853	100.00

Note:

1. For the classification of domestic cities into various tiers, please refer to the prospectus of the Company dated 24 September 2014.

2. "Overseas region" corresponds to the operating revenue recorded through the Company's newly acquired brand Naf Naf, the revenue from which between June and December 2019 was consolidated to that of the Group, during the Reporting Period.

In 2019, the Group's revenue in all tiers of cities decreased, mainly due to the year-on-year decrease in revenue from old stores, the number of direct sales outlets decreased significantly. Excluding the impact of overseas regions, during the Reporting Period, there was no significant change in the proportion of income contribution of all tiers of domestic cities as compared with the same period of the previous year.

Revenue by product type

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

	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	**% of total**	Revenue (RMB'000)	% of total
Tops	**5,186,003**	**67.65**	6,946,402	68.26
Bottoms	**842,148**	**10.99**	1,130,926	11.11
Dresses	**1,604,675**	**20.93**	2,034,061	19.99
Accessories	**15,526**	**0.2**	33,378	0.33
others	**17,877**	**0.23**	21,086	0.31
Total	**7,666,229**	**100.00**	10,175,853	100.00

Cost of Sales

The cost of sales of the Group decreased by 8.09% from RMB3,528.3 million in 2018 to RMB3,242.8 million in 2019.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased from RMB6,647.5 million in 2018 to RMB4,423.5 million in 2019, representing a decrease of 33.46%, mainly due to the initiative to adopt a contraction strategy in 2019, which significantly closed stores and led to the year-on-year decrease in the sales revenue, and the Group's active implementation of management of discounts to accelerate product sales.

The overall gross profit margin of the Group decreased to 57.70% in 2019 from 65.33% in 2018, mainly due to an increase in proportion of sales of off-season products during the Reporting Period, resulting in a year-on-year decrease in the actual comprehensive average gross profit margin.

Selling and Distribution Expenses and General and Administrative Expenses

Selling and distribution expenses in 2019 amounted to RMB5,174.6 million (2018: RMB6,032.4 million), consisting primarily of sales staff salaries and benefits, concession and rental expenses relating to retail points and online stores, depreciation of store lease assets, amortisation of store decoration expenses, rental expenses and shopping mall expenses. Selling and distribution expenses in 2019 accounted for 67.50% (2018: 59.28%) of the total revenue in 2019 in terms of proportion. The increase in such expenses to revenue ratio in 2019 was mainly due to factors such as the decrease in revenue and the costs of closing stores during the Reporting Period. General and administrative expenses in 2019 amounted to RMB483.2 million (2018: RMB504.2 million), consisting primarily of administrative employee salaries and benefit expenses, rental expenses for offices, depreciation of fixed assets, sample purchase expenses and consulting service fees. General and administrative expenses accounted for 6.30% (2018: 4.95%) of the total revenue in 2019. As compared to 2018, the depreciation and amortisation of long-term assets increased in 2019 due to the completion of infrastructure project.

Asset Impairment Loss

The asset impairment loss in 2019 was approximately RMB778.5 million (2018: RMB274.5 million), which was mainly provision for impairment of inventories and long-term assets.

Credit losses

Credit losses recorded RMB152.0 million in 2019 resulting from the adoption of New Financial Instruments Standards (2018: RMB1.2 million). Credit loss of receivables was recorded in credit impairment losses.

Other Income – Net

The Group's other net income amounted to approximately RMB103.3 million (2018: RMB125.9 million) in 2019, which represented the receipt of financial subsidies by the Group in 2019.

Finance Expenses – Net

The Group's net finance expenses were approximately RMB241.7 million in 2019 (2018: RMB52.5 million). The increase in the financial expenses is mainly as a result of the recognition of interests expenses arising from the new lease liability incurred due to implementation of the new lease accounting standards by the Group from 2019 and the year-on-year increase in interest expenses from borrowing.

Loss before Income Tax

Loss before income tax of the Group increased from RMB160.2 million in 2018 to a loss before income tax of RMB2,265.0 million in 2019, representing an increase in loss of 1,313.71% from the last year. The increase in total loss was mainly due to the decrease in sales income and gross profit margin, as well as the increase in financial expenses and asset impairment loss.

Income Tax Credit

Income tax credit amounted to approximately RMB12.7 million in 2019 (2018: income tax expense of RMB39.0 million). The effective income tax rate in 2019 was (0.85%) (2018: 24.32%).

Net Loss and Net Loss Margin

As a result of the foregoing, net loss for the period of the Group in 2019 amounted to approximately RMB2,252.3 million, representing an increase of 1,030.76% from the net loss for the period of RMB199.2 million in 2018. In particular, net loss for the period attributable to the owners of the Group was approximately RMB2,166.3 million, representing an increase of 1,258.07% from the net loss for the period of RMB159.5 million in 2018. Net loss margin of the Group was 29.38% for the year 2019, as compared to 1.96% in 2018.

In 2019, the Company recorded a net loss attributable to the owners of the Company of RMB2,166.3 million, representing an increase in loss of RMB2,006.8 million as compared with the corresponding period last year. The loss of the Company recorded in 2019 was mainly attributable to: (1) in order to speed up cash flow-back from operations, the Company increased sales of and provided further discount for off-season goods, which caused a significant year-on-year decrease in the Company's gross profit margin, which led to a decrease in gross profit for approximately RMB0.6 billion. (2) As a result of the decrease in sales revenue in 2019 due to the closure of stores by the Company and decrease in same store revenue, which led to a decrease in gross profit for RMB1.62 billion for the Reporting Period, the Group's overall gross profit decreased by RMB2.22 billion, as compared to the corresponding period last year; (3) the Company proactively further focused on current operation and accelerated the closure of loss-making and inefficient stores. Due to the one-off decoration expenses amortization of the closed stores, the Company recorded a loss of approximately RMB0.15 billion; (4) during the Reporting Period, as a result of the overall operating loss in the investment projects and the disposal by the Company of investment projects, the Company recorded a loss of approximately RMB0.44 billion in the Reporting Period; and (5) in 2019, the Company continued to implement business transformation plan and cost reduction and efficiency improvement measures. During the Reporting Period, the Company's rental cost, concessionaire fees, labor costs and logistics costs significantly declined as compared to the corresponding period last year, which offset certain impacts of the aforesaid losses.

Capital Expenditure

Capital expenditure of the Group primarily consisted of payments and deposits paid for fixed assets, intangible assets, long-term amortization expenses and construction in progress. In 2019, the capital expenditure incurred by the Group was RMB481.7 million (2018: RMB1,000.9 million). In 2019, the decline in the capital expenditure of the Group was mainly due to the decrease in number of new stores and capital expenditure of construction in progress in 2019..

Cash and Cash Flow

In 2019, net cash inflow from operating activities amounted to RMB1,598.0 million (2018: net cash inflow of RMB157.6 million). The increase in net cash inflow from operating activities was mainly due to accelerated collection of receivables and the extension of payment cycles for some suppliers.

In 2019, net cash outflow in investing activities was RMB608.6 million (2018: net cash outflow of RMB1,309.7 million). Major investment activities in 2019 were: (1) Net cash inflow of RMB154.7 million from disposal of subsidiaries and other business units; (2) Net cash outflow of RMB477.6 million paid for acquisition of fixed assets, intangible assets and other long-term assets; (3) Net cash outflow of RMB251.6 million from subsidiaries and other business units.

In 2019, net cash outflow from financing activities was RMB1,249.6 million (2018: net cash inflow of RMB787.2 million). The cash flow of financing activities in 2019 were mainly: (1) Net cash inflow of RMB1,277.3 million from obtaining loans; (2) net cash outflow of RMB1,722.0 million paid for debt repayments; (3) RMB676.0 million of other cash paid related to financing activities.

As at 31 December 2019, the Group held cash and cash equivalents totalling RMB175.5 million (31 December 2018: RMB449.9 million). The main reason was an increase in net cash inflow generated from operating activities during the period as compared to the previous period.

As the Group carries out its operations in mainland China, most of the transactions are settled in Renminbi. The Group has some fixed deposits and cash and cash equivalents denominated in Hong Kong dollars. The Group also pays dividends to shareholders of H shares in Hong Kong dollars. In June 2019, after completion of the acquisition of Naf Naf in France, some business of the Group is mainly settled in Euros. The Group manages foreign exchange risk by monitoring foreign exchange rates on a regular basis.

Inventories

In 2019, the average inventory turnover of the Group was 236.6 days (2018: 248.9 days), and the average receivables turnover was 38.4 days (2018: 36.9 days). The increase in inventory turnover rate compared with the previous year was mainly due to the acceleration of clean up inventory.

Bank loans and other borrowings

As at 31 December 2019, bank borrowings of the Group amounted to RMB1,842.7 million (31 December 2018: RMB2,259.9 million), which were mainly unsecured borrowings repayable within one year.

Pledge of assets

(a) As at 31 December 2019, properties and plants with a book value of RMB1,384,412 thousand (31 December 2018: RMB551,666 thousand) were pledged to secure bank borrowings.

(b) As at 31 December 2019, construction in progress with a book value of RMB69,235 thousand (31 December 2018: RMB566,688 thousand) were pledged to secure bank borrowings.

(c) As at 31 December 2019, the land use right with a book value of RMB142,842 thousand (31 December 2018: RMB88,291 thousand)were pledged to secure bank borrowings; the amortization amount of the land use right in 2019 was RMB3,201 thousand (31 December 2018: RMB1,938 thousand).

Contingent liabilities

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

Human Resources

As at 31 December 2019, the Group had 15,354 full-time employees in total (31 December 2018: 33,706). The Group offers competitive compensation package for its employees, including statutory social insurance, housing fund, holiday benefits and other benefits, etc. Meanwhile, the Group is dedicated to building itself a learning organization by emphasizing employee training, individual development and team spirit.

Significant investments held

Please refer to note V(11) and V(12) to the consolidated financial statements of the Group for the year ended 31 December 2019 for details of the investments held by the Group.

BUSINESS REVIEW

Retail Network

As at 31 December 2019, the number of domestic retail outlets of the Group were 4,878, decreasing from 9,269 as at 31 December 2018, and were situated at approximately 1,651 physical locations. In addition, due to the acquisition of the brand Naf Naf in France during 2019, for the year ended 31 December 2019, the Group added 586 retail outlets (owned by Naf Naf, as at the date of this report, Naf Naf SAS is no longer included in the Group's consolidated financial statements) to its retail network in overseas region.

The table below sets out the distribution of the Group's retail points as at 31 December 2019 and as at 31 December 2018 by tier of cities in the PRC and in overseas region:

	Year ended 31 December			
	2019		2018	
	Number of retail points	**% of total**	Number of retail points	% of total
First-tier cities	**443**	**8.11**	833	8.99
Second-tier cities	**1,909**	**34.94**	3,541	38.20
Third-tier cities	**1,296**	**23.72**	2,573	27.76
Other cities	**1,230**	**22.51**	2,322	25.05
Overseas region	**586**	**10.72**	–	–
Total	**5,464**	**100.00**	9,269	100.00

Note:

1. For the classification of domestic cities into various tiers, please refer to the prospectus disclosed by of the Company on dated 24 September 2014.

2. The retail network in "Overseas region" is owned by Naf Naf.

The table below sets out the distribution of the Group's retail points as at 31 December 2019 and as at 31 December 2018 by type of the retail points:

	Year ended 31 December			
	2019		2018	
	Number of retail points	**% of total**	Number of retail points	% of total
Concessionaire counters	**2,584**	**47.29**	5,281	56.98
Standalone retail outlets	**2,123**	**38.85**	3,957	42.69
Franchise/Associate	**757**	**13.86**	31	0.33
Total	**5,464**	**100.00**	9,269	100.00

The table below sets out the distribution of the Group's retail points as at 31 December 2019 and as at 31 December 2018 by brands:

	Year ended 31 December			
	2019		2018	
	Number of retail points	% of total	Number of retail points	% of total
La Chapelle	**1,204**	**22.04**	1,966	21.21
Puella	**1,033**	**18.91**	1,907	20.58
7 Modifier	**958**	**17.53**	1,730	18.66
La Babité	**767**	**14.04**	1,540	16.61
Candie's	**593**	**10.85**	927	10.00
Men's wear brands	**216**	**3.95**	715	7.72
8ém	**94**	**1.72**	274	2.96
Naf Naf	**586**	**10.72**	–	–
Other	**13**	**0.24**	210	2.26
Total	**5,464**	**100.00**	9,269	100.00

Note:

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

2. Other brands mainly included Siastella, GARTINE invested and controlled by the Company.

The table below sets out the distribution of the Group's net decrease in retail points in 2019 by brands:

	Year ended 31 December 2019	
	Net decrease in retail points	% of total
La Chapelle	**762**	17.36
Puella	**874**	19.9
7 Modifier	**772**	17.58
La Babité	**773**	17.6
Candie's	**334**	7.61
Men's wear brands	**499**	11.36
8ém	**180**	4.1
Other brands	**197**	4.49
Total	**4,977**	100

Same store sales

Due to the adjustments to market structure, certain customers traffic of department stores and shopping centers continued to move to online shopping platforms, causing a reduction in same store customer traffic of clothing enterprises that rely on department stores as their primary distribution channel. Regardless of steps taken by the Group to reduce the proportion of sales from offline stores and department stores, revenue from concessionaire counters still accounted for 42.07% of the total revenue of the Group in 2019, resulting in same store sales of offline channels in 2019 decreased by 24.79%, as compared to that of 2018.

FUTURE OUTLOOK

In 2020 and beyond, it is expected that consumer demands will become more fashionable and personalized and will be increasingly variable, the decline in customer traffic at physical stores and low growth rate will increasingly become the norm, and the competition in the women's apparel segment will intensify. Against the overall slowdown in market growth, consumers will become more and more rational and will gradually shift from materialistic consumption to service-oriented consumption, and price will no longer be the paramount criteria when making purchases and consumers will no longer be willing to pay for high price premium. The apparel industry will head into an era of striving "extreme price/performance ratio". At the same time, with the improvement of the logistics and distribution systems and the increase in the number of online shopping users, online retail will maintain rapid growth. From the perspective of segmented channels, due to the further decline in online traffic monetization, growth rate of traditional e-commerce platforms has already peaked, while emerging retail industry is quietly growing. It is expected that new retail channels, such as social e-commerce, content e-commerce and live broadcast platforms, will achieve rapid development.

2020 is a crucial year for the Company's transformation and development. The Company will proactively and thoroughly implement structure reforms. Under the leadership of the fourth session of the Board, the Company will formulate and implement a series of reforms including the brand system, sales system, and operating system, expand the existing business system through cooperation, authorization, and custody, and promote the optimization and adjustment of the Company's own brand and channel structure. At the same time, the Company is actively further optimizing the Company's asset-liability structure by effectively revitalizing long-term stock assets, implementing receivable debt restructuring, exploring new retail business models, and increasing cooperation with external superior resources, and effectively improving the Company's overall profitability, striving for turning losses into profits in 2020. The Company plans to take the following major business initiatives:

1. Branding

The Company plans to establish a joint venture company with the brand management team to establish a mechanism for joint funding, revenue sharing, and risk sharing, inspiring the subjective initiative and operational responsibility of the brand design team. The self-financing business mechanism of the brand company can strengthen the incentive binding of relevant personnel, improve the Company's product development, ordering mechanism, quality control, cost control and other management standards, and promote the Company's business plan and transformation goals. At the same time, the Company will actively use the new retail technology to achieve the accumulation and analysis of terminal sales data, centering on consumer preferences and needs, proactively predict the sales volume and life cycle of commodities, and promote the mode of small batches, multiple styles and fast order tracking.

2. Channels

First, continue to close inefficient stores and retain high-quality stores to effectively reduce fixed costs such as labor and rent brought by direct sales pipelines. Secondly, the Company plans to set up a terminal sales platform company, implement a sales custody mechanism that places orders, accounts independently, and bears part of the operating costs in each sales area to promote the transformation and innovation of the terminal business model; and plans to introduce the management team and core employees to the internal business partner mechanism to turn the original "manager" into the future "owner", inspiring the independent management power and sales vitality of the terminal channel to better control the product discount rate and sold-out rate, and improve the Company's sales pricing management level. In addition, the Company will continue to integrate offline retail outlets and online sales channels, actively explore new online retail routes, and continue to improve the Company's omni-channel marketing business system.

3. Supply chain

The Company will continue to improve the information system covering the entire process of the industry chain. Through the complete coverage of information from supplier information, product design, warehousing data, logistics and transportation, and goods distribution to terminal sales, the information flow and product control of the entire industry chain will be maintained. Improve the response speed of the Company's supply chain, and use this as a basis to evaluate brand design, suppliers, and terminal sales. Secondly, the Company plans to shorten the management chain by selecting high-quality suppliers to invest in brand companies, establishing benefit-sharing and reward and punishment systems with suppliers, and strictly implementing the elimination of suppliers' last bit, and improve the cooperation between the Company and suppliers and resource utilization efficiency. At the same time, the Company intends to actively use the policy advantages of the Xinjiang region in the textile and apparel industry, and enhance the integration and coordination of the Company and the upstream of the industrial chain through the Comprehensive service platform and supply chain system of stakeholder.

4. New retail

The Company will continue to focus on the full-scenario social interaction experience of consumers, and actively explore new retail paths such as LaCha Cloud, WeChat marketing, social e-commerce, Taobao live broadcast, and online celebrity live broadcast by integrating offline retail outlets and online sales channels. And through strengthening the analysis of member's consumption behavior and using data to empower products and terminals, the Company is able to improve product repurchase rate and sales conversion rate, and promote the Company's transformation to a new fashion group driven by information technology.

In 2020, the Company will continue to carry out internal and external reforms and innovations around consumer needs, actively deploy new retail business models, continue to improve the internal control system and construction, effectively improve the Company's internal control governance and overall profitability, and strive for turning losses into profits in 2020.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS OF THE FOURTH SESSION OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Yin Xinzai (尹新仔), aged 49, has been an executive Director, chairman of the Budget Committee and a member of the Remuneration and Appraisal Committee and Strategy and Development Committee of the Company since 8 May 2020, and the president of the Company since 20 April 2020.

Prior to joining the Company, Mr. Yin worked at Joeone Co., Ltd.* (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd.* (杭州九軒服飾有限公司) from June 2012 to May 2013. Mr. Yin has served as general manager of the sales and marketing department, executive vice president, senior vice president and president of the Company since August 2013. Mr. Yin obtained an EMBA degree from the Xiamen University in June 2018.

Ms. Zhang Danling (章丹玲), aged 42, has been an executive Director and a member of the Budget Committee and Strategy and Development Committee of the Company since 8 May 2020.

She is the co-founder of the Company and is currently responsible for new retail, online channels and marketing of the Group. Ms. Zhang has been working as a design supervisor, a general manager of the brand management centre, a general manager of the brands department and a general manager of business department in the Group since March 2001. She also served as a Director of the Company from May 2011 to November 2012. Ms. Zhang obtained an EMBA degree from Shanghai Jiao Tong University in December 2015.

NON-EXECUTIVE DIRECTORS

Mr. Duan Xuefeng (段學鋒), aged 40, has been a non-executive Director, chairman of the Board, chairman of the Nomination Committee and Strategy and Development Committee, and a member of the Budget Committee of the Company since 8 May 2020.

Mr. Duan has been an executive director of Zhongke Tongrong Investment Fund Management (Beijing) Co., Ltd.* (中科通融投資基金管理(北京)有限公司) since August 2013, a director and manager of Beijing Beikuang Metallurgy Materials Technology Co., Ltd.* (北京北礦冶金工程技術有限公司) since May 2018, the chairman and general manager of Maierfu Fashion Co., Ltd.* (邁爾富時尚服飾股份有限公司) since June 2019, and a director of Xinjiang Hengding Textile International Trading Co., Ltd.* (新疆恒鼎棉紡織國際貿易公司) since March 2020. Previously, he was the assistant to general manager of Guoxin International Guarantee Co., Ltd.* (國信國際擔保有限公司) from September 2004 to December 2010, an executive director and general manager of Everbright Equity Investment Fund Management (Tianjin) Co., Ltd.* (光大股權投資基金管理(天津)有限責任公司) from June 2011 to July 2013.

Mr. Duan is a senior economist. He obtained a bachelor degree in marketing from the Zhengzhou University in June 2003 and a doctoral degree in business administration from the University of East London, UK in June 2013.

Ms. Zhang Yujing (張妤菁), aged 35, has been a non-executive Director, a member of the Audit Committee, Budget Committee and Strategy and Development Committee of the Company since 8 May 2020.

Ms. Zhang was a consultant at Deloitte Consulting (Shanghai) Co., Ltd. from July 2011 to January 2013, and a senior consultant at KPMG Advisory (China) Limited from October 2014 to March 2017. She has served as the chief risk officer of Xinjiang Great Western Growth Industry Investment Fund Management Co., Ltd. (新疆大西部成長產業投資基金管理有限公司) since March 2017.

Ms. Zhang obtained a bachelor's degree in finance, accounting and management from the University of Nottingham in the United Kingdom in July 2018, and a master's degree in finance and investment from the University of Bristol in the United Kingdom in February 2010. She is a chartered management accountant of the Chartered Institute of Management Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Xing Jiangze (邢江澤), aged 53, has been an independent non-executive Director, chairman of the Audit Committee and Remuneration and Appraisal Committee and a member of the Budget Committee and Nomination Committee of the Company since 8 May 2020.

Mr Xing Jiangze is a certified public accountant, certified tax agent and senior accountant in China. He has a practicing certificate for Asset Management Association of China and has around 30 years' experience in finance, accounting and auditing. From January 1992 to November 1998, he served as a director and financial manager of Lingbao Wuhua Fuel Co., Ltd.* (靈寶物華燃料有限公司). From December 1998 to January 2000, he served as a chief accountant of Henan Lingye Group Co., Ltd.* (河南淩冶集團有限公司). From February 2000 to November 2002, he served as a project manager and a manager of the first auditing division of Henan Zhengyong Accounting Firm* (河南正永會計師事務所). From November 2002 to April 2007, he served as a financial director of Lingbao Shuangxin Mining Co., Ltd.* (靈寶雙鑫礦業有限公司). From April 2007 to June 2018, he served as a deputy financial director and manager of the finance department, financial director, investment director, secretary of the board, deputy general manager and executive director of Lingbao Gold Group Company Ltd. (stock code: 03330). He has been serving as vice chairman, secretary of the board and senior executive vice president of Lingbao Gold Group Company Ltd. since June 2018.

Mr. Xing Jiangze graduated from Henan Radio and Television University with a bachelor's degree in accounting in July 1988, and obtained a degree in computer science and technology at the PLA Information Engineering University from September 2006 to June 2009.

Ms. Xiao Yanming (肖豔明), aged 58, has been an independent non-executive Director, a member of the Audit Committee and Strategy and Development Committee of the Company since 8 May 2020.

Ms. Xiao was a managing director of UBS Hong Kong Branch from 2010 to 2013. She has been serving as the chairlady and CEO of Hong Kong Cornucopiae Asset Management Limited since September 2013. Ms. Xiao received a bachelor degree in international law and international relations from China Foreign Affairs University in 1985, and a master degree and a doctoral degree in economic history from Harvard University in 1999. She is the Type 1, Type 4 and Type 9 License Holder and a responsible officer of the Securities and Futures Commission of Hong Kong.

Mr Zhu Xiaozhe (朱曉喆), aged 45, has been an independent non-executive Director, chairman of the Nomination Committee, a member of the Remuneration and Appraisal Committee and Strategy and Development Committee of the Company since 8 May 2020. He has a doctoral degree of History of Law in the East China University of Political Science and is a professor of the School of Law in Shanghai University of Finance and Economics.

Mr. Zhu was an associate professor and a master degree candidate advisor at the Civil and Commercial Law Research Institute in East China University of Political Science and Law from September 2005 to January 2014. He has been a professor and a doctoral degree candidate supervisor of the School of Law in Shanghai University of Finance and Economics since January 2014. He also served as a council member of the Civil Law Research Institute of China Law Association from July 2014 to July 2017. He has served as the director of the Trust Law Research Institute of Shanghai University of Finance and Economics since January 2017, an executive council member of the Civil Law Research Institute of China Law Association since 2017, an arbitrator of the Shanghai Arbitration Commission since June 2018, a legal consultant of the Chinese Communist Party's Baoshan District Committee of Shanghai and a legal consultant of the Education Development Fund of Shanghai University of Finance and Economics since January 2018, a consultant of the Shanghai Judicial Think Tank Association since June 2018, the vice president of the Civil Law Research Institute of Shanghai Law Association since December 2019, and an independent director of Anhui Jiaxian Functional Additives Co., Ltd. since March 2020.

DIRECTORS OF THE THIRD SESSION OF THE BOARD

Mr. Wang Wenke (王文克), aged 47, was a non-executive Director, a member of the Budget Committee and Strategy and Development Committee of the Company from 18 December 2019 to 8 May 2020.

Mr. Wang has been the executive director of Kumo (Shanghai) Beer Co., Ltd.* (庫漠(上海)啤酒有限公司) since November 2018. Prior to joining the Company in 2015, Mr. Wang served as credit manager in China CITIC Industrial Bank (now known as China CITIC Bank) Weihai Branch from July 1995 to February 1998. From February 1998 to February 2002, Mr. Wang held positions of head of human resources department and head of marketing department in Weihai Hamada Printing Press Co., Ltd. (Japan-owned enterprise) (威海濱田印刷機械有限公司(日資)). He worked in Sinochem International Corporation as, among other things, assistant president, general manager of the human resources department, general manager of the rubber business department and general manager of the refined chemical department from June 2002 to February 2015. Mr. Wang was administrative vice president of the Company from February 2015 to December 2017 and an executive Director of the Company from July 2015 to December 2017.

Mr. Wang holds a bachelor of investment management from Central University of Finance and Economics, and holds an EMBA degree at China Europe International Business School.

Mr. Lu Weiming (陸衛明), aged 50, was a non-executive Director, a member of the Remuneration and Appraisal Committee, Budget Committee and Strategy and Development Committee of the Company from 9 May 2011 to 8 May 2020.

Mr. Lu is currently a director and deputy general manager of Boxin Fund Management Co., Ltd.* (博信股權投資基金管理股份有限公司), which is involved in private equity investment; and is an executive partner of the manager of the Company's shareholder, Boxin First Phase (Tianjin) Equity Fund Partnership (Limited Partnership)* (博信一期(天津)股權投資基金合夥企業(有限合夥)).

Mr. Lu obtained a bachelor's degree in Management Information Systems from Tongji University, Shanghai in July 1992.

Mr. Luo Bin (羅斌), aged 49, was a non-executive Director of the Company from 5 May 2015 to 8 May 2020, chairman of the Budget Committee from 28 August 2019 to 8 May 2020, a member of the Audit Committee and Strategy and Development Committee from 21 January 2016 to 8 May 2020.

Mr. Luo was a director (a position which he has held since April 2013) and the chief finance officer (a position which he has held since April 2009) of Zhejiang Longsheng Group Co., Ltd.* (浙江龍盛集團股份有限公司) ("Zhejiang Longsheng"), which listed on the Shanghai Stock Exchange (stock code: 600352) and is the holding company of Senda International Capital Limited, an existing shareholder of the Company. In January 2019, Mr. Luo resigned as chief financial officer, director and professional committee of Zhejiang Longsheng.

Mr. Luo worked as a partner in Sova Capital Co., Ltd.* (上海盛萬投資顧問有限公司) from November 2004 to March 2009 and as a senior manager in the financial advisory department of Shanghai Shenyin & Wanguo Securities Co., Ltd. from August 2003 to November 2004.

Mr. Luo obtained a bachelor degree in mechanical engineering in July 1994 and a master degree in management engineering in March 1998 from Donghua University (previously known as China Textile University). Mr. Luo passed the National Judicial Examination of the PRC and obtained the Legal Profession Qualification Certificate in February 2006. Mr. Luo passed the National Unified Certified Public Accountants Examination in 1999 and is currently a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Luo obtained a finance EMBA degree at PBC School of Finance, Tsinghua University in July 2019.

Mr. Chan, Wing Yuen Hubert (陳永源), aged 62, was an independent non-executive Director, chairman of the Nomination Committee and a member of the Audit Committee and the Budget Committee from 25 July 2016 to 8 May 2020 and a member of the Remuneration and Appraisal Committee from 30 October 2018 to 8 May 2020.

Profiles of Directors, Supervisors and Senior Management

Mr. Chan currently holds directorships in several companies listed on the Hong Kong Stock Exchange. Mr. Chan has been the chief executive officer and an executive director of Zhong Fa Zhan Holdings Limited (中發展控股有限公司) (stock code: 0475) since November 2011, the chief executive officer and an executive director of Northern New Energy Holdings Limited (北方新能源控股有限公司) (now known as "Zhonghua Gas Holdings Limited" (中華燃氣控股有限公司)) (stock code: 8246) since August 2014 and an independent non-executive director of Tian Ge Interactive Holdings Limited (天鴿互動控股有限公司) (stock code: 1980) since June 2014; an independent non-executive director of FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司) (stock code: 6088) since November 2016.

Mr. Chan, Wing Yuen Hubert held various positions with a number of companies listed on the Hong Kong Stock Exchange for over 10 years, including an executive director of China Pipe Group Limited (中國管業集團有限公司) (now known as "Softpower International Limited" (冠力國際有限公司)) (stock code: 0380) and Interchina Holdings Company Limited (國中控股有限公司) (now known as "EverChina Int'l Holdings Company Limited" (潤中國際控股有限公司)) (stock code: 0202), an independent non-executive director of Rising Development Holdings Limited (麗盛集團控股有限公司) (now known as "China Smarter Energy Group Holdings Limited" (中國智慧能源集團控股有限公司)) (stock code: 1004) and a non-executive director of Guangdong Investment Limited (粵海投資有限公司) (stock code: 0270).

Mr. Chan, Wing Yuen Hubert obtained a higher diploma in company secretaryship and administration from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Chan, Wing Yuen Hubert has been an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Securities and Investments Institute. In addition, he is a member of the Chinese People's Political Consultative Conference Heilongjiang Province Committee (中國人民政治協商會議黑龍江省委員會).

Mr. Zhang Zeping (張澤平), aged 47, was an independent non-executive Director, chairman of the Remuneration and Appraisal Committee, a member of the Nomination Committee and Strategy and Development Committee from 12 May 2017 to 8 May 2020. Mr. Zhang obtained a doctoral degree in International Economic Law from East China University of Political Science and Law and a post doctorate degree in law from Xiamen University. He was a visiting scholar at New York University.

Mr. Zhang worked as an English teacher at School of Fundamental Studies of Shanghai University of Engineering Science from July 1997 to September 2000. Since May 2003, he has been a lecturer, associate professor and professor at School of International Law of East China University of Political Science and Law. He has been also serving as a director and professor at centre for International Tax Law of East China University of Political Science and Law since September 2008.

Mr. Zhang was also the person-in-charge of the consular section of the Embassy of the People's Republic of China in the Republic of Macedonia from June 2006 to July 2008. He was a part-time lawyer in Shanghai Allbright Law Firm from October 2008 to December 2018. He has been an independent non-executive director of Kunshan Xiefu New Material Co., Ltd. (昆山協孚新材料股份有限公司) since March 2015. Mr. Zhang has been the arbitrator of Shanghai International Arbitration Center since May 2016 and an independent non-executive director of Bulls Group Co., Ltd. since December 2017. He has been a part-time lawyer at Shanghai Jieming Law Firm since December 2018.

Mr. Rui Peng (芮鵬), aged 39, was an independent non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee, Remuneration and Appraisal Committee and Budget Committee from 16 October 2019 to 8 May 2020.

Mr. Rui Peng has been a director of Liaoning Xinde New Materials Technology Co., Ltd.(遼寧信德新材料科技股份有限公司)since June 2020, an independent non-executive director of Zhejiang Yayi Metal Technology Co., Ltd.(浙江雅藝金屬科技股份有限公司)since May 2020, a director of Dalian Haosen Equipment Manufacturing Co., Ltd. (大連豪森設備製造股份有限公司) since October 2019, an independent non-executive director of Zhiyang Innovation Technology Co., Ltd (智洋創新科技股份有限公司) since August 2019, a director of Ningbo Zhenyu Technology Co., Ltd (寧波震裕科技股份有限公司) since January 2019 and an independent non-executive director of Beijing Huayuanyitong Thermal Technology Co., Ltd (北京華遠意通熱力科技股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code: 002893) since November 2017. Mr. Rui has been the managing director and chief investment officer of Shang Finance Management Co., Ltd. (尚融資本管理有限公) since December 2015, and prior to that, Mr. Rui was the chief investment officer of Shanghai QC Investment Co., Ltd. (上海奇成資產管理有限公司) between March 2015 and November 2015. He also worked as a manager at the Shanghai Stock Exchange between 2007 and 2014.

Mr. Rui obtained a bachelor of management degree from Nanjing University in July 2002 and a master degree in management from Shanghai University of Finance and Economics in January 2007. He has been a non-practicing member of The Chinese Institute of Certified Public Accountants since 2006.

SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Ma Yuanbin (馬元斌), aged 38, is chairman of the Supervisory Committee (appointed since 8 May 2020), assistant to president and chairman of the labour union of the Company. Mr. Ma was manager of the management department of Shanghai Zhenliu Property Management Co., Ltd. (上海震六物業管理有限公司) from April 2004 to March 2012 and deputy head of administration department of Shanghai Semir Garment Co., Ltd. (上海森馬服飾有限公司) from March 2012 to July 2018. He has been director of administration department and assistant to president of the Company since July 2018 and chairman of the labour union of the Company since April 2020. Mr. Ma obtained a bachelor degree in business administration from Shanghai Jiao Tong University in June 2018.

Mr. Shi Xiaofeng (施孝鋒), aged 39, is a Supervisor (appointed since 8 May 2020) and deputy general manager of the supply chain management department of the Company. Mr. Shi was deputy general manager of women's wear department of Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司) from June 2004 to January 2013. He has been director and deputy general manager of the supply chain management department of the Company since February 2013. Mr. Shi obtained a bachelor degree in engineering from Zhejiang University of Technology in June 2004.

Mr. Wu Jinying (吳金應), aged 47, is a Supervisor of the Company (appointed since 8 November 2015) and senior technical manager (software development) of the IT department of the Company. He has been a system analyst, system R&D manager and senior technical manager (software development) of the IT department of the Company since March 2001. Mr. Wu graduated from senior high school in 1995.

SUPERVISORS OF THE THIRD SESSION OF THE SUPERVISORY COMMITTEE

Ms. Liu Mei (劉梅), aged 35, was a Supervisor of the Company from 18 December 2017 to 8 May 2020 and is the general manager of the legal department of the Company. She joined the Company in February 2008 and held positions of officer, manager and deputy director from February 2008 to February 2018 in the legal department and has been serving as a director of the legal department since March 2018. Ms. Liu obtained her bachelor degree in law from East China University of Political Science and Law (華東政法大學) in January 2014.

Ms. Zhang Haiyun (張海雲), aged 42, was a Supervisor of the Company from 28 December 2018 to 8 May 2020. Ms. Zhang joined the finance department of the Company in March 2001, and held positions of finance manager, deputy director of the finance department, head of finance department, deputy general manager of shop installation engineering department, assistant to president and general manager of infrastructure engineering department of the Company since 2006. Ms. Zhang is studying an EMBA degree at Xiamen University.

Mr. Wu Jinying (吳金應), aged 47, is a Supervisor of the Company (appointed since 8 November 2015) and senior technical manager (software development) of the IT department of the Company. He has been a system analyst, system R&D manager and senior technical manager (software development) of the IT department of the Company since March 2001. Mr. Wu graduated from senior high school in 1995.

CURRENT SENIOR MANAGEMENT

Mr. Yin Xinzai (尹新仔), aged 49, has been a senior vice president of the Company since 29 October 2019 and the president the Company since 20 April 2020. Prior to joining the Company, Mr. Yin Xinzai worked at Joeone Co., Ltd. (九牧王股份有限公司) from September 1998 to June 2012 and at Hangzhou Jiuxuan Fashion Co., Ltd. (杭州九軒服飾有限公司) from June 2012 to May 2013. He has served as general manager of the sales and marketing department, executive vice president, senior vice president and president of the Company since August 2013. Mr. Yin obtained an EMBA degree from the Xiamen University in June 2018.

Mr. Hu Zhiguo (虎治國), aged 37, has been the chief financial officer of the Company since 30 March 2020. Mr. Hu served as an accountant of cost of Dayu Jieshui Group Company Limited (大禹節水集團股份有限公司) from July 2008 to May 2010. He also served various positions, including as general ledger accountant of the finance department, manager of accounting and auditing department and deputy head of the finance department, at Zhejiang Semir Garment Co., Ltd. (浙江森馬服飾股份有限公司) from June 2010 to April 2017. He joined the Group in April 2017 and served as the financial director at the regional finance management department and as general manager of the finance department of the Company. Mr. Hu obtained a bachelor's degree in financial management from Gansu University of Political Science & Law (甘肅政法大學) in June 2008.

RESIGNED DIRECTORS

Mr. Xing Jiaxing (邢加興), aged 48, established the Group in March 2001. Between May 2011 and February 2020, Mr. Xing Jiaxing has served as an executive Director, chairman of the Board, and various other positions at committees of the Board, and between May 2011 and October 2019, and from 25 February 2020 to 20 April 2020, as the president of the Company.

Mr. Xing Jiaxing has more than 20 years of experience in the PRC fashion retailing industry. He was also involved in the apparel distribution business for Fuzhou Sophie Garment Co., Ltd.* (福州蘇菲時裝有限公司) from July 1996 to July 1998. He established the predecessor of the Company and became the chairman of its board and its executive director in March 2001.

Mr. Xing Jiaxing obtained an EMBA degree from the China Europe International Business School in July 2015, and a finance EMBA degree at PBC School of Finance, Tsinghua University in July 2019.

Mr. Yu Qiang (于強), aged 46, was an executive Director (from 5 February 2018 to 25 February 2020), president of the Company (form 29 October 2019 to 25 February 2020), a member of the Strategy and Development Committee (from 22 March 2018 to 25 February 2020), a co-president of the Company (from 5 June 2018 to 29 October 2019) and chief financial officer (from 3 May 2016 to 4 June 2018) of the Company.

Mr. Yu was previously a finance director, director and vice general manager at Nantong Jiangshan Agrochemical & Chemical Co.,Ltd.* (南通江山農藥化工股份有限公司) from January 2010 to April 2016. He also previously served various roles at Sinochem International Corporation* (中化國際(控股)股份有限公司) from December 1998 to January 2010, including as manager of the accounting department, general manager of the analysis and appraisal department, general manager of the fund settlement department, assistant to the general manager of the finance headquarters, vice general manager and general manager of the finance headquarters.

Mr. Yu obtained a bachelor degree in professional accounting from the Renmin University of China (中國人民大學) and a master degree in professional accounting from the Chinese University of Hong Kong.

Ms. Hu Lijie (胡利杰), aged 45, was a co-president of the Company from 28 August 2018 to 25 October 2019 and an executive Director, a member of the Budget committee and the Strategy and Development Committee of the Company from 19 October 2018 to 25 October 2019.

Ms. Hu served as an assistant to the general manager of Beijing Office of Delong Group (德隆集團) from July 1997 to September 1999. From September 1999 to March 2002, she served as a product manager of Wafer Systems (China) Ltd, (CISCO Gold) (威發系統中國公司(CISCO金牌)). From March 2002 to July 2005, she served as a senior consultant and senior project manager of Beijing Pilot Marketing Management Consulting Company (北京派力營銷管理顧問公司). From August 2005 to July 2008, she served as the chief consultant of Finland Puhui Management Consulting Company (芬蘭普慧管理顧問公司). From August 2008 to July 2018, she served as a standing committee member of the management committee, an assistant to the president and general manager of the merchants center of Red Star Macalline Group Corporation Limited.

Ms. Hu graduated from Tianjin Commerce College (天津商學院) in 1995. She obtained a master degree in business administration of human resources from the Capital University of Economics and Business (首都經貿大學) in July 2006 and an EMBA degree from the China Europe International Business School (中歐國際工商學院) in July 2015. She is the author of two professional reference books, such as "Marketing and Implementation" (《營銷執行》).

Mr. Mao Jianong (毛嘉農), aged 57, was an non-executive Director (from 19 October 2018 to 20 June 2019), a member of the Strategy and Development Committee (from 19 October 2018 to 25 October 2019), Nomination Committee and Remuneration and Appraisal Committee (from 30 October 2018 to 25 October 2019), an executive Director and vice chairman (from 21 June 2019 to 25 October 2019) and a member of the Budget Committee (from 28 August 2019 to 25 October 2019) of the Company.

Mr. Mao was an executive director and deputy general manager of SinoChem International Corporation from November 2007 to December 2010, a non-executive director of Nantong Jiangshan Agrochemical and Chemicals Co., Ltd. from January 2008 to December 2009, and a non-executive director of China Hainan Natural Rubber Industry Group Co., Ltd. from October 2008 to June 2011, and an independent non-executive director of Yonghui Superstores Co., Ltd. (永輝超市股份有限公司) from August 2009 to September 2015, all of which are companies listed on the Shanghai Stock Exchange. He was also the deputy general manager of Harbin Gloria Pharmaceuticals Co., Ltd (哈爾濱譽衡藥業股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002437) from January 2015 to December 2016. Mr. Mao was an independent non-executive Director of the Company from May 2011 to May 2017.

Mr. Mao obtained a bachelor degree in medicine from the Second Military Medical University in July 1984, a master's degree in management science and engineering from the Dalian University of Technology in April 2002 and an executive master of business administration degree from the China Europe International Business School in October 2011.

Dr. Chen Jieping (陳杰平), aged 67, was an independent non-executive Director, a member of the Audit Committee and Remuneration and Appraisal Committee (from 29 April 2016 to 16 October 2019), chairman of the Budget Committee (from 18 December 2017 to 28 August 2019) and a member of the Nomination Committee (from 18 December 2017 to 28 August 2019) of the Company.

Dr. Chen held positions of Assistant Professor, Associate Professor, vice head and head of the department of accountancy of the City University of Hong Kong from 1995 to 2008. He has been the Associate Dean, Director of the EMBA programme and a professor at the China Europe International Business School since 2008.

Dr. Chen was an independent non-executive director of Industrial Securities Co., Ltd., (興業證券股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 601377) from August 2011 to August 2017. He has been an independent non-executive director of Shenzhen Worldunion Properties Consultancy Incorporated (深圳世聯行地產顧問股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 2285) since 2013; an independent non-executive director of iOne Holdings Limited (now known as "HJ Capital (International) Holdings Company Limited" (華金國際資本控股有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 0982)) since 2014; an independent non-executive director of Jinmao Hotel & Jinmao (China) Investments and Management Limited (金茂酒店及金茂(中國)酒店投資管理有限公司, a company listed on the Hong Kong Stock Exchange, stock code: 06139) (formerly known as Jinmao Investments and Jinmao (China) Investments Holdings Limited) since 2014; and independent non-executive director of Zhuo Lang intelligent technology Limited (卓郎智能技術股份有限公司, a company listed on the Shanghai Stock Exchange, stock code: 600545) from September 2017.

Dr. Chen received a bachelor's degree in science and a master's degree in hospitality management respectively from the University of Houston in August 1990. He obtained a master's degree in business administration from the University of Houston in May 1992 and a doctoral degree in business administration from the University of Houston in August 1995.

RESIGNED SENIOR MANAGEMENT

Ms. Shen Jiaming (沈佳茗), aged 36, Chinese Certified Public Accountant, was chief financial officer of the Company from 5 June 2018 to 29 March 2020. She joined the Company in July 2016 and held positions of director of accounting management department, assistant general manager of finance center and head of cash management department. Prior to joining the Company, Ms. Shen worked at Ernst & Young Hua Ming LLP (安永華明會計師事務所) and held positions of auditor, senior auditor, audit manager and senior audit manager from August 2006 to July 2016. Ms. Shen obtained her bachelor degree in management from Shanghai University of Finance and Economics (上海財經大學) in June 2006 (double major in investment economy and accounting).

Ms. Ding Lili (丁莉莉), aged 34, was a secretary of board of directors of the Company from October 2018 to 30 July 2019. She joined the Company in July 2017 and held positions of deputy director and securities affairs representative. Prior to joining the Company, Ms. Ding worked at Wolong Electric Group Co., Ltd. (臥龍電氣集團股份有限公司) and held positions of administrative officer, securities affairs assistant, securities affairs representative and head of human resource and administration from August 2009 to July 2017. Ms. Ding graduated from SouthWest JiaoTong University (西南交通大學) in July 2009, and she is studying a master's degree at Central University of Finance and Economics (中央財經大學).

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲), is the Company's Company Secretary. She is also a vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, she worked in a corporate service provider and the company secretarial department of an international accounting firm. She has been awarded a Bachelor of Arts degree in Marketing and Public Relations from The Hong Kong Polytechnic University and Master of Corporate Governance degree from The Open University of Hong Kong, and is Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She has approximately 14 years of experience in providing company secretarial services.

Directors' Report

The Board is pleased to present this report and the audited consolidated results of the Company and the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group designs, markets and sells apparel products with a focus on mass-market ladies' casual wear in the PRC. Principal activities and other particulars of the Company's subsidiaries are set out in note 6 of the consolidated financial statements.

BUSINESS REVIEW

The business review for the year and discussions on the future business development of the Group together with the description of the possible risks and uncertainties of the Group are contained in the section headed "Management Discussion and Analysis" on pages 14 to 24 of this report. The descriptions of the financial risk management of the Group are set out in note VIII(2) to the consolidated financial statements. Five-year financial summary of the Group is set out on page 9 of this report in which the annual performance of the Group is analyzed by means of the critical financial performance indicators. In addition, the compliance of related laws and regulations which have significant impacts on the Group is set out on page 48 of this report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2019 and the Company's and the Group's financial position as at that date are set out in the consolidated financial statements on pages 71 to 240 of this report.

A discussion and analysis of the Group's performance during the year and material factors underlying its results and financial position are set out in the section headed "Management Discussion and Analysis" of this report.

In 2017, the Ministry of Finance ('**MOF**') released the revised 'Accounting Standards for Business Enterprises No.14 – Revenue' ('**New Revenue Standards**') and revised 'Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments', 'Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Instruments', 'Accounting Standards for Business Enterprises No. 37 – Disclosure of Financial Instruments' (hereinafter collectively referred to as '**New Financial Instruments Standards**'). In 2018, MOF released 'Circular on Amendments to Formats of Financial Statements of General Industry' (Caihui [2018] No. 15) (hereinafter referred to as "**New Financial Statements Form**").

To better reflect the operating result and financial position of the Group, the consolidated financial statements have been prepared in accordance with the above new standards since 1 January 2018 and certain line items have been adjusted accordingly. According to the above new standards, the Company is not required to adjust the retained earnings at the beginning of 2018 for the first adoption. Please refer to note 2(29)(c) for the impact of the adoption of the New Revenue Standard to the retained earnings at the beginning of 2018.

The Group pays concessionaire fees to department stores and online platform for the right to occupy and use concessionaire counters pursuant to concessionaire agreements. A concessionaire fee with respect to a concessionaire counter and the online platform is typically calculated as a percentage of the Group's monthly sales made at the concessionaire counter and is deducted by the department store before it transfers the payments from sales of products to the Group. Under the old revenue standards, revenue was recognized on a net basis, that is, the concessionaire fees was recorded as a deduction to revenue ("**Net Revenue Method**"). Regarding the accounting records of trustor, the New Revenue Standards are net of revenue. The New Revenue Standards introduced more clear rules on accounting judgement over principal versus agency relationship. According to the New Revenue Standards, the Group should consider whether it owns the products and takes the inventory risk before transfer of the products to the end customers when determining the Group is acting as agent or principal. The Group controls the products before sales to the end customers. The sales staff in the concessionaire counters are the Group's employees, who take charge of products promotion and end customers services. The Group is the primary obligor in the transfer of products to consumers. The Group is responsible for storage and display of the products and bearing the products return risk. Hence, the Group bears the inventory risks before and after the transfer of products. The Group has the right to determine the selling price, even in certain promotion events organized by the department stores or online platform. The department stores or the online platform charges concessionaire fees to the Group which is calculated at certain fixed percentage of the gross sales amount. As such, management is in the opinion that the Group's customers are the end customers rather than the department stores or online platform. The Group is acting as a principal in the concessionaire arrangement. Accordingly, the Group should recognize revenue based on the gross amount of the sales transaction after adoption of the New Revenue Standards ('**Gross Revenue Method**'). The concessionaires fees are recorded as selling and distribution expenses.

The adoption of New Revenue Standards resulted in changes in accounting policies and adjustments to the revenue and selling and distribution expenses of RMB980,259 thousand in the consolidated financial statements in 2019. There was no impact on the net profit of the Group. As explained above, the New Revenue Standards were adopted without restating comparative information. For illustrative purpose, the Group also presented the key financial figures in 2018 under Gross Revenue Method.

The Ministry of Finance issued the revised "Accounting Standard for Business Enterprises No. 21-Leases" in 2018 (the "**New Lease Standard**") and promulgated "Notice of Modification of the Financial Statement Format for General Business Enterprises in 2019" (Cai Hui [2019] No. 6) in 2019.

To better reflect the operating result and financial position of the Group, the consolidated financial statements have been prepared in accordance with the above new standards since 1 January 2019 and certain line items have been adjusted accordingly.

The impact of the adoption of the New Lease Standard on the Group's net profit attributable to equity owners of the Company for 2019 was RMB89.042 million, and it also resulted in an increase in the total assets of the Group's consolidated statements by RMB1,585.105 million and an increase in the total liabilities by RMB1,623.409 million.

For adoption of other new accounting standards as mentioned above, there were changes in the reclassifications and restatements on certain balance sheet accounts in 2018 and 2019, and no impact on the net profit of the Group.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note V(37) to the consolidated financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company are set out in note V(36) to the consolidated financial statements.

FINAL DIVIDENDS

As the distributable profit of the Company as at the end of 2019 was negative, pursuant to requirements of the Articles of Association and taking into consideration of the Company's current actual operation and development conditions and for securing the need of cash for future development, the Board of Directors recommended no payment of cash dividends or stock dividends and no transfer from capital surplus to share capital or other form of distribution for the year ended 31 December 2019.

DIVIDEND POLICY

The Company adopts continuous and stable profit distribution policies, aiming to bring reasonable returns to investors while ensuring the sustainable development of the Company and establishing a continuous and stable distribution mechanism based on the profitability and actual needs arising from the future development strategy of the Company. Specific details of the dividend distribution plan are as follow:

1. Profit distribution shall not exceed the accumulated distributable profit of the Company and shall not adversely affect the subsequent continuing operation of the Company;

2. The Company may distribute profits in cash, shares and/or by a combination of cash and shares or otherwise as permitted by laws and regulations. However, where the conditions for cash dividend are satisfied, profit distribution in the form of cash dividend shall take priority;

3. Where the Company intends to implement cash dividend distribution, all the following conditions shall be satisfied:

   (1) the distributable profit (i.e. after-tax profit after making up for losses and making appropriation to the statutory reserve fund) of the Company for the year is positive;

   (2) the auditing firm issued a standard audit report with unqualified opinions on the financial report for the year.

4. When the above conditions for cash dividend distribution are satisfied, the Company will actively distribute profits in the form of cash dividends once per year in principle. The Board may also propose distributing interim cash dividends after taking into account the profitability and capital demand of the Company;

5. The Company shall maintain the continuity and stability of its profit distribution policies. The total profit to be distributed in cash shall not be less than twenty percent (20%) of the distributable profit realised in such year. The Board shall comprehensively consider factors such as the characteristics of the industry in which the Company operates, the stage of development, operation model and profitability of the Company and whether there is any arrangement for significant capital expenditure to differentiate between the following situations, and put forward differentiated policies for cash dividend distribution according to the procedures stipulated in the Articles of Associations:

(1) cash dividend distribution should at least account for 80% of the profit distribution if the Company reaches a mature stage in its development and there is no arrangement for significant capital expenditure;

(2) cash dividend distribution should at least account for 40% of the profit distribution if the Company reaches a mature stage in its development and there is an arrangement for significant capital expenditure;

(3) cash dividend distribution should at least account for 20% of the profit distribution if the Company is in a stage of growth and there is an arrangement for significant capital expenditure; the stipulations in the preceding paragraph shall prevail if it is difficult to differentiate the stages of development of the Company.

If the profit of the company grows substantially and the Board is of the opinion that there is a mismatch between the share price of the Company and the scale of its share capital, a preliminary dividend distribution plan may also be proposed and implemented after satisfying the above cash dividend distribution.

6. If the Board does not put forth a cash dividend distribution plan, the reasons shall be disclosed in the annual report and independent Directors shall express independent opinions thereon;

7. If there is misappropriation of funds of the Company by a Shareholder in violation of regulations, the Company has the right to deduct that Shareholder's cash dividend during profit distribution to reimburse the misappropriated funds.

CLOSURE OF REGISTER OF MEMBERS FOR H SHARES

On 30 July 2020, the Company will hold the 2019 AGM for the purposes of considering and, if thought fit, passing the resolutions listed in the notice of the 2019 AGM. Relevant details of the resolutions are set out in the circular and notice of the 2019 AGM dated 30 June 2020.

In order to determine the H shareholders who are entitled to attend the 2019 AGM, the register of members of the Company for H shares will be closed from 27 July 2020 to 30 July 2020 (both days inclusive), during which period no transfer of H shares of the Company can be registered. In order to be qualified to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's H Shares Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 24 July 2020.

H Shareholders whose names appear on the register of members of the Company at the close of business on 24 July 2020 are entitled to attend and vote at the 2019 AGM. Please refer to the A Share announcement published on the Shanghai Stock Exchange for the information for A Shareholders who are entitled to attend the 2018 AGM.

FIXED ASSETS

Details of the fixed assets of the Group are set out in note V(14) to the consolidated financial statements.

BANK LOANS AND BORROWINGS

As at 31 December 2019, bank borrowings of the Group amounted to RMB1,842.7 million (31 December 2018: RMB2,259.9 million), which were mainly unsecured borrowings repayable within one year.

DONATIONS

As a corporate citizen, the Company is driven by its wish to create maximum value for the community where its operation is located and participated in social welfare activities. In the last decade, the Group has made frequent donations of clothing and funds to the vulnerable groups through organisations such as the Foundation for Disabled People's Welfare and local Red Cross societies. During the Reporting Period, the Group made donation of approximately RMB135 thousand.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date before printing this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2019, the Company repurchased 1,881,800 A shares of the Company on the Shanghai Stock Exchange for a total consideration of RMB10,165,347 (before transaction cost).

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

Month of repurchase	Number of shares repurchased	Highest price per share (RMB)	Lowest price per share (RMB)	Total amount of repurchase (RMB)
November 2019	480,100 A shares	4.20	4.14	2,009,195
December 2019	1,401,700 A shares	6.15	5.71	8,156,152

Such shares have not been cancelled completely during 2019.

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to propose new issues to its existing shareholders in proportion to their shareholdings.

DIRECTORS AND SUPERVISORS

The Directors during the year ended 31 December 2019 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Director	Date of joining the Group
Mr. Duan Xuefeng (段學鋒)	Chairman and non-executive Director	Board management, strategic planning and decision making	8 May 2020	May 2020
Mr. Yin Xinzai (尹新仔)	Executive Director	Operation and management and government affairs	8 May 2020	August 2013
Ms. Zhang Danling (章丹玲)	Executive Director	Design and branding management	8 May 2020	March 2001
Ms. Zhang Yujing (張妤菁)	Non-executive Director	As a non-executive Director	8 May 2020	May 2020
Mr. Zhu Xiaozhe (朱曉喆)	Independent non-executive Director	As an independent non-executive Director	8 May 2020	May 2020
Ms. Xiao Yanming (肖豔明)	Independent non-executive Director	As an independent non-executive Director	8 May 2020	May 2020
Mr. Xing Jiangze (邢江澤)	Independent non-executive Director	As an independent non-executive Director	8 May 2020	May 2020
Mr. Xing Jiaxing (邢加興)[1]	Chairman and executive Director (resigned)	Overall management of the Group, strategic planning and decision making	9 May 2011	March 2001
Mr. Yu Qiang (于強)[2]	Executive Director and president (resigned)	Accounting, investment business and strategic planning	5 February 2018	May 2016
Ms. Hu Lijie (胡利杰)[3]	Executive Director and Co-president (resigned)	Branding management, marketing and administration	19 October 2018	June 2018
Mr. Mao Jianong (毛嘉農)[4]	Executive Director (resigned)	Corporate governance and strategic planning	19 October 2018	May 2011
Mr. Lu Weiming (陸衛明)	Non-executive Director (retired)	As a non-executive Director	9 May 2011	January 2008
Mr. Luo Bin (羅斌)[5]	Non-executive Director (retired)	As a non-executive Director	5 May 2015	May 2015
Mr. Wang Wenke (王文克)[6]	Non-executive Director (retired)	As a non-executive Director	18 December 2019	February 2015
Dr. Chen Jieping (陳杰平)[7]	Independent non-executive Director (resigned)	As an independent Director	29 April 2016	April 2016
Mr. Chan, Wing Yuen Hurbert (陳永源)	Independent non-executive Director (retired)	As an independent Director	25 July 2016	July 2016
Mr. Zhang Zeping (張澤平)	Independent non-executive Director (retired)	As an independent Director	12 May 2017	May 2017
Mr. Rui Peng (芮鵬)[8]	Independent non-executive Director (retired)	As an independent Director	16 October 2019	October 2019

1. Mr. Xing Jiaxing resigned as a president with effect from 29 October 2019, resigned as chairman and an executive Director with effect from 3 February 2020 and was reappointed as president with effect from 25 February 2020 and resigned as a president with effect from 20 April 2020.

2. Mr. Yu Qiang was appointed as president with effect from 29 October 2019 and resigned as an executive Director and a member of Strategy and Development Committee and as president with effect from 25 February 2020.

3. Ms. Hu Lijie resigned as an executive Director, a co-president, a member of Budget Committee and Strategy and Development Committee with effect from 25 October 2019.

4. Mr. Mao Jianong was re-designated from a non-executive Director to an executive Director with effect from 21 June 2019, and appointed as a member of Budget Committee with effect from 28 August 2019. Mr. Mao resigned as an executive Director, a member of Nomination Committee, Remuneration and Appraisal Committee, Budget Committee and Strategy and Development Committee with effect from 25 October 2019.

5. Mr. Luo Bin was appointed as chairman of Budget Committee with effect from28 August 2019 and retired with effect from 8 May 2020.

6. Mr. Wang Wenke was appointed as a non-executive Director and a member of Budget Committee and Strategy and Development Committee with effect from 18 December 2019 and retired with effect from 8 May 2020.

7. Dr. Chen Jieping resigned as chairman and remained as a member of Budget Committee with effect from 28 August 2019 and resigned as an independent non-executive Director, chairman of Audit Committee and a member of Nomination Committee, Remuneration and Appraisal Committee and Budget Committee with effect from 16 October 2019.

8. Mr. Rui Peng was appointed as an independent non-executive Director, chairman of Audit Committee and a member of Nomination Committee, Remuneration and Appraisal Committee and Budget Committee with effect from 16 October 2019, and retired with effect from 8 May 2020.

The Supervisors during the year ended 31 December 2019 and as of the date of this report are as follows:

Name	Position	Roles and responsibilities	Date of appointment as Supervisor	Date of joining the Group
Mr. Ma Yuanbin (馬元斌)	Chairman of the Supervisory Committee and assistant to president and chairman of labour union	Supervision of the Board and Senior Management	8 May 2020	July 2018
Mr. Shi Xiaofeng (施孝鋒)	Supervisor and deputy general manager of supply chain planning department	Supervision of the Board and Senior Management	8 May 2020	February 2013
Mr. Wu Jinying (吳金應)	Supervisor and senior technical manager (software development)	Supervision of the Board and Senior Management	8 November 2015	March 2001
Ms. Liu Mei (劉梅)[1]	Supervisor (retired) and general manager of legal department	Supervision of the Board and Senior Management	18 December 2017	February 2008
Ms. Zhang Haiyun (張海雲)	Supervisor (retired) and assistant to president and general manager of infrastructure engineering department	Supervision of the Board and Senior Management	28 December 2018	March 2001

1. Ms. Liu Mei was elected as the chairperson of the third session of the Supervisory Committee on 11 January 2019 and retired on 8 May 2020.

Biographical details of the Directors, Supervisors and senior management are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

CONFIRMATION OF INDEPENDENCE OF INDEPDENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each Director has entered into a service contract with the Company while all Supervisors do not have service contract with the Company. The terms of the Directors and Supervisors do not exceed three years and will expire upon conclusion of the general meeting at which members of a new session of the Board and Supervisory Committee are elected.

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

None of the Director or Supervisor, or any entity connected with the Directors or Supervisors, had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party as of and during the year ended 31 December 2019.

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

As at 31 December 2019, the interests and short positions of the Directors, Supervisors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Interests and short position in the shares of the Company

Name of Director	Nature of interest and capacity	Number of shares interested [2]	Approximate percentage of shareholding A shares as at 31 December 2019	Approximate percentage of shareholding in the total issued share capital of the Company at 31 December 2019
Mr. Xing Jiaxing[1]	Beneficial owner	141,874,425 A Shares (L)	42.62%	25.91%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	45,204,390 A Shares (L)	13.58%	8.25%
	Beneficial owner	141,600,000 A Shares (S)	42.54%	25.85%
	Concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	38,500,000 A Shares (S)	11.57%	7.03%

Notes:

1. Mr. Xing Jiaxing was the beneficial owner of 141,874,425 A shares of the Company ("**A Share(s)**"), which represent approximately 25.91% of the total issued share capital of the Company as at 31 December 2019. In addition, Mr. Xing Jiaxing and Shanghai Hexia Investment Co., Ltd. (上海合夏投資有限公司) ("**Shanghai Hexia**") entered into a new Acting-in-Concert Agreement (the "**New Concert Agreement**") on 9 January 2014. As the New Concert Agreement is an agreement to which section 317 of the SFO applies, Mr. Xing Jiaxing is also deemed, pursuant to section 318 of the SFO, to be interested in the Company's shares in which Shanghai Hexia is interested (being the 45,204,390 A Shares mentioned above), which represents approximately 8.25% of the total issued share capital of the Company as at 31 December 2019.

   Mr. Xing Jiaxing entered into share pledge agreements with Haitong Securities Co., Ltd., on 28 November 2017, 7 December 2017, 18 September 2018, 17 October 2018, 31 January 2019 and 10 June 2019, respectively, pursuant to which 141,600,000 A Shares of Mr. Xing's holdings were pledged as collateral for financing and repurchase transaction. Among such A Shares, 68,400,000 A Shares and 73,200,000 A Shares will be repurchased on 27 November 2020 and on 4 December 2020 respectively. All the pledged shares represent approximately 25.85% of the total issued capital of the Company as at 31 December 2018.

   As disclosed in the announcement dated 6 August 2019 of the Company, the collateral coverage ratio of the 68,400,000 A Shares and 73,200,000 A Shares (which will be repurchased on 27 November 2020 and 4 December 2020 respectively) pledged by Mr. Xing Jiaxing has fallen below the lowest collateral coverage ratio, leading to a breach of the share pledge contract, and the Pledgee has issued a written notice of breach of the share pledge contract. Mr. Xing Jiaxing has proactively communicated with the pledgees, and intends to resolve the breach of contract through providing additional security or earnest money, or through repurchase of the pledged A Shares in advance.

   Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018, 18 October 2018, 1 February 2019 and 5 August 2019, pursuant to which 38,500,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Such 38,500,000 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 7.03% of the total issued capital of the Company as at 31 December 2019.

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

Save as disclosed above, as at 31 December 2019, so far as is known to any Director, Supervisor or the chief executive of the Company, none of the Directors, Supervisors, or the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) recorded in the register required to be kept under section 352 of the SFO, or (iii) otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

In addition, as disclosed in the announcement dated 9 April 2020 of the Company, Shanghai Hexia has provided a supplemental pledge of 6,700,000 restricted A Shares held by it to CITIC Securities Co., Ltd. (representing 1.22% of the Company's total issued share capital). The repurchase transaction date for the supplemental pledge is 8 October 2020, and does not involve any new financing arrangement. Upon provision of this supplemental pledge, Shanghai Hexia has accumulatively pledged 45,200,000 restricted A Shares, representing 8.25% of the Company's total issued share capital.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2019, no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

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

As at 31 December 2019, the following persons (not being a Director, Supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest and capacity	Number of shares interested [6]	Approximate percentage of shareholding in the relevant class of shares as at 31 December 2019	Approximate percentage of shareholding in the total issued share capital of the Companyat 31 December 2019
Shanghai Hexia[1]	Beneficial owner	45,204,390 A Shares (L)	13.58%	8.25%
	A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,874,425 A Shares (L)	42.62%	25.91%
	A concert party to an agreement to buy shares described in section 317(1)(a) of the SFO, deemed interest pursuant to section 318 of the SFO	141,600,000 A Shares (S)	42.54%	25.85%
	Beneficial owner	38,500,000 A Shares (S)	11.57%	7.03%
The Goldman Sachs Group, Inc.[2]	Interest in controlled corporation	18,236,842 A Shares (L)	5.48%	3.33%
Haitong Securities Co., Ltd.	Person having a security interest in shares	141,600,000 A Shares (L)	42.54%	25.85%
Citic Securities Co., Ltd.	Person having a security interest in shares	38,500,000 A Shares (L)	11.57%	7.03%
China Merchants Asset Management, Construction and Investment Overseas No. 1 Overseas Single Asset Management Plan (招商資管建投海外1號海外單一資產管理計劃)[4]	Others	11,400,000 H Shares (L)	5.31%	2.08%

Name of shareholder	Nature of interest and capacity	Number of shares interested [6]	Approximate percentage of shareholding in the relevant class of shares as at 31 December 2019	Approximate percentage of shareholding in the total issued share capital of the Companyat 31 December 2019
China Cinda Asset Management Co., Ltd.[3]	Interest in controlled corporation	49,597,132 H Shares (L)	23.09%	9.06%
Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership)[4]	Beneficiary of a trust	22,150,000 H Shares (L)	10.31%	4.04%
Gabriel Li[5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Lam Lai Ming[5]	Interest in controlled corporation	9,531,600 H Shares (L)	4.44%	1.74%
Zhejiang Longsheng Group Co., Ltd.[6]	Interest in controlled corporation	22,236,800 H Shares (L)	10.35%	4.06%
Senda International Capital Limited[6]	Beneficial owner	16,630,800 H Shares (L)	7.74%	3.04%
Wang Shenghong[7]	Beneficiary of a trust	10,345,400 H Shares (L)	4.82%	1.89%

1. Shanghai Hexia was interested in 45,204,390 A Shares, which represented approximately 8.25% of the total issued share capital of the Company as at 31 December 2019. In addition, Shanghai Hexia and Mr. Xing Jiaxing entered into the New Concert Agreement on 9 January 2014, which is an agreement to which section 317 of the SFO applies. As a result, Shanghai Hexia is also deemed, pursuant to section 318 of the SFO, to be interested or having short positions in the Company's shares in which Mr. Xing Jiaxing is interested or having short positions (being the 141,874,425 A Shares (L) and 141,600,000 A Shares (S) held by Mr. Xing Jiaxing as at 31 December 2019), representing approximately 25.91% and 25.85% respectively of the total issued share capital as at 31 December 2019.

   Shanghai Hexia entered into share pledge agreements with Citic Securities Co., Ltd., on 8 May 2018, 18 October 2018, 1 February 2019 and 6 August 2019, pursuant to which 38,500,000 A Shares of Shanghai Hexia's holdings were pledged as collateral for financing and repurchase transaction. Such 27,011,500 A Shares will be repurchased on 8 October 2020. All the pledged shares represent approximately 7.03% of the total issued capital of the Company as at 31 December 2019.

   In addition, as disclosed in the announcement dated 9 April 2020 of the Company, Shanghai Hexia has provided a supplemental pledge of 6,700,000 restricted A Shares held by it to CITIC Securities Co., Ltd. (representing 1.22% of the Company's total issued share capital). The repurchase transaction date for the supplemental pledge is 8 October 2020, and does not involve any new financing arrangement. Upon provision of this supplemental pledge, Shanghai Hexia has accumulatively pledged 45,200,000 restricted A Shares, representing 8.25% of the Company's total issued share capital.

2. The Goldman Sachs Group, Inc. is a company listed on the New York Stock Exchange. The Goldman Sachs Group, Inc., through its various entities, controls Beijing Kuanjie Bohua 2011 Investment Center (Limited Partnership), which was beneficially interested in 18,236,842 A Shares and The Goldman Sachs Group, Inc was deemed to be interested in such shares by virtue of the SFO.

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

4 Ningbo Meishan Free Trade Zone Jinxin Changtai Investment Partnership (Limited Partnership) invested in H Shares of the Company as an asset principal through China Merchants Asset Management, Construction and Investment Overseas No. 1 Single Asset Management Plan.

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

6. These H shares of the Company were held by Senda International Capital Limited and Well Prospering Limited, which hold 16,630,800 and 5,606,000 H shares of the Company respectively.

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

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

Other than as disclosed above, as at 31 December 2019, the Directors have not been notified by any person (not being the Directors, Supervisors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the Directors or their respective associates had interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' EMOLUMENTS AND FIVE HIGHEST EMOLUMENTS

The Directors' emoluments are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Details of the Directors' emoluments and the five highest paid individuals are set out in notes X(7) to the consolidated financial statements respectively.

EMOLUMENT POLICY

The Remuneration and Appraisal Committee was set up to develop the Group's emolument policy and structure for remuneration of the Directors, Supervisors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors, Supervisors and senior management and comparable market practices.

Mr. Lu Weiming and Mr. Luo Bin (retired on 8 May 2020) agreed not to receive remuneration for acting as non-executive Directors of the Company. Save as disclosed above, none of the Directors waived remuneration for the year ended 31 December 2019.

PENSION SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "**Schemes**") organized by the local authorities whereby the subsidiaries are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries. Contributions to these Schemes vest to employees immediately. Under these Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group's contributions to retirement benefit schemes charged to the consolidated statement of profit or loss for the year ended 31 December 2019 were RMB204,585 thousand.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

The Company has not arranged for appropriate insurance cover for the Directors, Supervisors and Senior Management in respect of certain liabilities arising out of corporate activities. As required by section 470(1) and (2) of the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Hong Kong Companies Ordinance**"), it is confirmed that the permitted indemnity provision mentioned above is/was in force for the benefit of the Directors/then Directors when the Directors' Report prepared by the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance; and has been in force throughout the financial year ended 31 December 2019, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2019, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases; and the combined revenue from the five largest customers did not exceed 30% of the total revenue of the Group. None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest suppliers and customers.

SUSTAINABLE DEVELOPMENT

The Group is committed to promoting the sustainable development of the environment and society. We recognize the inevitable impacts on the production of fabrics and apparels on the climate and local environment. The Group strives to enhance the environmental performance and social responsibility of fabrics and apparel suppliers. As such, the Group rigorously screens fabrics and apparel suppliers who are required to obtain the certificate in compliance with the national and international environmental standards, safety standards and health for workers. The Group conducts performance assessment of its suppliers on environment and social responsibility regularly. Detailed information on the environmental policy of the Group is contained in the "Environmental, Social and Governance Report 2019" (the "**ESG Report 2019**"), which will be available on the websites of the Hong Kong Stock Exchange and the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Group fully understands that employees, customers and partners are the key to our sustainable and steady development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our partners and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group values our staff as the most important resource. Hence, the Group has been endeavouring to provide our staff with equal opportunities and humane workplace. We offer a competitive remuneration package and great opportunities for promotion based on employees' performance. The Group also provides our staff with regular training, including internal training and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market and industry as well as to upgrade their job skills.

"Providing quality products and services to customers" has always been our goal. We uphold the philosophy of "Building up the brand reputation for the Company by placing equal emphasis on service and quality" to actively communicate with our customers to understand their views and suggestions so as to enhance our products and services.

We firmly believe that our suppliers are equally important in developing high-quality products. The Group has signed a bona-fide agreement for cooperation with every supplier at arms' length. Through open procedures for tender invitation and submission, the requirements of anti-corruption and anti-bribery are strictly followed, and various reporting channels are provided (including the mailbox and hotline made available to the public for reporting set up by the Audit Department). This agreement is an important legally binding attachment to any procurement cooperation agreement. In addition, we engaged a third-party inspection entity and adopted an "order management system" to strictly control the production process and product quality. Detailed information on the relationship between the Group and stakeholders is contained in the ESG Report 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES IN 2019

LaCha Fashion I Limited ("**LaCha Fashion**", an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with East Links International (HK) Co., Ltd and Trendy Pioneer Limited (collectively the "**Vendors**") on 22 May 2019, pursuant to which LaCha Fashion conditionally agreed to purchase, and the Vendors conditionally agreed to sell shares of LaCha Apparel II Sàrl (the "**Target Company**") representing 60% of its issued share capital (the "**Acquisition**").

Prior to the Acquisition, the Company indirectly owns 40% of the issued share capital of the Target Company. The Acquisition was completed in accordance with the terms of the sale and purchase agreement on 4 June 2019. Upon completion, the Company indirectly holds 100% equity interest in the Target Company, which in turn holds 100% equity interest in Naf Naf SAS. Each of the Target Company and Naf Naf SAS has become an indirect wholly-owned subsidiary of the Group, and the financial results of which were consolidated into the financial statements of the Group.

For more details of this Acquisition, please refer to the announcements of the Company dated 26 November 2018, 28 February 2019, 22 May 2019 and 5 June 2019.

As disclosed in the announcements of the Company dated 18 May 2020 and 24 June 2020, Naf Naf SAS, a wholly-owned subsidiary of the Company was unable to repay its suppliers and certain debts due to the local government. Rehabilitation proceedings (also referred to as "*redressement judiciaire*" in French) were initiated by the French local court on 15 May 2020 (French time), and that Naf Naf SAS formally entered compulsory liquidation (also referred to as "*liquidation judiciaire*" in French) on 19 June 2020 (French time). As a result of the initiation of the rehabilitation proceedings, the Company will consequently no longer have control over Naf Naf SAS, and Naf Naf SAS will no longer be consolidated in the Group's financial statements.

CONNECTED TRANSACTIONS

For the year ended 31 December 2019, the Group entered into the following connected transactions:

DISPOSAL OF 54.05% EQUITY INTEREST IN ANSHE E-COMMERCE

On 7 May 2019, the Company entered into the Equity Transfer Agreement with the Hangzhou Yaner Enterprise Management Consulting Co., Ltd. (the "**Purchaser**") and Ms. Cao Qing ("**Ms. Cao**"), pursuant to which the Purchaser conditionally agreed to purchase and the Company conditionally agreed to sell the 54.05% equity interest in Hangzhou Anshe E-Commerce Company Limited ("**Anshe E-Commerce**") held by the Company, at the consideration of RMB200,000,000.

Anshe E-Commerce is owned by the Company as to 54.05%, Ms. Cao as to 23.86%, Aibo Technology Company Limited as to 14.32% and Hangzhou Anshe Investment Management Partnership LLP as to 7.77%. Upon Completion, the Company will cease to hold any equity interest in Anshe E-Commerce and Anshe E-Commerce will cease to be a subsidiary of the Company.

Since the Purchaser is wholly owned by Ms. Cao, who holds 23.86% equity interest in Anshe E-Commerce as at 7 May 2019, the Purchaser is an associate of a substantial shareholder of Anshe E-Commerce and therefore a connected person of the Company at the subsidiary level. Accordingly, the Equity Transfer Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The consideration shall be payable by the Purchaser to the Company in cash to the designated bank account of the Company. The consideration was determined after arm's length negotiations between the Company and the Purchaser taking into account, among other things, (i) the consolidated total net assets of Anshe E-Commerce as at 31 December 2018 (being approximately RMB299,745 thousand) and the net assets value corresponding to 54.05% of such total net assets (being approximately RMB162,012 thousand) and (ii) addition for the cost of the Company's investment in Anshe E-Commerce which result in the overall valuation of the entire equity interest in Anshe E-Commerce (being approximately RMB370,000 thousand) as agreed between the Company and the Purchaser; (iii) the historical operating and financial performance of Anshe E-Commerce (including but not limited to the decrease in net profits for the year ended 31 December 2018); and (iv) an independent valuation of the Target Interest as at 31 December 2018 (being RMB167,800 thousand) as set out in a valuation report prepared by a professional independent valuer adopting the market approach. In addition, the terms of payment of the consideration were determined after arm's length negotiations between the Company and the Purchaser taking into account, among other things, the financial conditions of the Purchaser and the parties' good-faith intention to support the long-term and sustainable development of Anshe E-Commerce.

Each of the Purchaser, Anshe E-Commerce and Ms. Cao has agreed to provide equity pledge, trademark pledge, use of dividends, enforcement of pledges or guarantee to secure the payment of the consideration and, if applicable, any amount (the "**Other Fees**") the Company is entitled to receive in accordance with the Equity Transfer Agreement (including any penalty, compensation and all reasonable expenses incurred by the Company in enforcing its rights under the Equity Transfer Agreement against the Purchaser (if any) such as litigation costs, arbitration costs, preservation fees and legal fees).

The disposal of Anshe E-Commerce would help accelerate the transformation and adjustment of the Company's business model, focus its resources and leverage on the competitive advantage of the Company's core brands. In combination with the Company's development strategy, the Company will organize its brand portfolio to achieve strategic focus.

As (i) the Board has approved the Equity Transfer Agreement and the transactions contemplated thereunder; and (ii) the Independent Non-executive Directors have confirmed that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole, pursuant to Rule 14A.101 of the Hong Kong Listing Rules, the Equity Transfer Agreement and the transactions contemplated thereunder are subject only to the reporting and announcement requirements, and are exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details of the disposal of 54.05% equity interest in Anshe E-commerce, please refer to the announcement dated 7 May 2019.

For the year ended 31 December 2019, the Group entered into the above connect transaction (as defined under the Listing Rules). Save as disclosed above, the related party transactions as set out in note 8(4) to the consolidated financial statements do not constitute connected transactions under the Listing Rules. The Company confirms that it has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed above, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2019 or as at the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

SHARE OPTION SCHEME

There is no share option scheme operated by the Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreement has been entered into with the Company during the year ended 31 December 2019.

AUDIT COMMITTEE

During the year ended 31 December 2019, the Audit Committee met nine times to review the annual financial results in respect of the year ended 31 December 2018, The first quarter results for the three months ended 31 March 2019, the interim financial results in respect of the six months ended 30 June 2019 and the third quarter results in respect of the nine months ended 30 September 2019, appointment of auditors and significant issues on internal control and risk management systems, respectively. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2019.

The Audit Committee has reviewed the results of the Group for the year ended 31 December 2019 and has discussed with the management on the accounting policies and practices adopted by the Group, risk management and internal controls, and financial reporting matters.

REMUNERATION AND APPRAISAL COMMITTEE

During the year ended 31 December 2019, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, review the policy and structure of the remuneration of Directors and Senior Management and other related matters, and make recommendations to the Board accordingly.

NOMINATION COMMITTEE

During the year ended 31 December 2019, the Nomination Committee met four times to nominate Directors and Senior Management for appointment and selection, review the structure, size and composition of the Board, the independence of the independent non-executive Directors and diversity of the Board.

AUDITORS

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (the "**PwC Zhong Tian**") retired as the international and domestic auditor of the Company upon expiration of its term of office with effect from the conclusion of the annual general meeting of the Company convened on 28 May 2019. Ernst & Young Hua Ming LLP ("**E&Y Hua Ming**") was appointed as the PRC statutory auditor and international auditor of the Company for the year ended 31 December 2019 on 16 July 2019. The resolution regarding the appointment of the auditor for the year ending 31 December 2020 will be tabled at the 2019 AGM.

The Company has adopted CAS to prepare the financial statements since 28 July 2017. In light of the change of accounting standard, shareholders of the Company approved to change the Company's international auditors from PricewaterhouseCoopers Coopers to PwC Zhong Tian at the 2017 first extraordinary general meeting held on 28 July 2017.

The remuneration paid to PwC Zhong Tian was RMB4.00 million and the remuneration paid to E&Y Hua Ming was RMB3.74 million (tax inclusive) in respect of the audit services rendered for the year ended 31 December 2019.

POST REPORTING PERIOD EVENTS

Details of the events after the Reporting Period are set out in note XII to the consolidated financial statements.

USE OF PROCEEDS FROM IPO

The Company has received approximately HK$1,830.12 million (equivalent to approximately RMB1,450,214,934.20) as net proceeds (the "**IPO Proceeds**") from the global offering of the Company's H Shares. As disclosed in the announcements dated 28 March 2019 and 28 May 2019 and the circular dated 11 April 2019, the Company proposed to change the use of the IPO Proceeds partially, and the revised use of proceeds approved at an annual general meeting of the Company held on 28 May 2019 by the Shareholders.

As at 31 December 2019, all IPO Proceeds were utilised. The balance in the special account for the proceeds was RMB2,391.80 (including net interest income of the special account of RMB2,391.80). The revised use of proceeds as approved on 28 May 2019 (the "**2019 Revised Use of Proceeds**"), and the actual amount of the IPO Proceeds utilised as at 31 December 2019 are set out below:

	Pursuant to the 2019 Revised Use of Proceeds		As at 31 December 2019	
Intended use of proceeds	Allocation of the IPO Proceeds (approximately)	Percentage of the IPO Proceeds (approximately)	Amount of utilised IPO Proceeds (approximately) Note	Percentage of the IPO Proceeds (approximately)
Repaying existing bank loans taken out by the Group	HK$603,939,600	33.00%	HK$603,939,600 (equivalent to RMB482,635,980.56)	33.00%
Pursuing acquisition and strategic alliance opportunities to complement existing business and further solidifying the market position	HK$366,024,000	20.00%	HK$366,024,000 (equivalent to RMB288,829,538.40)	20.00%
Expanding the retail network of the Group, including the opening of new retail outlets in mainland China	HK$366,024,000	20.00%	HK$366,024,000 (equivalent to RMB288,829,538.40)	20.00%
Further improvement of the Group's information management system	HK$69,545,560	3.80%	HK$65,545,560 (equivalent to RMB54,878,401.40)	3.80%
Development of the Group's management school in Shanghai	HK$18,301,200	1.00%	HK$18,301,200 (equivalent to RMB14,441,476.92)	1.00%
Working capital and other general corporate purposes	HK$406,286,640	22.20%	HK$406,286,640 (equivalent to RMB320,600,787.62)	22.20%

Note: When calculating the amount of the utilised IPO Proceeds for each of the above items, the Company adopted the intermediate exchange rate published by the People's Bank of China on 31 July 2015, except the exchange rate used for the amount utilised for repaying existing bank loans taken, which is the actual exchange rate used in the settlement of the repayment using Hong Kong dollars.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report, there was no change to any of the information required to be disclosed in relation to any Director or Supervisor pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of 2019 interim report of the Company.

For and on behalf of the Board
Mr. Duan Xuefeng (段學鋒)
Chairman

Shanghai, PRC, 29 June 2020

Report of the Supervisory Committee

In 2019, the Supervisory Committee of the Company fulfilled diligently its duties and conscientiously discharged its responsibilities and obligations, and implemented various oversight functions in accordance with the Company Law, the Securities Law, the Articles of Association, and the Rules of Procedure of the Supervisory Committee and other relevant laws and regulation of the PRC. The Supervisory Committee inspected and supervised the Company's legal operation, production and operation, financial condition, and performance of duty of the Company's directors and senior management, providing a strong protection for the Company's standardized operation and development. The report of the Supervisory Committee for the year ended 31 December 2019 is as follows:

1. WORK PERFORMED BY THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

During the Reporting Period, the Company convened ten meetings of the Supervisory Committee: namely the tenth meeting of the third session of the Supervisory Committee, eleventh meeting of the third session of the Supervisory Committee, twelfth meeting of the third session of the Supervisory Committee, thirteenth meeting of the third session of the Supervisory Committee, fourteenth meeting of the third session of the Supervisory Committee, fifteenth meeting of the third session of the Supervisory Committee, sixteenth meeting of the third session of the Supervisory Committee, seventeenth meeting of the third session of the Supervisory Committee, eighteenth meeting of the third session of the Supervisory Committee and nineteenth meeting of the third session of the Supervisory Committee. The convening and voting procedures of the meetings complied with the relevant provisions of the Company Law of the PRC and the Articles of Association. Special details are as follows:

(I) The tenth meeting of the third session of the Supervisory Committee

On 11 January 2019, the Company convened the tenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution on Election of the Chairman of the Third Session of the Supervisory Committee".

(II) The eleventh meeting of the third session of the Supervisory Committee

On 22 March 2019, the Company convened the eleventh meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution of Temporary Supplement of Liquidity with Partial Idle Raised Funds from A Shares" and the "Resolution of the Company's Provision of Loans and Related Transactions to the Participating Subsidiaries".

(III) The twelfth meeting of the third session of the Supervisory Committee

On 28 March 2019, the Company convened the twelfth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Report of the Supervisory Committee of the Company for 2018", the "Financial Statement of the Company for 2018", the "Audited Financial Statements and Audit Report of the Company for 2018", the "Annual Report and Summary of the Company for 2018", the "Environmental, Social and Governance Report 2018 and the Social Responsibility Report 2018", the "Internal Control Evaluation Report of the Company for 2018", the "Plan of Non Distribution of Profit of the Company for 2018", the "Special Report on the Deposit and Actual Use of the Funds Raised by the Company in 2018", the "Financial Budget Report of the Company in 2019", the "Resolution of Determining Audit Fees for 2018 and Recommendation of Reappointment of Accountant Firm for 2019", the "Resolution on the Company's Daily Related Transactions in 2019", the"Resolution on the Company's Application for Credit Lines from the Banks, the "Resolution on the Company's Provision of Guarantees to Holding Subsidiaries", and the "Resolution on Change in Usage of Partial Funds Raised from H Shares". Among which, the "Report of the Supervisory Committee of the Company for 2018" has summited to the General Meeting 2018 for consideration and approval.

(IV) The thirteenth meeting of the third session of the Supervisory Committee

On 29 April 2019, the Company convened the thirteenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Changes in Accounting Policies of the Company" and "Resolution on the Full Text and Text of the First Quarterly Report of the Company in 2019".

(V) The fourteenth meeting of the third session of the Supervisory Committee

On 7 May 2019, the Company convened the fourteenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution on the Equity Interest in Holding Subsidiaries and Connected Transaction"; the resolution submitted to the Annual General Meeting of 2018 for consideration and approval.

(VI) The fifteenth meeting of the third session of the Supervisory Committee

On 28 May 2019, the Company convened the fifteenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution on Reappointment of Auditing Firm for 2019"; the resolution submitted to the second extraordinary general meeting of 2019 for consideration and approval.

(VII) The sixteenth meeting of the third session of the Supervisory Committee

On 21 June 2019, the Company convened the sixteenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution on Transfer of Fund Shares by Wholly-owned Subsidiaries" and the "Resolution on Providing Guarantees by Wholly-owned Subsidiaries for the Company"; of which, the "Resolution on Providing Guarantees by Wholly-owned Subsidiaries for the Company" submitted to the second extraordinary general meeting of 2019 for consideration and approval.

(VIII) The seventeenth meeting of the third session of the Supervisory Committee

On 28 August 2019, the Company convened the seventeenth meeting of the third session of the third session of the Supervisory Committee in Shanghai, which considered and approved the "Resolution on Changes in Accounting Policies of the Company", the "Company Interim Report of 2019, Summary and Interim Results Announcement", the "Special Report on the Deposit and Actual Use of Funds Raised for the first six months of 2019", the "Resolution on Adjustment of Provision of Proposed Guarantee by Certain Wholly-Owned Subsidiaries for the Company" and the "Resolution on Adjustment of Plan for Repurchasing A Shares and Measures of Stabilising Share Price"; of which, the "Resolution on Adjustment of Provision of Proposed Guarantee by Certain Wholly-Owned Subsidiaries for the Company" submitted to the third extraordinary general meeting of 2019 for consideration and approval, and the "Resolution on Adjustment of Plan for Repurchasing A Shares and Measures of Stabilising Share Price" submitted to the third extraordinary general meeting of 2019, the third H-shareholders' Class Meeting of 2019 and the third A-shareholders' Class Meeting of 2019 for consideration and approval.

(XI) The eighteenth meeting of the third session of the Supervisory Committee

On 29 October 2019, the Company convened the eighteenth meeting of the third session of the Supervisory Committee in Shanghai, which considered and approved the Resolution on the Full Text and the Main Body of the 2018 Third Quarter Report of the Company".

(X) The nineteenth meeting of the third session of the Supervisory Committee

On 18 December 2019, the Company convened the nineteenth meeting of the third session of the Supervisory Committee, which considered and approved the "Resolution on Transfer of Equity Interest in Holding Subsidiaries".

The members of the Supervisory Committee took part in the Company's major work by attending the Board meeting and general meetings, and effectively supervised the meeting agendas, voting procedures and voting results, etc. and offered recommendations on operation activities and fund raising etc. The Supervisory Committee also effectively supervised the decisions made to ensure their compliance with the laws and regulations of the state, the Articles of Association and the resolutions of the shareholders' general meetings and that they are in the interests of shareholders.

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

During the Reporting Period, the Supervisory Committee inspected and supervised the Company's financial condition, operation and performance of duty by senior management in accordance with the Company Law and other relevant laws and regulations, the Articles of Association and relevant requirements of the Rules of Procedures for the Supervisory Committee. The Supervisory Committee is of the view that in 2019, the Company operated normatively in strict compliance with the Company Law, the Articles of Association and other relevant regulations and systems. The internal management had been further improved, operating decisions were reasonable and effective, and decision-making procedures met the requirements of laws and regulations. The directors and senior management of the Company discharged their duties diligently, with no act of violating laws and regulations by such persons or prejudice to interests of the Company and various investors in performing their duties was found in the Company.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON FINANCIAL POSITION OF THE COMPANY

During the Reporting Period, the Supervisory Committee of the Company supervised and inspected the Company's financial condition by receiving reports from the Company's chief financial officer, reviewing the Company's periodic reports, and reviewing auditing report issued by an accounting firm. The Supervisory Committee is of the view that the financial operations of the Company are made normatively during the year. The 2019 audited financial statements of the Company reflected truly the Company's operating condition, and there are no false records, misleading statements or major omissions.

4. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE UTILIZATION OF THE RAISED PROCEEDS OF THE COMPANY

The Supervisory Committee has inspected the utilization of the raised proceeds, and the Company has established the management system for the raised proceeds. The proceeds were used in a regulated manner and were invested in the projects as undertaken. No breaches in respect of the raised proceeds were found.

5. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S CONNECTED TRANSACTIONS

The Supervisory Committee verified the related transactions of the company during the reporting period and considered that the Company's related transactions in 2019 are fair and equal, there is no obvious unfairness and no profits of the Company are manipulated through related transactions, and there is no harm to the interests of the Company and other shareholders, especially the interests of small and medium shareholders.

6. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON REVIW OF THE COMPANY'S EXTERNAL GUARANTEE

The Supervisory Committee inspected the Company's external guarantees during the Reporting Period and is of the view that during the Reporting Period, the Company had no violation in external guarantees, nor did it involve in illegal guarantee, and there was no circumstance impairing the interests of the Company's shareholders or causing loss of the Company's assets.

7. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON INTERNAL CONTROL SELF-EVALUATION REPORT

The Supervisory Committee inspected the construction and implementation of the Company's internal control system during the Reporting Period and the Internal Control Evaluation Report for 2019 of the Company, and is of the view that the Company has established a relatively full internal control system which is effectively implemented, and the Company's Internal Control Evaluation Report truly and objectively reflects the construction and implementation of the Company's internal control system.

8. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON TE COMPANY'S PERIODIC REPORT

The Supervisory Committee inspected the Company's periodic reports, and is of the view that the preparation and review procedures for the Company's 2019 annual report are in compliance with relevant provisions of laws, regulations and the Articles of Association of the Company. Its substance and form are in compliance with the requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange. The information contained therein truly reflected the Company's operational management and financial condition in 2019. No violation of confidentiality requirements was found among those involved in the preparation and review of the annual report.

9. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE IMPLEMENTATION OF INFORMATION INSIDER MANAGEMENT OF THE COMPANY

During the reporting period, in accordance with the relevant requirements of the Securities Law and the Administrative Measures for the Disclosure of Information of Listed Companies* (《上市公司信息披露管理辦法》), the Company implemented insider information confidentiality and insider information registration for matters such as periodic reports, effectively preventing the disclosure and utilization of inside information for trading. After verification, the Supervisory Committee considered that, during the reporting period, the Company's directors, supervisors, senior management and other insider information personnel did not use any inside information or to trade any stocks of the Company through others.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

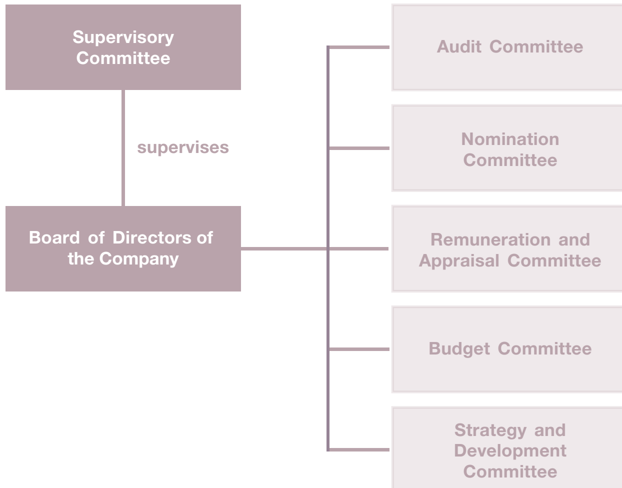
For the year ended 31 December 2019 and as at the date of this report, the Company has been complying with the code provisions ("**Code Provision(s)**") of the Corporate Governance Code set out in Appendix 14 to the Listing Rules (the "**CG Code**"), except the deviation mentioned below, making corporate governance rules and recommendations with respect to Board composition, Board diversity policy, duties and procedures, salary structure of the Directors and Senior Management and appraisal of the Board, internal control and auditing, Joint Company Secretaries, communication between the Company and Shareholders.

In particular, the Chairman assumes the major responsibility for ensuring sound corporate governance practices and procedures of the Company. The Company has adopted a corporate governance policy, stating terms of reference for the Board to perform, including but not limited to: formulation and review of the corporate governance policy and practices of the Company; review and monitoring of the training and continuous professional development of the Directors and Senior Management; review and monitoring of the policies and practices of the Company in relation to compliance with laws and regulatory requirements; formulation, review and monitoring of compliance by staff and Directors with code of conduct and compliance manual; and review of the compliance of the Company with the CG Code.

CORPORATE GOVERNANCE PRACTICES

The Group recognizes the vital importance of good corporate governance to the Group's success and sustainability. The Group reviewed relevant regulations seriously pursuant to the guidelines as stipulated in the Listing Rules, and introduced corporate governance practices appropriate to the conduct and growth of the business.

As of 31 December 2019, the governance structure of the Company is as follow:



The H shares of the Company were listed on the Hong Kong Stock Exchange with effect from the Hong Kong Listing Date, therefore, the CG Code has been applicable to the Company since the Hong Kong Listing Date.

The Company is committed in maintaining a high standard of corporate governance with a view to safeguarding the interests of its shareholders and enhancing corporate value. In the opinion of the Board, the Company has been in compliance with the Code Provisions of the CG Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2019 and as at the date of this announcement, save as to the deviation from the CG Code Code Provision A.1.8, paragraph A.2 Code Provision A.2.1 and paragraph A.3.

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

Code Provision A.2.1 requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Between 1 January 2019 and 29 October 2019, Mr. Xing Jiaxing is the chairman and chief executive officer of the Company, responsible for the overall management of the Group. The Board consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Board also believe that the presence of three independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing taking up both roles for continuous effective management and business development of the Group.

Under paragraph A.2 of CG Code, the chairman and chief executive officer in the Company should have a balanced power and authority. On 25 February 2020, Mr. Yu Qiang resigned as directors, chief executive officer, acting chairman and all positions within the Group. Following the resignation of Mr. Yu Qiang, the Company did not have a chairman of the Board during the period from 25 February 2020 to 8 May 2020. The Company has been actively looking for potential candidates with the suitable skill and experience, taking into account the actual circumstances of the Company, to fill the vacancy as soon as practicable and will make further announcements as and when appropriate.

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

BOARD OF DIRECTORS

Responsibilities

The Board is responsible for overall management and control of the Company. The Board's main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All Directors carry out their duties in good faith and in compliance with the applicable laws and regulations, and acting in the interest of the Company and its shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the Joint Company Secretaries and Senior Management, with a view to ensuring that Board procedures and all applicable laws and regulations are followed.

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

Directors have full and timely access to consultation with the Senior Management independently. Any Director and Board professional committee may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board.

The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the management of the Group. The respective functions of the

Board and management of the Company were established and will be reviewed from time to time as appropriate. To oversee particular aspects of the Company's affairs, the Board has established five Board professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, the Budget Committee and the Strategy and Development Committee (altogether the "**Board Professional Committees**"). The Board has delegated to the Board Professional Committees responsibilities as set out in their respective terms of reference.

Board Composition

As at the date of this report, the Directors of the fourth session of the Board were as follows:

Executive Directors

Mr. Yin Xinzai *(President)*
Ms. Zhang Danling

Non-executive Directors

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

Independent Non-executive Directors

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

Biographical details of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this report.

There are no relationships among the Directors, Supervisors and senior management, including financial, business, family or other material/relevant relationships.

For the year ended 31 December 2019, the Company has been in compliance with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications of accounting or related financial management expertise. The Company has also complied with the requirement of Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

Each of the independent non-executive Director has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Professional Committees, all non-executive Directors make various contributions to the effective direction of the Company.

Induction and Continuous Professional Development

Directors confirmed that they have complied with Code Provision A.6.5 relating to the director training. During the year ended 31 December 2019, all Directors have participated in continuous professional development by means of attending seminars and/or reading materials in the following aspects to develop and refresh their knowledge and skills. All Directors have provided their training record to the Company.

Name of Directors	Corporate Governance	Rules and Regulations	Financial Management	Business Management
Mr. Xing Jiaxing (resigned on 3 February 2020)	√	√	√	√
Mr. Yu Qiang (resigned on 25 February 2020)	√	√	√	√
Ms. Hu Lijie (resigned on 25 October 2019)	√	√	√	√
Mr. Mao Jianong (resigned on 25 October 2019)	√	√	√	√
Mr. Wang Wenke (appointed on 18 December 2019 and retired on 8 May 2020)	√	√	√	√
Mr. Lu Weiming (retired on 8 May 2020)	√	√	√	√
Mr. Luo Bin (retired on 8 May 2020)	√	√	√	√
Dr. Chen Jieping (resigned on 16 October 2019)	√	√	√	√
Mr. Rui Peng (appointed on 16 October 2019 and retired on 8 May 2020)	√	√	√	√
Mr. Chan, Wing Yuen Hubert (retired on 8 May 2020)	√	√	√	√
Mr. Zhang Zeping (retired on 8 May 2020)	√	√	√	√

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During 1 January 2019 to 29 October 2019, Mr. Xing Jiaxing was the chairman and chief executive officer of the Company, responsible for the overall management of the Group. Mr. Xing Jiaxing is the founder of the Group and has extensive experience in the industry. The Directors consider that vesting the roles of both chairman and chief executive officer in the same person facilitates the execution of the business strategies, decision-making and maximises the effectiveness of the Group's operations. The Directors also believe that the presence of three independent non-executive Directors provides added independence to the Board. Therefore, the Board considers that it is in the best interest of the Group to have Mr. Xing taking up both roles for continuous effective management and business development of the Group. In addition, the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Appointment and Re-Election of Directors

Pursuant to the Articles of Association, Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall be subject to election at general meetings with a term of office of three years and may be re-elected. However, an independent non-executive Director shall not serve more than six years consecutively. The Company has implemented a set of effective procedures for the appointment of new Directors. The Nomination Committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated Directors are subject to election and approval at general meetings. Each of the Directors has entered into a service contract with the Company for a term commencing on the date of his appointment and ending on its expiration.

Board Professional Committees

Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls.

Before election of the fourth session of the Board is completed, the Audit Committee of the third session of the Board comprised one non-executive Director and two independent non-executive Directors. The members of the Audit Committee were Mr. Luo Bin, Mr. Rui Peng and Mr. Chan, Wing Yuen Hubert. It was chaired by Mr. Rui Peng, an independent non-executive Director. Mr. Rui Peng was appointed as chairman of the Audit Committee on 16 October 2019.

The Audit Committee of the fourth session of the Board consists of one non-executive Director and two independent non-executive Directors. The members of the Audit Committee are Mr. Xing Jiangze, Ms. Zhang Yujing and Ms. Xiao Yanming. It is currently chaired by Mr. Xing Jiangze, an independent non-executive Director.

During the year ended 31 December 2019, the Audit Committee met ten times to review the annual financial results in respect of the year ended 31 December 2018, the first quarter results for the three months ended 31 March 2019, the interim financial results in respect of the six months ended 30 June 2019 and the third quarter financial results in respect of the nine months ended 30 September 2019, appointment of auditors and significant issues on internal control and risk management systems. The Audit Committee also met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2019.

Nomination Committee

The Company has established a Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence and diversity of the independent non-executive Directors and to make recommendations to the Board on the appointment and removal of Directors. The Nomination Committee has adopted a set of nomination procedures for selection of candidates for directorship of the Company by making reference to the Company's Board Diversity Policy, such individuals' skills, experience, professional knowledge and time commitments, the Company's needs and other relevant statutory requirements and regulations.

Before election of the fourth session of the Board is completed, the Nomination Committee of the third session of the Board comprised three independent non-executive Directors. The members of the Nomination Committee were Mr. Chan, Wing Yuen Hubert, Mr. Zhang Zeping and Mr. Rui Peng. It was chaired by Mr. Chan, Wing Yuen Hubert, an independent non-executive Director. Mr. Rui Peng was appointed as a member of the Nomination Committee on 16 October 2019.

The Nomination Committee of the fourth session of the Board consists of one non-executive Director and two independent non-executive Directors. The members of the Nomination Committee are Mr. Duan Xuefeng, Mr. Zhu Xiaozhe and Mr. Xing Jiangze. It is currently chaired by Mr. Duan Xuefeng, a non-executive Director.

Nomination Policy

The following selection process for directors and senior management sets out in the terms of reference of nomination committee of the Board:

(1) The Nomination Committee shall proactively exchange views with relevant departments of the Company, study the demand of the Company for new directors and senior management, and then prepare the written materials thereof;

(2) The Nomination Committee may conduct extensive search for candidates for directors and senior management in the Company and job market;

(3) The Nomination Committee shall collect information on the potential candidates, including the profession, education, job title, detailed working experience and all part-time jobs, and then prepare the written materials thereof;

(4) The Nomination Committee shall seek the nominee's consent to nomination, failing which such nominee shall not be named as a candidate for directors and senior management;

(5) Meetings of the Nomination Committee shall be convened, at which a review on qualifications for the potential candidates shall be carried out based on the terms of appointment for directors and senior management;

(6) The Nomination Committee shall submit to the Board of Directors its recommendations on the candidates for directors and new senior management together with relevant materials in one month to two months prior to the election of new directors and appointment of new senior management;

(7) The Nomination Committee shall implement other follow-up work in accordance with the decisions and feedback of the Board of Directors.

During the year ended 31 December 2019, the Nomination Committee met four times to nominate directors and senior management member for appointment and selection, review the structure, size and composition of the Board and the independence of the independent non-executive Directors and diversity of the Board.

Board Diversity Policy

With a view to achieving sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Company is committed to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Remuneration and Appraisal Committee

The Company has established a Remuneration and Appraisal Committee with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration and Appraisal Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and Senior Management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Before election of the fourth session of the Board is completed, the Remuneration and Appraisal Committee of the third session of the Board comprised one non-executive Director and three independent non-executive Directors. The members of the Remuneration and Appraisal Committee were Mr. Lu Weiming, Mr. Zhang Zeping, Mr. Chan, Wing Yuen Hubert and Mr. Rui Peng. It was chaired by Mr. Zhang Zeping, an independent non-executive Director. Mr. Rui Peng was appointed as a member of the Remuneration and Appraisal Committee on 16 October 2019.

The Remuneration and Appraisal Committee of the fourth session of the Board consists of one executive Director and two independent non-executive Directors. The members of the Remuneration and Appraisal Committee are Mr. Xing Jiangze, Mr. Yin Xinzai and Mr. Zhu Xiaozhe. It is chaired by Mr. Xing Jiangze, an independent non-executive Director.

For the year ended 31 December 2019, the Remuneration and Appraisal Committee met three times to review and assess the annual job performance of the Senior Management, review and make recommendations to the Board on the policy and structure of the remuneration of Directors and Senior Management and other related matters.

Budget Committee

The Company has established a Budget Committee. The primary duties of the Budget Committee are to make recommendations to the Board on budgeting.

Before election of the fourth session of the Board is completed, the Budget Committee of the third session of the Board comprised three non-executive Directors and two independent non-executive Directors. The members of the Budget Committee were Mr. Wang Wenke, Mr. Lu Weiming, Mr. Luo Bin, Mr. Rui Peng and Mr. Chan, Wing Yuen Hubert. It was chaired by Mr. Luo Bin, a non-executive Director. Mr. Wang Wenke and Mr. Rui Peng were appointed as members of the Budget Committee on 18 December 2019 and 16 October 2019 respectively.

The Budget Committee of the fourth session of the Board consists of two executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Budget Committee are Mr. Yin Xinzai, Mr. Xing Jiangze, Ms. Zhang Danling, Mr. Duan Xuefeng and Ms. Zhang Yujing. It is chaired by Mr. Yin Xinzai.

For the year ended 31 December 2019, the Budget Committee met two times to review and make recommendations to the Board on budgeting for the upcoming financial year.

Strategy and Development Committee

The Company has established a Strategy and Development Committee. The primary duties of the Strategy and Development Committee are to make recommendations to the Board on matters such as the Company's development plans, strategic investments and business innovations.

Before election of the fourth session of the Board is completed, the Strategy and Development Committee of the third session of the Board comprised three non-executive Directors and one independent non-executive Director. The members of the Strategy and Development Committee were Mr. Wang Wenke, Mr. Lu Weiming, Mr. Luo Bin and Mr. Zhang Zeping. Mr. Wang Wenke was appointed as a member of the Strategy and Development Committee on 18 December 2019.

The Strategy and Development Committee of the fourth session of the Board consists of two executive Directors, two non-executive Directors and two independent non-executive Directors. The members of the Strategy and Development Committee are Mr. Yin Xinzai, Ms. Zhang Danling, Mr. Duan Xuefeng, Ms. Zhang Yujing, Mr. Zhu Xiaozhe and Ms. Xiao Yanming. It is chaired by Mr. Duan Xuefeng.

For the year ended 31 December 2019, the Strategy and Development Committee met five times to review and make recommendations to the Board on the Group's latest strategy plans and development.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance shareholders' relationship with the Company.

For the year ended 31 December 2019, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the CG Code.

Board Meetings and Board Professional Committee Meetings

The Board intends to hold Board meetings regularly at least four times a year at approximately quarterly intervals. Notices of no less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board and Board Professional Committee meetings, reasonable notice will generally be given. The agenda and accompanying board papers are dispatched to the Directors or members of Board Professional Committee at least 3 days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or members of Board Professional Committee are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or the Chairmen of the Committees prior to the meeting.

Minutes of the Board meetings and Board Professional Committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board Professional Committee and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Professional Committee meeting will be sent to the Directors for comments within a reasonable time after the date on which the meeting is held.

According to the Articles of Association, a Director shall not vote nor be counted in the quorum on any resolution of the Board approving any contract or arrangement in which he or his associates is materially interested.

DIRECTORS' ATTENDANCE RECORDS AT BOARD MEETINGS, BOARD PROFESSIONAL COMMITTEES' MEETINGS AND GENERAL MEETINGS

The attendance records of each Director at the meetings of the Board, Board Professional Committees and general meeting of the Company held during the year ended 31 December 2019 are set out below:

Name of Directors	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration and Appraisal Committee meeting	Budget Committee meeting	Strategy and Development Committee meeting	General meeting
Mr. Xing Jiaxing (resigned on 3 February 2020)	14/14		4/4			5/5	11/11
Mr. Yu Qiang (resigned on 25 February 2020)	14/14					5/5	11/11
Ms. Hu Lijie (resigned on 25 October 2019)	11/11				2/2	5/5	7/10
Mr. Mao Jianong (resigned on 25 October 2019)	11/11		3/3	2/2		5/5	7/10
Mr. Wang Wenke (appointed on 18 December 2019 and retired on 8 May 2020)	1/1						
Mr. Lu Weiming (retired on 8 May 2020)	14/14			3/3	2/2	5/5	3/11
Mr. Luo Bin (retired on 8 May 2020)	14/14	10/10			2/2	5/5	8/11
Dr. Chen Jieping (resigned on 16 October 2019)	10/10	8/8	3/3		2/2		4/10
Mr. Rui Peng (appointed on 16 October 2019 and retired on 8 May 2020)	4/4	2/2	1/1	1/1			0/1
Mr. Chan, Wing Yuen Hubert (retired on 8 May 2020)	14/14	10/10	4/4	3/3	2/2		11/11
Mr. Zhang Zeping (retired on 8 May 2020)	14/14		4/4	3/3		5/5	10/11

Attendance at the above meetings by an alternate Director has not been counted as attendance by the Director himself.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Xing Jiaxing and Shanghai Hexia (the controlling shareholders of the Company as defined in the Listing Rules) has confirmed to the Company and declared that he/it has complied with the non-compete undertaking given by them to the Company on 10 September 2014 during the year ended 31 December 2019. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2019.

SENIOR MANAGEMENT'S REMUNERATIONS

The Senior Management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remunerations paid to a total of 6 Senior Management (excluding Directors and Supervisors) by bands for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of individuals
RMB1,000,000 and below	1
RMB1,000,001 to RMB2,000,000	5
RMB2,000,001 to RMB3,000,000	0

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own policies for securities transactions (the "**Company Code**") by Directors, Supervisors and relevant employees on terms no less exacting than the Model Code. Specific enquiry has been made of all the Directors and the Supervisors, and all Directors and Supervisors have confirmed that they have complied with the Model Code and the Company Code throughout the year ended 31 December 2019.

RISK MANAGEMENT AND INTERNAL CONTROLS

As a public company listed both in Shanghai and Hong Kong, the Company strives to improve its internal governance and build favorable corporate risk monitoring environment by strictly abiding by laws and regulations and other regulatory requirements within and without the borders.

Continue to improve and optimize risk monitoring system

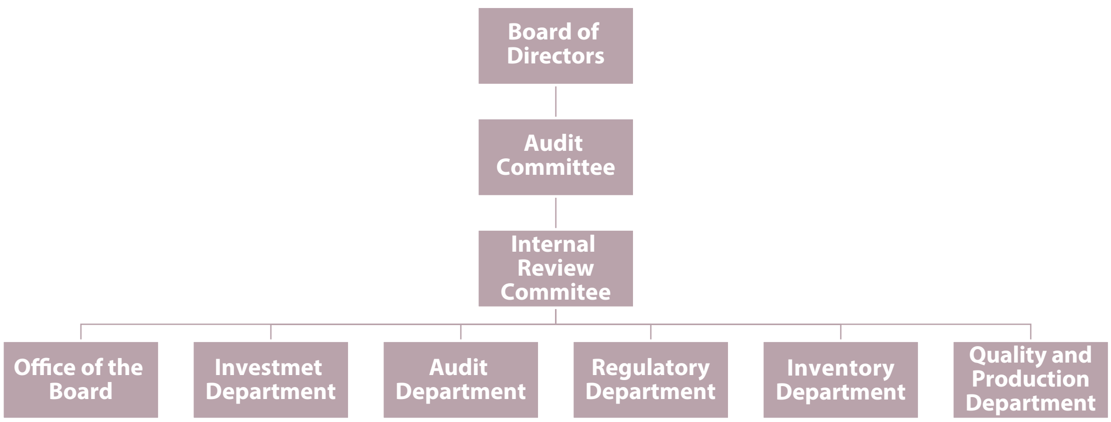
During the Reporting Period, in accordance with the four documents co-published by the five ministries of the PRC, namely, Fundamental Norms on Corporate Internal Control, Application Guidance on Corporate Internal Control, Guidance on Corporate Internal Control and Assessment, Audit Guidance on Corporate Internal Control as well as the relevant requirements with regard to self-criticism on risk management and internal control systems by the Hong Kong Stock Exchange, the Company, along with its subsidiaries and relevant departments, carried out a comprehensive check-up of its existing system and procedures in light of organizational structure, development strategy, human resources, social responsibility, corporate culture, funding activities, procurement business, asset management, sales business, merchandizing, financial reports, comprehensive budget, contract management, internal communications and information system and formed a benign cycle of detecting risk, identifying risk and facilitating business development through risk identification, risk assessment and gradual optimization, so as to further strengthen and standardize internal corporate monitoring, enhance operational management and risk control capability as well as guarantee stakeholders' legal interests and facilitate the realization of the Company's strategic role and sustainable development.

Effectively prevent operational risks to strengthen corporate control

The Company further normalized and perfected its internal control system to enhance the efficiency and effectiveness of construction and implementation of the internal control system. The Company further improved its management and control measures with regard to strategic risk, financial risk, operational risk and market risk to prevent all kinds of risks, lay a solid foundation for corporate development as well as facilitate sustainable development. The Company further increased employee involvement in study and training to realize recognition and identification. The Company continued to enhance staff's competency and skills by urging them to learn new management concepts and internal control methods through external and internal trainings, thus forming a benign atmosphere within the Company that everyone learns internal control, everyone emphasizes risk and everyone is checked, and consequently facilitating the building of internal control and management mechanism and risk prevention mechanism that are systematic, normative and efficient.

The Company has established a scientific and efficient internal control system to identify, assess and manage the significant risks of the Company. The Board of Directors has confirmed its responsibility to supervise the Company's risk management and internal control systems and review the effectiveness at least annually through the Audit Committee. The Audit Committee generally supervises the effective implementation and self-evaluation of internal control, and is responsible for reviewing risk management and internal control systems and supervision. Besides annual reports by external auditors, the Audit Committee also reviews periodic internal audit reports with regard to the Company's core businesses formulated by the audit department to check the effectiveness of the internal control system and risk management mechanism as well as resolves material inadequacies found in internal control. The Internal Review Committee manages and supervises the internal risk management system within relevant departments of the Company, guarantees the implementation and perfection of risk management system and measures, and manages disclosure of inside information. The Internal Review Committee, led by the Audit Committee, reports to the Audit Committee.

The management is responsible for the daily operation of the internal control within the Company. The Office of the Board, Investment Department, Audit Department, Regulatory Department and Inventory Department constitute functioning departments within the Company to take charge of the implementation of internal control and the assessment of the soundness and effectiveness of all the internal systems within the Company. As the implementation units of the internal control, the Company's functioning departments, affiliates, wholly-owned and holding subsidiaries appoint certain persons to improve and evaluate the internal control system. The Company's internal risk management organizational structure is illustrated below:



In 2019, the Company has adopted a number of policies and procedures to assess and carefully improve the effectiveness of corporate risk management and internal control systems. During the Reporting Period, the Audit Department of the Company initiated over ten ad hoc audit projects concerning regional management, logistics operations and disposal of obsolete inventories, and actively assessed the plausibility, effectiveness and completeness of various aspects of management activities and thereby formulated several rules and regulations, namely Administrative Measures on Donations, Administrative Measures on Inventory-taking in Logistics Warehouse and Administrative Measures on Disposal of Obsolete Inventories, in an effort to improve corporate internal system and avoid operational risk. The Company's Regulatory Department organized 140 anti-corruption campaigns, involving a total of 130,000 person times. Meanwhile, it opened a WeChat subscription account named La Chapelle with Integrity, which now has accumulated 35,000 followers. All the efforts above have formed a comprehensive network for anti-corruption and internal control.

For the year ended 31 December 2019, the Board had carried out annual review on the effectiveness of the Company's risk management system, procedures and internal control system, and continuously advised on various means of improvement. The review involved all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. The Board also reviewed the adequacy of resources, staff qualifications and experience, training programs and corporate budget on accounting and financial reporting function. There was no major failure in the risk management and internal control system that could have negative impact on shareholders' interests. The Company's risk management and internal control systems were deemed effective and sufficient.

The Company's risk management and internal control systems aim to manage, rather than eliminate, the risks involved with failing to complete the business goals, and can only provide the reasonable, but not absolute, guarantee on the material misrepresentations or losses.

Strengthen insider filing to improve insider information management

During the Reporting Period, the Company carried out the management of insider information in strict accordance with the regulatory requirements both in Shanghai and Hong Kong and the internal system. The Company strengthened the management of confidentiality policy of insider information and seriously performed the duty with respect to confidentiality and filing of persons with knowledge of insider information, making truly, accurately and completely the recording of persons with knowledge of insider information during the processes of counseling and planning, argumentation and consultation and compiling and reviewing. The Company timely performed filing of directors, supervisors and senior management, relevant staff and intermediary agents as well as irregularly carried out self-examination on insider trading, so as to make sure that the relevant information is legally collected, delivered, organized and disclosed in accordance. During the Reporting Period, no person with knowledge of insider information was found using insider information to buy and sell the Company's shares.

Perfect corporate governance system to improve corporate governance

In order to enhance corporate governance and build a favorable internal control environment, the Company further perfected rules of procedure regarding General Meeting, the Board of Directors and the Supervisory Committee, and terms of reference of the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee. The Company's General Meeting, the Board of Directors, the Supervisory Committee, senior management and board secretary were able to operate independently and legally as well as performed rights and duties based on the authority endowed by the Articles of Association and relevant regulations. No violation of law and regulations had been found. All Board Professional Committees performed duties in accordance with the Articles of Association and corresponding terms of reference. Each Board Professional Committee has its own meeting system and submits written resolutions regarding reviewed matters to the Board, which act as important foundation for decision-making for the Board and the General Meeting and thus play a positive role in corporate governance.

The Company will continue to perfect its internal control and improve self-assessment in the follow-up. It will also continue to establish and improve its risk management and internal control systems that meet the demand of its development and management so as to make sure that the Company's operational management is legal, asset is reliable, financial reports and relevant information are true and complete, thus providing reasonable guarantee for realizing the Company's strategic goals.

COMPANY SECRETARY

During the year ended 31 December 2019, Ms. Wong Wai Ling, the Company Secretary, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. Ms. Wong Wai Ling is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) and Mr. Xing Jiaxing, the president, is her primary contact person at the Company. The biographical details of the Company Secretary is set out in the section headed "Profiles of Directors, Supervisors and Senior Management".

Having been authorized by the Chairman, the Company Secretary is responsible for working out meeting agenda, organising Board meeting, and offering relevant documents to the Directors in advance, so as to ensure that Directors have obtained sufficient and accurate information for making effective and well-grounded decisions.

The Company Secretary assists the Board meetings to be convened and held in accordance with all applicable laws and rules and procedures specified in the Articles of Association. In addition, the Company Secretary would prepare relevant minutes and circulate them to Directors for their comments.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019 in accordance with statutory requirements and applicable accounting standards.

The Board is accountable to the shareholders for a clear and balanced assessment on the Company's financial position and prospects. The management of the Company provides all relevant information and records to the Board, which enable it to prepare the accounts of the Company and to make the above assessments.

The Audit Committee had reviewed and recommended to the Board to adopt the audited accounts for the year ended 31 December 2019. The Board is not aware of any material uncertainties relating to the events or conditions that may undermine the Company's ability to continue operation on the going concern basis.

The report of the independent auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 69 to 81.

AUDITORS

E&Y Hua Ming was appointed as the domestic and international auditors of the Company for the year ended 31 December 2019. The resolution regarding the appointment of the auditor for the year ending 31 December 2020 will be tabled at the 2019 AGM.

The remuneration paid to E&Y Hua Ming in respect of the audit services rendered for the year ended 31 December 2019 was RMB3.50 million.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The shareholders' communication policy of the Company is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors. General meetings of the Company are formal channels for communication between shareholders and the Board. The chairman of the Board and the chairmen of the Board Professional Committees (or, in their absence, other members of the respective committees) will make themselves available at the general meetings to have direct communication with the shareholders.

Shareholders may also send their enquiries and concerns to the Board by sending them to the investor relations department of the Company to the following address:

Address: 12F, Building 4, No, 50. Lane 2700 South Lianhua Road, Minhang District, Shanghai, China 200241
Email: ir@lachapelle.cn

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting or Class Meeting by Shareholders

Pursuant to the Articles of Association, shareholders severally or jointly holding 10% or more of the shares carrying the right to vote at the proposed meeting may request the Board to convene an extraordinary general meeting or a class meeting. The agenda of the proposed meeting shall be stated therein.

When the Company convenes an annual general meeting, a notice to notify all registered shareholders must be given no later than 20 business days before the meeting date; when the Company convenes an extraordinary general meeting, a notice to notify all registered shareholders must be given no later than 10 business days or 15 days, whichever is longer, before the meeting date. Such notice shall contain the matters to be considered at the meeting as well as the date and venue of the meeting.

Putting Forward Proposals at General Meetings

When the Company decides to convene an annual general meeting, any shareholders that severally or jointly holding 3% or more of the shares of the Company shall be entitled to put forward proposals to the Company, and may raise interim proposals and submit them in writing to the Board ten days prior to the general meeting. The Board shall, within two days after receipt of such proposal issue a supplemental notice of the general meeting and announce the contents of the ad hoc proposals.

The contents of the proposals to be raised shall be within the scope of duties of the general meetings. It shall have a clear topic and specific matters to be resolved on, and shall be in compliance with relevant requirements of the laws, administrative regulations and the Articles of Association.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, the Company proposed to make certain amendments to the existing Articles of Association (the "**Proposed Amendments**"). The Proposed Amendments had been approved by the shareholders at the extraordinary general meetings held on 22 March 2019 and 18 December 2019 respectively. The revised Articles of Association has been published on both the websites of the Hong Kong Stock Exchange and the Company.

Independent Auditor's Report

Ernst & Young Hua Ming (2020) Shen Zi No. 61519729_B01

To the shareholders of SHANGHAI LA CHAPELLE FASHION CO., LTD.:

I. QUALIFIED OPINION

We have audited the accompanying consolidated financial statements of SHANGHAI LA CHAPELLE FASHION CO., LTD., which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the year then ended, and the separate financial statements of SHANGHAI LA CHAPELLE FASHION CO., LTD which comprise the company statement of financial position as at 31 December 2019, the company income statement, the company statement of changes in shareholders' equity and the company cash flow statements for the year then ended, and notes to the consolidated and separate financial statements.

In our opinion, except for the possible financial impact of the matters as set out in the section "Basis for qualified opinion", the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and the company's financial position as at 31 December 2019, and the consolidated and the company's financial performance and cash flows for the year then ended, and are prepared in accordance with Accounting Standards for Business Enterprises ("ASBEs").

II. BASIS FOR QUALIFIED OPINION

On June 4, 2019, SHANGHAI LA CHAPELLE FASHION CO., LTD., completed the acquisition of 60% equity interest of LaCha Apparel II Sàrl, which resulted in an indirect holding through LaCha Apparel II Sàrl of 100% equity interest in Naf Naf SAS in France. As at 31 December, 2019, Naf Naf SAS sustained significant financial difficulties and shortage of funds. As stated in the Note XII to the financial statements, through the submission by the management of Naf Naf SAS of an application to the local court subsequent to 31 December 2019, on 19 June 2019, the court ruled that certain assets and liabilities of Naf Naf SAS as of that date were arranged to be transferred and Naf Naf SAS were to enter into formal judicial liquidation procedure, and the proceeds of the transfer will be used to repay certain of its debts.

The management of Naf Naf SAS has prepared the financial statements of Naf Naf SAS for the period since the Group's acquisition up to 31 December 2019 based on the assumption of going concern, which has been consolidated to the Group's consolidated financial statements for the year ended 31 December 2019. The total assets and net assets of Naf Naf SAS amounted to RMB1,422,639,000 and RMB99,785,000, which accounted for 17.76% and 8.04% of the Group's total assets and net assets respectively (Note II to the financial statements).

As the Group auditor, we have obtained the audit report issued by the auditor of Naf Naf SAS for the purpose of the Group audit. The audit report issued by the auditor of Naf Naf SAS was modified due to the existence of significant uncertainties which had given rise to significant doubts regarding the appropriate use of going concern assumption to prepare the respective financial statements. As set out in Note II to the financial statements, the management of SHANGHAI LA CHAPELLE FASHION CO., LTD. also considered that, the use of going concern assumption to prepare the financial statements of Naf Naf SAS for the consolidated of the Group's consolidated financial statements may not be appropriate. However, due to the lack of relevant information, the management of SHANGHAI LA CHAPELLE FASHION CO., LTD. was not be able to determine an appropriate basis to prepare the financial statements of Naf Naf SAS as at 31 December 2019, and the amounts of adjustments as at 31 December 2019 to the relevant for the purpose of group consolidation. Consequently, the management of SHANGHAI LA CHAPELLE FASHION CO., LTD. has not made any adjustments to the financial statements items of Naf Naf SAS as stated in Note II to the financial statements prepared based on going concern assumption, which were included into the consolidated financial statements of SHANGHAI LA CHAPELLE FASHION CO., LTD. Based on the foregoing, we were not able to obtain sufficient and appropriate audit evidence to determine whether using the going concern assumption to prepare the financial statements of Naf Naf SAS is appropriate, and cannot determine the amount of adjustments to be made to the relevant assets and liabilities of Naf Naf SAS as stated in Note II to the financial statements, which were included into the consolidated financial statements of SHANGHAI LA CHAPELLE FASHION CO., LTD.

In addition, as the auditors of Naf Naf SAS did not provide to us the corresponding audit work papers, as set out in our group audit instruction, we were not able to obtain sufficient and appropriate audit evidence for the relevant assets and liabilities of Naf Naf SAS as stated in Note II to the financial statements, which was consolidated into the Group's consolidated financial statements, and determine whether adjustments are required to be made to the corresponding line item on the consolidated financial statements and the amount of adjustments required.

With respect to the provision of further guarantee or liability provided by SHANGHAI LA CHAPELLE FASHION CO., LTD. or its subsidiaries to Naf Naf SAS, due to the limitation of scope for the audit of Naf Naf SAS as stated in the foregoing, we were not able to obtain sufficient and appropriate audit evidence to ascertain whether the Group has completely recorded the guarantee or liability provided to Naf Naf SAS.

We conducted our audit work in accordance with Chinese Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with China Code of Ethics for Certified Public 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.

III. MATERIAL UNCERTAINTIES RELATED TO GOING CONCERN

We draw attention to note II to the consolidated financial statements which indicates that the Group incurred a net loss attributable to the parent of RMB2,166,306,000 during the year ended 31 December 2019, and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB2,285,166,000. These events and conditions, together with other matters as set out in note II to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the ability of SHANGHAI LA CHAPELLE FASHION CO., LTD. to continue as a going concern. Our opinion is not modified in respect of this matter."

IV. KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
1. The application of IFRS 16	
Apart from the effect from the related accounts of Naf Naf SAS stated in the section of "Basis for qualified opinion", as of December 31, 2019, the right-of-use assets of the Group were RMB796,571 thousand, and the lease liabilities were RMB976,159 thousand. As the Group 's business model is mainly direct sales operation, which carry out main business in the form of stores as tenants, involving with a wide range of quantities and types of lease contracts. The recognition of lease liabilities involves the judgment of discount rate and lease term, while the impairment of right-of-use assets involves with significant judgments and accounting estimates, which has a significant impact on the financial statements. Thus we determine the application of IFRS 16 as the key audit matter. Please refer to note III(15,20,27,32) and note V(16) of the financial statements for the disclosure of lease.	We understood and evaluated the validity and accuracy of the lease contract recognized by the management. We obtained the lease records and the list of store maintained in the management system. On a sample basis, we tested significant contracts from the lease ledger, identified and reviewed the major terms of the contracts, such as lease term, lease payment, initial direct cost agreed in the contracts and the expected restoration cost when the contract is terminated, etc. We confirmed the completeness and accuracy of lease data by cross-checking the lease ledger with the store list. We also obtained the rental computation prepared by the management, and checked, a. Whether the information from lease ledger matched the information from rental computation b. Whether the timing of initial recognition and calculation result of the right-of-use assets and lease liabilities were accurate,

Key audit matter	How our audit addressed the key audit matter
1. The application of IFRS 16 (Continued)	
	We evaluated the reasonableness of the key parameters such as the discount rate and lease term involved in the calculation process. We evaluated the reasonableness of the management's judgment on the indicator of impairment of the right-of-use assets in combination with the practical usage of the right-of-use assets. On right-of-use assets with indicator of impairment, we reviewed the discount table of future net cash flow prepared by the management, and evaluated the annual income growth rate, discount rate and impairment test method estimated by the management. We evaluated reasonableness of the estimates on cash flow within future service life of assets usage and discount rate prepared by the management by comparing with the deviation between the cash flow forecast prepared by the management last year and the actual operation data of this year, historical performance and future business plan. In addition, we have checked the adequacy and completeness of the relevant disclosures in the notes of the financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
2. Impairment of inventory	
Apart from the effect from the related accounts of Naf Naf SAS stated in the section of "Basis for qualified opinion", as of December 31, 2019, the balance of the provision for decline in the value of inventories of the Group was RMB323,914 thousand, and the carrying amount of the inventory was RMB1,454,732 thousand, accounting for 18.16% of the total assets of the Group. The inventories were measured at the lower of cost and net realizable value. When the net realizable value of the inventory is lower than its carrying amount, it indicates that the inventory has been impaired. As an apparel retail enterprise, the price of the Group's products is greatly affected by the seasonality and fashion of clothing. The management classified the goods in stock according to different seasons and the year of manufacture, and determines the net realizable value by each category. To determine the net realizable value of inventory in each category, the management has taken historical experience, current market conditions, customer demand and the change in fashion trends into account comprehensively. As the inventory balance is significant and the process of determining the net realizable value involves significant judgment and accounting estimates, we considered the provision for decline in the value of inventories as a key audit matter. Please refer to note III(10,32) and note V(6) of the financial statements for the disclosure of the provision for decline in the value of inventories.	We understood and evaluated the effectiveness of the internal control design and implementation related to the management's inventory management process. We implemented the supervision and sampling stocktaking procedures for the inventory. We paid close attention to the status of the inventory, especially the damaged inventory. We obtained the computation of the provision for decline in the value of inventories prepared by the management. We reviewed the source, completeness and accuracy of the data, such as season, the year of manufacture and etc. We evaluated reasonableness of the provision for decline in the value of inventories of the Group by comparing the provision ratio with comparable companies in the same industry. We challenged and evaluated the calculation method and commercial basis of the net realizable value of inventory adopted by the management. We evaluated the reasonableness of the estimated sales expense and related tax expense by checking the sales price of inventory in 2019 and the actual subsequent sales price to determine the reasonableness of the calculation of the net realizable value of inventory. In addition, we have checked the adequacy and completeness of relevant disclosures in the notes of the financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
3. Impairment of long-term prepaid expenses	
As of December 31, 2019, the carrying amount of long-term prepaid expenses of the Group was RMB372,277 thousand. The provision for impairment of long-term prepaid expenses was RMB98,036 thousand. The net carrying amount of long-term prepaid expenses accounted for 3.42% of the total assets of the Group. The management shall judge whether there is any indicator of possible impairment of assets on the balance sheet date. If there is any indicator of impairment of an asset, an impairment test shall be conducted to estimate the recoverable amount of the asset. If the recoverable amount of an asset is lower than its carrying amount, it means that the asset has been impaired. The management shall recognize the asset impairment loss and write down the carrying amount of the asset to the recoverable amount. The recoverable amount is determined according to the higher of the net amount of the fair value of the asset minus the disposal expenses and the present value of the expected future cash flow of the asset. As of December 31, 2019, the Group's long-term prepaid expenses were mainly composed of the decoration expenses incurred at the early stage of opening and regular maintenance of the direct-sale stores, which are amortized and measured by the straight-line method according to the lease period or the expected benefit period, whichever is shorter. For the stores with poor performance or planned to be closed in advance, the remaining unamortized decoration costs will be at the risk of impairment. In the impairment test of long-term prepaid expenses, the management's estimates on the recoverable amount is based on the present value of the expected future cash flow.	We obtained and reviewed the reasonableness of management's judgment on the impairment of long-term prepaid expenses. For the long-term prepaid expenses with indicator of impairment, we reviewed the discount table of future net cash flow prepared by the management, and evaluated the annual income growth rate, discount rate and impairment test method estimated by the management. We evaluated reasonableness of the estimation on cash flow within future service life of assets usage and discount rate prepared by the management by comparing with the deviation between the cash flow forecast prepared by the management last year and the actual operation data of this year, historical performance and future business plan. In addition, we reviewed whether the actual quantity of the stores shut down by the report date agreed with the plan on store shutdown we obtained from the management in 2019. We also reviewed the sensitivity analysis of management's cash flow forecast and the impact of the discount of future cash flow on the recoverable amount of long-term prepaid expenses under the condition of lower income and higher expenses. In addition, we have checked the adequacy and completeness of the relevant disclosures in the notes of the financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
3. Impairment of long-term prepaid expenses (Continued)	
As the process of long-term prepaid expense impairment test is complex, and the management's projection of future cash flow, discount rate and income growth trend involves significant judgments and accounting estimates, we considered the long-term prepaid expense impairment as a key audit matter. The disclosure stated above of impairment of long-term prepaid expenses is respectively included in the note III(18,32) and the note V(19) of the financial statements.	
4. Impairment of goodwill	
As of December 31, 2019, the total amount of goodwill of the Group was RMB173,072 thousand, and the provision for impairment was RMB94,841 thousand. Accounting Standards for Business Enterprises requires the Group to perform goodwill impairment test at least once a year. The evaluation of goodwill impairment is based on the measurement of the recoverable amount of each asset group or combination group of assets to which goodwill belongs. As the process of goodwill impairment test is complex, and the management's prediction of recoverable amount involves significant judgments and accounting estimates, we considered goodwill impairment as a key audit matter. The disclosure stated above of goodwill impairment is respectively included in notes III(32) and in notes V(18) of the financial statements	We understood and evaluated and test the effectiveness of the design and implementation of internal control related to goodwill impairment test. With the assistance of internal valuation experts, we have evaluated the reasonableness of significant assumptions and evaluation methods used by the Group 's management on predicting the recoverable amount of the asset group, including the discount rate and long-term growth rate. In addition, we evaluated the estimated sales revenue in the future years and operating performance, and compared with its historical operating performance. We also reviewed the sensitivity analysis of the recoverable amount of the Group of asses, and evaluated whether the possible reasonable change of key assumptions would cause the carrying amount of the Group of asset to exceed its recoverable amount. In addition, we checked the adequacy and completeness of the relevant disclosure in the notes of the financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
5. Deferred tax assets	
As of December 31, 2019, the Company recognized the deferred tax assets of RMB335,914 thousand. According to the profit forecast and the tax planning strategy, the management of the Group recognized the deferred tax assets for the deductible losses and deductible temporary differences that are expected to be likely reversed in the future. As the preparation of profit forecast involves significant judgments and estimates, we recognized the recognition of deferred tax assets as a key audit matter. The disclosure stated above of the deferred tax assets is respectively included in note III(26,32) and note V(20) of the financial statements	We interviewed the management to understand the Group's strategic plan. We obtained and checked the profit forecast of the Group for the next five years prepared by the management. We challenged and evaluated the reasonableness of the annual income growth rate, gross margin and expense data. We checked whether the tax rate that the Group used in deferred tax assets calculation and recognition was consistent with the tax rate used in the year of reversal. We checked the amount of deductible tax loss and other deductible temporary differences and the timing of expected reversal. Based on the profit forecast data from the management, we made judgement on whether there was any indicator of impairment of the deferred tax assets recognized, and reperformed calculation with the impairment data. In addition, we checked the adequacy and completeness of the relevant disclosures in the notes of the financial statements of the Group.

Key audit matter	How our audit addressed the key audit matter
6. Provision for bad debt	
Apart from the effect from the related accounts of Naf Naf SAS stated in the section of "Basis for qualified opinion", As December 31, 2019, the carrying amount of accounts receivable is RMB559,847 thousand, and the provision for bad debt of the Group was RMB79,002 thousand. The Group's accounts receivable was mainly from shopping malls of which the operating performance and financial capacity affected the repayment directly. The Group accrued bad debt with the amount of expected credit losses in the existing period. The Group evaluated the expected credit losses on financial instrument based on an individual basis and group basis. The management evaluated the expected credit losses on financial instrument based on the combination of risk character of each customer and aging. The expected credit loss rate was determined by the experience of historical loss on similar accounts receivable and adjusted with prospective information accordingly. As the assessment on provision for bad debt involved significant judgments and estimates, we recognized the provision for bad debt as a key audit matter. The disclosure stated above of the provision for bad debt is respectively included in note III(9,32) and note V(3) of the financial statements	We understood and evaluated and test the effectiveness of the design and implementation of internal control related to provision of bad debt. We retested the accuracy of accounts receivable aging. We evaluated reasonableness of the expected credit loss of the Group by comparing the provision ratio with comparable companies in the same industry and relevant accounting policies. We obtained and checked the calculation of bad debt provision prepared by the management, reviewed the estimates made by the management. We made judgement on the reasonableness of the provision for bad debt by taking the financial conditions of customers, expected conditions and subsequent repayment into account. We performed substantive analytical test on the balance of accounts receivable with sampling on confirmations and performed alternative test on the unrecovered confirmations. In addition, we checked the adequacy and completeness of the relevant disclosures in the notes of the financial statements of the Group.

V. OTHER INFORMATION

The management of the Group is responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As detailed in the section of "Basis for qualified opinion", we were not able to obtain the sufficient and appropriate audit evidence of a subsidiary group, Naf Naf SAS, accordingly, we were not able to determine whether there are any significant misstatements regarding the information of Naf Naf SAS as set out in the other information.

VI. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of the Group is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is 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 management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

VII. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally 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 financial statements

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

(1) Identify and assess the risks of material misstatement of the 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.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

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

(4) Conclude on the appropriateness of the management' 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 by CSAs to draw attention in our auditor's report to the related disclosures in the 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.

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

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, 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.

Ernst & Young Hua Ming LLP (special general partnership)

Chinese Certified Public Accountant: DONG Yanliang
(The engagement partner)

Chinese Certified Public Accountant: LIU Wei

China Beijing

29 June 2020

Consolidated Balance Sheet

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note V	**31 December 2019**	31 December 2018
ASSETS			
Current assets			
Cash at bank and on hand	1	**357,684**	605,293
Financial assets held for trading	2	**—**	25,475
Accounts receivable	3	**587,123**	1,031,810
Advances to suppliers prepayment	4	**101,679**	329,458
Other receivables	5	**174,643**	382,211
Inventories	6	**1,728,645**	2,534,238
Non-current assets due withinone year	7	**25,588**	—
Other current assets	8	**224,559**	307,534
Total current assets		**3,199,921**	5,216,019
Non-current assets			
Debt investment	9	**—**	6,934
Long-term receivables	10	**189,020**	—
Long-term equity investments	11	**193,216**	635,934
Other equity instruments	12	**11,646**	28,605
Other non-current financial assets	13	**97,777**	28,200
Fixed asset	14	**1,678,939**	865,049
Construction in progress	15	**141,787**	615,952
Right-of-use assets	16	**1,609,398**	—
Intangible assets	17	**183,554**	205,652
Goodwill	18	**78,231**	108,535
Long-term prepaid expenses	19	**274,241**	570,867
Deferred tax assets	20	**335,914**	247,787
Other non-current assets	21	**17,879**	159,964
Total non-current assets		**4,811,602**	3,473,479
TOTAL ASSETS		**8,011,523**	8,689,498

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

Consolidated Balance Sheet

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note V	31 December 2019	31 December 2018
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	23	**1,481,107**	1,911,645
Notes payable	24	**255,476**	712,556
Accounts payable	25	**1,721,205**	1,120,987
Advance from customers	26	**2,489**	—
Contract liabilities	27	**52,268**	2,399
Employee benefits payable	28	**190,991**	223,362
Taxes payable	29	**227,208**	166,468
Other payables	30	**754,676**	558,153
Non-current liability due within one year	31	**799,667**	24,219
Total current liabilities		**5,485,087**	4,719,789
Non-current liabilities			
Long-term borrowings	32	**—**	330,911
Lease liabilities	33	**1,300,452**	—
Accrued liabilities	34	**35,299**	—
Deferred tax liabilities	20	**37,517**	28,424
Other non-current liabilities	35	**26,972**	48,417
Total non-current liabilities		**1,400,240**	407,752
Total liabilities		**6,885,327**	5,127,541

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

Consolidated Balance Sheet

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note Ⅴ	**31 December 2019**	31 December 2018
LIABILITIES AND EQUITY			
Equity			
Share capital	36	**547,672**	547,672
Capital surplus	37	**1,910,800**	1,895,342
Less：treasury share	38	**10,165**	—
Other comprehensive income	39	**(39,958)**	(13,187)
Surplus reserve	40	**246,788**	246,885
Accumulated losses/undistributed profits	41	**(1,414,703)**	770,706
Total equity attributable to Shareholders of the Company		**1,240,434**	3,447,418
Minority interests		**(114,238)**	114,539
Total equity		**1,126,196**	3,561,957
TOTAL LIABILITIES AND EQUITY		**8,011,523**	8,689,498

The financial statements are signed by the following people:

Legal representative: **Duan Xuefeng**

Accountant in charge: **Hu Zhiguo**

Accounting Agencies: **Hu Zhiguo**

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

Consolidated Income Statement

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note V	2019	2018
Revenue	42	**7,666,229**	10,175,853
Less: Cost of sales	42	**3,242,779**	3,528,337
Taxes and surcharges	43	**47,938**	78,011
Selling and distribution expenses	44	**5,174,636**	6,032,435
General and administrative expenses	45	**483,183**	504,177
Financial expenses	46	**241,713**	52,465
Including: interest expenses		**234,312**	87,161
interest income		**8,915**	8,570
Add: Other income	47	**103,257**	125,854
Investment income	48	**60,267**	9,026
Including: Income from investment in associates and joint ventures		**99,618**	21,831
Gain on fair value changes	49	**4,577**	9,475
Credit impairment losses	50	**(151,925)**	(1,167)
Asset impairment losses	51	**(778,479)**	(274,496)
Gain/(Loss) on disposal of assets	52	**19,876**	(801)
Operating loss		**(2,266,447)**	(151,681)
Add: Non-operating income	53	**21,798**	4,783
Less: Non-operating expenses	54	**20,357**	13,319
Loss before tax		**(2,265,006)**	(160,217)
Less: Income tax expenses	56	**(12,727)**	38,965
Net Loss		**(2,252,279)**	(199,182)
Classified by continuity of operations			
Net loss from continuing operations		**(2,252,279)**	(199,182)
Classified by ownership of the equity			
Net loss attributable to shareholders of the parent company		**(2,166,306)**	(159,513)
Attributable to minority interests		**(85,973)**	(39,669)
Other comprehensive income, net of tax	39	**(26,771)**	(12,464)

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

Consolidated Income Statement

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note Ⅴ	2019	2018
Other comprehensive income/after tax	39	**(26,771)**	(12,464)
Other comprehensive losses that cannot be reclassified into profit and loss			
Attributable to shareholders of the Company/after tax		**(26,771)**	(12,464)
Changes in fair value of other equity instrument investments		**(32,531)**	(20,327)
Other comprehensive income reclassified to profit or loss			
Translation differences on translation of foreign currency financial statements		**5,760**	7,863
Total comprehensive loss		**(2,279,050)**	(211,646)
Including:			
Attributable to shareholders of the company		**(2,193,077)**	(171,977)
Attributable to minority interests		**(85,973)**	(39,669)
Losses per share			
Basic losses per share (RMB)	57	**(3.96)**	(0.29)
Diluted losses per share (RMB)	57	**(3.96)**	(0.29)

The financial statements are signed by the following people:

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

2019

	Attributable to shareholders of the Company								
	Share Capita	Capital surplus	Treasury share	Other comprehensive income	Surplus reserves	Undistributed profits	Subtotal	Minority interests	Shareholders' equity
1. Balance at 31 December 2018	**547,672**	**1,895,342**	**–**	**(13,187)**	**246,885**	**770,706**	**3,447,418**	**114,539**	**3,561,957**
Add: accounting policy alternative (Note III.32)	–	–	–	–	(97)	(19,103)	(19,200)	–	(19,200)
2. Balance at the beginning of 2019	**547,672**	**1,895,342**	**–**	**(13,187)**	**246,788**	**751,603**	**3,428,218**	**114,539**	**3,542,757**
3. Movements for the period of 2019									
(1) Total comprehensive loss	–	–	–	(26,771)	–	(2,166,306)	(2,193,077)	(85,973)	(2,279,050)
(2) Capital contribution and withdrawal by shareholders									
i. Amount recorded in shareholders' equity arising from share-based payment arrangements	–	1,923	–	–	–	–	1,923	–	1,923
ii. Minority interests reduced due to subsidiary disposal	–	13,535	–	–	–	–	13,535	(142,804)	(129,269)
iii. Shareholders' equity reduced by share repurchase	–	–	(10,165)	–	–	–	(10,165)	–	(10,165)
(3) Distribution of profits									
i. Take the surplus reserve	–	–	–	–	–	–	–	–	–
ii. Distribution to shareholders	–	–	–	–	–	–	–	–	–
4. Balance at 31 December 2019	**547,672**	**1,910,800**	**(10,165)**	**(39,958)**	**246,788**	**(1,414,703)**	**1,240,434**	**(114,238)**	**1,126,196**

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

2018

	Attributable to shareholders of the Company							
	Share Capital	Capital surplus	Other comprehensive income	Surplus reserves	Undistributed profits	Subtotal	Minority interests	Shareholders' equity Total
1. Balance at the begining of 2018	547,672	1,894,097	(723)	217,030	1,217,480	3,875,556	193,672	4,069,228
2. Movements for the period of 2018								
(1) Total comprehensive loss	–	–	(12,464)	–	(159,513)	(171,977)	(39,669)	(211,646)
(2) Capital contribution and withdrawal by shareholders								
1. Capital invested by minority shareholders	–	–	–	–	–	–	1,000	1,000
2. The amount of Share payments credited to shareholders' equity	–	1,245	–	–	–	1,245	–	1,245
3. Minority shareholders' equity increased by business combination	–	–	–	–	–	–	23,071	23,071
4. Minority interests reduced due to subsidiary disposal	–	–	–	–	–	–	(1,502)	(1,502)
(3) Distribution of profits								
1. Take the surplus reserve	–	–	–	29,855	(29,855)	–	–	–
2. Distribution to shareholders	–	–	–	–	(257,406)	(257,406)	(62,033)	(319,439)
3. Balance at 31 December 2018	547,672	1,895,342	(13,187)	246,885	770,706	3,447,418	114,539	3,561,957

The financial statements are signed by the following people:

Legal representative:
Duan Xuefeng

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

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

Consolidated Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Note V	2019	2018
1. Cash flows from operating activities			
Cash received from sales of products or rendering of services		**8,524,829**	11,290,371
Cash received relating to other operating activities	58	**288,089**	142,641
Sub-total of cash inflows		**8,812,918**	11,433,012
Cash paid for goods and services		**(4,133,597)**	(7,261,243)
Cash paid to and on behalf of employees		**(2,084,805)**	(2,388,070)
Payments of taxes and surcharges		**(231,590)**	(834,174)
Cash paid relating to other operating activities	58	**(764,912)**	(791,905)
Sub-total of cash outflows		**(7,214,904)**	(11,275,392)
Net cash flows from operating activities	58	**1,598,014**	157,620
2. Cash flows from investing activities			
Cash received from return on investments		**25,475**	17,714
Cash received from gain on investment		**6,199**	13,468
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		**31,179**	1,290
Net cash received from disposal of subsidiaries and other business units	58	**154,695**	1,724
Cash received relating to other investing activities	58	**1,769**	6,962
Sub-total of cash inflows		**219,317**	41,158
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**(477,594)**	(1,000,858)
Cash paid for investment		**(65,000)**	(31,002)
Net cash paid to acquire a subsidiary and other business units	58	**(251,595)**	(204,488)
Cash paid relating to other investing activities	58	**(33,705)**	(114,536)
Sub-total of cash outflows		**(827,894)**	(1,350,884)
Net cash flows used in investing activities		**(608,577)**	(1,309,726)

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

Consolidated Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

		Note V	2019	2018
3.	**Cash flows (used in)/from financing activities**			
	Cash received from investment		–	1,000
	including: Cash received from minority shareholders' investment by subsidiaries		–	1,000
	Cash received from borrowings		**1,277,311**	3,770,183
	Sub-total of cash inflows		**1,277,311**	3,771,183
	Cash repayments of borrowings		**(1,721,964)**	(2,517,813)
	Cash payments for distribution of dividends, profits or interest expenses		**(128,993)**	(466,143)
	including: Dividends (Profit)paid by subsidiaries to minority shareholders		–	(62,033)
	Cash payments relating to other financing activities	58	**(675,986)**	—
	Sub-total of cash outflows		**(2,526,943)**	(2,983,956)
	Net cash flows (used in)/from financing activities		**(1,249,632)**	787,227
4.	**Effect of foreign exchange rate changes on cash and cash equivalents**		**(14,119)**	(838)
5.	**Net increase in cash and cash equivalents**		**(274,314)**	(365,717)
	Add: Opening balance of cash and cash equivalents		**449,863**	815,580
6.	**Closing balance of cash and cash equivalents**	58	**175,549**	449,863

The financial statements are signed by the following people:

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

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

Company Balance Sheet

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Notes XIV	**31 December 2019**	31 December 2018
ASSETS			
Current assets			
Cash at bank and on hand		**144,399**	284,879
Accounts receivable	1	**2,242,671**	912,517
Advances to suppliers prepayment		**24,417**	86,888
Other receivables	2	**584,616**	2,289,664
Inventories	3	**1,269,526**	2,165,516
Non-current assets due within one year		**25,588**	—
Other current assets		**88,696**	92,613
Total current assets		**4,379,913**	5,832,077
Non-current assets			
Long-term receivables		**60,569**	—
Long-term equity investments	4	**680,078**	1,378,867
Other non-current financial assets		**22,777**	18,200
Fixed asset		**21,732**	28,313
Construction in progress		**4,387**	13,319
Right-of-use assets		**31,044**	—
Intangible assets		**24,666**	11,370
Long-term prepaid expenses		**50,743**	104,210
Deferred tax assets		**74,126**	80,316
Other non-current assets		**—**	40,421
Total non-current assets		**970,122**	1,675,016
TOTAL ASSETS		**5,350,035**	7,507,093

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

Company Balance Sheet

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Notes XIV	**31 December 2019**	31 December 2018
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings		**737,400**	1,909,789
Notes payable		**165,594**	490,819
Accounts payable		**1,518,460**	1,467,777
Advance from customers		**167**	—
Contractual liability		**88,495**	—
Employee benefits payable		**31,397**	46,604
Taxe payables		**60,413**	9,877
Other payables		**1,076,630**	444,419
Current portion of non-current liabilities		**32,648**	268
Total current liabilities		**3,711,204**	4,369,553
Non-current liabilities			
Lease liabilities		**25,327**	—
Accrued liabilties		**206**	—
Other non-current liabilities		**49**	140
Total non-current liabilities		**25,582**	140
Total liabilities		**3,736,786**	4,369,693
Equity			
Share capital		**547,672**	547,672
Capital surplus		**1,897,265**	1,895,342
Less:Treasury share		**10,165**	—
Surplus reserve		**246,788**	246,885
Undistributed deficit/ Retained profits after appropriation		**(1,068,311)**	447,501
Total equity		**1,613,249**	3,137,400
TOTAL LIABILITIES AND EQUITY		**5,350,035**	7,507,093

The financial statements are signed by the following people:

Legal representative:
Duan Xuefeng

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

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

Company Income Statement

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

	Notes XIV	2019	2018
Revenue	5	**3,470,134**	5,076,450
Less: Cost of sales	5	**2,458,776**	3,179,766
Taxes and surcharges		**10,230**	15,242
Selling and distribution expenses		**950,167**	1,410,210
General and administrative expenses		**246,665**	281,726
Financial expenses		**38,760**	61,228
Including: interest expenses		**60,527**	82,389
interest income		**28,257**	21,131
Add: Other income		**39,146**	43,963
Investment income	6	**(44,921)**	340,252
Including: Income from investment in associates and joint ventures		**(55)**	(1,216)
Income from changes in fair value		**4,577**	—
Credit impairment losses		**(479,519)**	(3,935)
Asset impairment losses		**(795,885)**	(221,442)
Loss/profit on disposal of assets		**(86)**	38
Operating loss/profit		**(1,511,152)**	287,154
Add: Non-operating income		**2,583**	1,247
Less: Non-operating expenses		**176**	10,305
Loss/profit before tax		**(1,508,745)**	278,096
Less: Income tax expenses		**6,191**	(20,455)
Net loss/profit		**(1,514,936)**	298,551
Net profit from continuing operations		**(1,514,936)**	298,551
Other comprehensive (loss)/income, net of tax		**—**	—
Total comprehensive loss/income		**(1,514,936)**	298,551

The financial statements are signed by the following people:

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

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

2019

	Share Capital	Capital surplus	Treasury share	Surplus reserves	Undistributed profits/ accumulated losses	Total Shareholders' equity
1. Balance at 31 December 2018	**547,672**	**1,895,342**	**–**	**246,885**	**447,501**	**3,137,400**
Add: Accounting policy alternative (note III,33)	**–**	**–**	**–**	**(97)**	**(876)**	**(973)**
2. Beginning balance	**547,672**	**1,895,342**	**–**	**246,788**	**446,625**	**3,136,427**
3. Amount of increase or decrease in current year						
(1) Total comprehensive income	**–**	**–**	**–**	**–**	**(1,514,936)**	**(1,514,936)**
(2) Shareholders invest and reduce capital						
i. Common stock invested by shareholders	**–**	**–**	**–**	**–**	**–**	**–**
ii. Stock payment is credited to shareholders' equity	**–**	**1,923**	**–**	**–**	**–**	**1,923**
iii. Share buybacks reduce shareholders' equity	**–**	**–**	**(10,165)**	**–**	**–**	**(10,165)**
(3) Distribution of profits						
i. Withdrawal legal surplus	**–**	**–**	**–**	**–**	**–**	**–**
ii. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**–**
4. Balance at 31 December 2019	**547,672**	**1,897,265**	**(10,165)**	**246,788**	**(1,068,311)**	**1,613,249**

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

Company Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

2018

	Share Capital	Capital surplus	Surplus reserves	Undistributed profits	Total Shareholders' equity
1. Beginning balance	547,672	1,894,097	217,030	436,211	3,095,010
2. Amount of increase or decrease in current year					
(1) Total comprehensive income	—	—	—	298,551	298,551
(2) Shareholders invest and reduce capital					
i. Common stock invested by shareholders	—	—	—	—	—
ii. stock payment is credited to shareholders' equity	—	1,245	—	—	1,245
(3) Distribution of profits					
i. Withdrawal legal surplus	—	—	29,855	(29,855)	—
ii. Distribution to shareholders	—	—	—	(257,406)	(257,406)
3. Year-end balance	547,672	1,895,342	246,885	447,501	3,137,400

The financial statements are signed by the following people:

Legal representative:
Duan Xuefeng

Accountant in charge:
Hu Zhiguo

Accounting Agencies:
Hu Zhiguo

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

Company Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

		2019	2018
1.	**Cash flows (used in)/from operating activities**		
	Cash received from sales of products or rendering of services	**2,659,160**	6,643,366
	Cash received relating to other operating activities	**70,716**	78,486
	Sub-total of cash inflows	**2,729,876**	6,721,852
	Cash paid for products and services	**(2,787,827)**	(5,355,491)
	Cash paid to and on behalf of employees	**(498,595)**	(515,659)
	Payments of taxes and surcharges	**(26,272)**	(167,509)
	Cash paid relating to other operating activities	**(243,288)**	(385,123)
	Sub-total of cash outflows	**(3,555,982)**	(6,423,782)
	Net cash flows (used in)/from operating activities	**(826,106)**	298,070
2.	**Cash flows from/(used in) investing activities**		
	Net cash received from disposals of fixed assets, intangible assets and other long-term assets	**52,219**	306
	Net cash received from disposal of subsidiaries and other business units	**110,000**	—
	Cash received relating to other investing activities	**1,246,206**	361,547
	Sub-total of cash inflows	**1,408,425**	361,853
	Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(54,191)**	(83,418)
	Cahe paid for investment	**(6,500)**	—
	Net cash paid to acquire an associate and a joint venture	**—**	(533,000)
	Cash paid relating to other investing activities	**(103,982)**	(857,991)
	Sub-total of cash outflows	**(164,673)**	(1,474,409)
	Net cash flows from/(used in) in investing activities	**1,243,752**	(1,112,556)

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

Company Cash Flow Statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

		2019	2018
3.	**Cash flows (used in)/from financing activities**		
	Receipts from loan	**629,400**	2,660,398
	Cash received relating to other financing activities	**646,400**	–
	Sub-total of cash inflows	**1,275,800**	2,660,398
	Cash repayments of borrowings	**(1,795,790)**	(1,756,609)
	Cash payments for distribution of dividends, profits or interest expenses	**(75,108)**	(402,101)
	Cash payments relating to other financing activities	**(67,010)**	—
	Sub-total of cash outflows	**(1,937,908)**	(2,158,710)
	Net cash flows (used in) from financing activities	**(662,108)**	501,688
4.	**Effect of foreign exchange rate changes on cash and cash equivalents**	**–**	—
5.	**Net decrease in cash and cash equivalents**	**(244,462)**	(312,798)
	Add: Opening balance of cash and cash equivalents	**248,561**	561,359
6.	**Closing balance of cash and cash equivalents**	**4,099**	248,561

The financial statements are signed by the following people:

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

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

Notes to the financial statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

I. GENERAL INFORMATION

Shanghai La Chapelle Fashion Co., Ltd. (the "**Company**"), initially known as Shanghai Xuhui La Chapelle Fashion Limited (上海徐匯拉夏貝爾), which is a limited liability company incorporated in Xuhui on 14 March, is a limited liability company incorporated in Shanghai, the People's Republic of China ("**PRC**") on 14 March 2001.On 26 February 2004, the Company changed its name to Shanghai La Chapelle Fashion Limited (**上海拉夏貝爾**). On 23 May 2011, the Company was officially converted into a joint stock company with limited liabilities according to the overall plan approved by the original board of director and the terms in the agreement made by the company's sponsors. The RMB-denominated ordinary shares ("**A Shares**") and the H shares issued by the company were listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**").The registered office of the Company is in Room 3300, Block 1, Level 3, 270 Cao Xi Road, Shanghai, China.

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

The ultimate controller of the Group is Xin Jiaxing.

The financial statements have been approved and authorised for issue by the Company's Board of Directors on 29 June 2020.

The consolidation scope of these consolidated financial statements shall be determined on the basis of control. Refer to Note VI for the change of scope in 2019.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

Except for the subsidiary stated in Note VII 1, whose financial statements are prepared on the basis of liquidation, the financial statements are prepared on a going concern basis.

The net loss attributed to the parent of the Group in 2019 is RMB2,166,306 thousand (in 2018: RMB159,513 thousand). As at 31 December 2019, the Group's net current liabilities were RMB2,285,166 thousand (31 December 2018: net current assets RMB496,230 thousand), which includes loans repayable within one year of RMB1,842,721 thousand, accounts payable of RMB1,721,205 thousand. These events and conditions, together with other matters as set out below, indicate that material uncertainty exists that may cast significant doubt on the ability of the Group to continue as going concern. The board of directors of the Company is taking active measures to ensure the Company's continuous operation ability based on current actual operation situation. The main plans are as follows:

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

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

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

3. To negotiate with the Group's suppliers for debt restructuring to obtain concessions or deferral of payment. As of the date of this report, the Company has successfully agreed new payment arrangements with 96 suppliers amounted to RMB583 million of accounts payable, of which RMB216 million is waived

4. To respond to the development strategy of the "one belt and one road" and "western development", the company actively take the advantage of the resources and policies of Xinjiang in textile and garment industry, which will enhance the influence of the Company in the women's clothing industry, give full play to the competitiveness of the brand and channel, further enhance the integration and coordination of the Company and the upstream industry chain, and implement the Company's "innovation development and reduction of the original growth". Meanwhile, the government of Urumqi high tech Zone (new urban area) in Xinjiang Uygur Autonomous Region actively coordinates the resources of local government and financial institutions to provide the Company with financing channels and other government supports, which will relieve the Company's liquidity pressure. Therefore, the Company plans to move to Xinjiang to obtain more financing support and government support. After the Company moved to Urumqi high tech Zone (new urban area), a comprehensive credit line around RMB800 million to1 billion is expected to be provide by local financial institutions to the Company, and preliminary intention has been reached at present. Meanwhile, the Company has negotiated a new unified procurement supplier in Xinjiang, which promises to provide the Company with a total credit line of RMB600 million for supply chain procurement projects. As of the date of this report, the procedures for change of the registered address and name of the Company are in progress.

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

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

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

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

The financial statements of Naf Naf SAS, a wholly-owned subsidiary of the Group incorporated into the consolidated financial statements of the Group in 2019, which were presented on the basis of going concern. As stated in Note XII, on 15 May 2020, Naf Naf SAS was officially ruled by the local court of France to start the judicial reforming procedure, and on 19 June 2020, the local court of France ruled to approve the disposal of certain asset and liabilities of Naf Naf SAS. Thereafter, the judicial restructuring procedure of Naf Naf SAS was formally transformed to the judicial liquidation procedure. In the opinion of the Directors, it may not be appropriate for the Group to consolidate the financial information of Naf Naf SAS which is prepared on a going concern basis for the purpose of the consolidation of the Group's financial statements for the year ended 31 December 2019 and as at that date. However, due to the Group's inability to reliably obtain the value of the following assets and liabilities of Naf Naf SAS should a going concern assumption be not appropriate. The related financial information of Naf Naf SAS related balance sheet and income statement items which are consolidated into the Group's consolidated financial statements are set out below: (RMB'000)

Accounts in the balance sheet	31 December 2019
Cash at bank and on hand	74,154
Accounts receivable	106,278
Other receivables	43,930
Advances to suppliers	21,743
Inventories	273,913
Other current assets	27,793
Current assets	547,811
Long-term receivables	62,001
Right-of-use assets	812,827
Non-current assets	874,828
Total assets	1,422,639
Short-term borrowings	45,029
Accounts payable	260,070
Contract liability	30,034
Employee benefits payable	69,384
Taxes payable	69,850
Other payables	23,966
Non-current liability due within one year	69,688
Current liability	568,021
Other non-current liabilities	2,135
Lease liabilities	692,658
Provision	26,949
Deferred tax liabilities	33,091
Non-current liability	754,833
Total liability	1,322,854
Net Asset	99,785

(All amounts in RMB'000 unless otherwise stated)

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

Accounts in the income statement	**Acquisition date to 31 December, 2019**
Revenue	995,337
Cost of sales	426,160
Taxes and surcharges	8,141
Investment income	2,707
Selling and distribution expenses	425,190
General and administrative expenses	97,718
Financial expenses	61,851
Asset impairment losses	37,421
Credit impairment losses	101
Loss on disposal of assets	21,202
Non-operating income	13,146
Income tax expenses	(10,343)

Cashflow item	**Acquisition date to 31 December, 2019**
Net increase in cash and cash equivalents	50,534

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

The financial statements have been prepared in accordance with ASBE, and presented the Company's and the Group's financial position as on 31 December 2019, and the operating results and cash flows in 2019 truly and completely.

2. Accounting period

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

3. Functional currency

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

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

4. Business combination

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

Business combinations involving enterprises under common control

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations involving enterprises not under common control

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statement

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

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Classification of joint arrangements and joint ventures

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

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

7. Cash and cash equivalent

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

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

9. Financial instrument

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

Recognition and derecognition of financial instruments

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

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

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

Classification and measurement of financial assets

On initial recognition, the Group's financial assets are classified based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets at fair value through profit or loss, financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Financial assets are initially recognized at fair value. However, if the initial recognition of accounts receivable or notes receivable arising from sale of goods or provision of services does not include significant financing components or does not consider financing components not exceeding one year, it shall be recognized as the transaction price.

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

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

Debt instrument investment measured at amortized cost

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Classification and measurement of financial assets (continued)

Debt instrument investment at fair value through other comprehensive income

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

Equity instrument investment at fair value through other comprehensive income

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Classification and measurement of financial assets (continued)

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Impairment of financial instrument

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instrument (continued)

Impairment of financial instrument (continued)

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

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

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

10. Inventories

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

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

The inventory system is a perpetual inventory system.

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

Accumulated fair value change of equity investments held prior to the date of acquisition being taken to other comprehensive income as other equity instrument investments is taken to retained earnings in full under cost method.

For long-term equity investment acquired by means other than business combination, initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the equity securities issued.

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Fixed Assets

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

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

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

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

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

13. Construction in Progress

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Borrowing Costs

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

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

Borrowing costs may be capitalized only when:

(1) Expenditures for such asset are incurred;

(2) Borrowing costs are incurred;

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

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

(1) the amount of lease liabilities initially recognised;

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

(3) Initial direct costs incurred;

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

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

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

16. Intangible Assets

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible Assets (continued)

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

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

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

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

17. Impairment of Assets

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Impairment of Assets (continued)

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

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

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

18. Long-term Prepaid Expenses

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

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

19. Employee Benefits

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

Short-term Employee Benefits

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

Post-Employment Benefits (Defined Contribution Plans)

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Lease Liabilities (applicable starting from 1 January 2019)

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

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

21. Accrued Liability

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Share-based payments

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue

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

(a) Sale of goods – retail

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

(b) Sale of goods – wholesale

The Group sells products to wholesalers in different areas. Sales are recognized at the point when products leave the warehouse.

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

Sales return clause

For sales return clauses, according to the new revenue criterion,the enterprise shall confirm the income according to the amount of consideration expected to be entitled to receive due to the transfer of commodities to the customer, and confirm the liability according to the amount expected to be returned due to the return on sales when the customer obtains the control right of the relevant commodities. At the same time, according to the expected book value at the time of commodity transfer, the balance after deducting the expected cost of the commodity is recognized as an asset. According to the book value of the transferred commodity at the time of transfer, the net carry-over cost of the said asset is deducted.

Reward points program

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

Primary responsible/agent

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Contract liabilities

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

25. Government grants

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax

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

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

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

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

(1) where the taxable temporary differences arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: the transaction is not a business combination; and at the time of the transaction, it affects neither accounting profit nor taxable income or deductible loss.

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

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

(1) Where the deductible temporary difference arise from a transaction that is not a business combination and at the time of the transaction, neither the accounting profit nor taxable income or deductible loss is affected.

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (continued)

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

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

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

27. Leases (applicable starting from 1 January 2019)

Identification of lease

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

Separate leases identification

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

The split of the leased and non-leased parts

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

Assessment of lease term

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

As lessee

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

Lease modification

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

As lessee (continued)

Lease modification (continued)

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

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

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

Short-term lease and low-value asset lease

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

As lessor

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Leases (applicable to 2018)

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset. An operating lease is a lease other than a finance lease.

As an operating leases lessee

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss. Contingent rents are charged to profit or loss as incurred.

As an operating leases lessor

The rental income of operating leases is recognized as profit or loss for the current period using the straight-line method in each period of the lease period, or contingent rent is included in the current profit or loss when it actually occurs.

29. Repurchase of Shares

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Distribution of profits

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

31. Fair value measurement

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

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

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

32. Significant accounting judgments and estimates

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (continued)

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

Judgments

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

Business Model

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

Contractual cash flow characteristics

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

Lease period – Lease contract with renewal/cease option

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (continued)

Deferred income tax assets

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

Estimation uncertainty

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

Impairment of financial instruments

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Impairment of goodwill

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

The fair value of an unlisted equity investment

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

Sales Return

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

Provision for impairment of inventories

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

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

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

Lessee's incremental borrowing rate

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

Long-term impairment losses

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates

Changes in accounting policies

New lease standard

In 2018, the ministry of finance promulgated the revised Accounting Standard for Business Enterprises No.21-Lease ("New Lease Standards). The New Lease Standards adopted the single model similar to that used for the current accouting treatment for finance lease and requires the lessee to recognize the right-of-use assets and lease liabilities for all lease other than short-term leases and low-value asset leases and recognize the depreciation and interest expenses respectively. since 1 January 2019, The Group has conducted accounting treatment in accordance with the newly revised lases standard. According to the transitional requirements, the information for the comparable period will not be adjusted and retained earnings at the beginning of 2019 will be retrospectively adjusted based on the Difference between the new lease Standard and the current lease standard on the first day of implementation:

(1) For the operating lease before the first execution date, the Group measures the lease liability at the present value discounted by the incremental borrowing rate on the first execution date based on the remaining lease payment. each lease according to the amount equal to the lease liability, adjusting to measure the right to use the assets according to prepaid rent. Suppose that the new lease criterion is adopted on the beginning date of the lease term, and the incremental borrowing rate of the first time implemented Japan group as the lessee is used as the book value of the discounted rate to measure the right to use the asset.

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New lease standard (continued)

As for the operationg lease under which the leased assets belong to low-value assets befor the date of first implementation or the operationg leases which will be completed within 12 months, the Group adopts simplified treatments without recognizing right -of -use assets and lease liabilities. In addition, the Group adopts the following simplified treatments for the operating leases before the date of first implementation:

(1) The same discount rate can be used for leasing with similar characteristics when measuring leasing liabilities. Initial direct costs is not included when measuring the assets usage.

(2) The group determine the lease term based on the actual exercise of the option prior to the first exercise date and other updated conditions when there is an option to renew the lease or to terminate the lease.

(3) The group will carry out the accounting treatment according to the final arrangement for the lease change before the first execution date.

For the minimum lease payment of the outstanding significant operating lease disclosed in the financial statements of 2018.based on the present value of the incremental borrowing rate discounted as the lessee,the Group adjust the differences of lease liability recorded on the balance sheet on 1 January 2019 as follows:

Minimum lease payment for major operating leases on 31 December 2018	2,401,422
Less：Lease payments with simplified processing	135,169
Including：short-term lease	29,727
Lease with a remaining lease term less than 12 months	105,442
Weighted average incremental borrowing rate	5.10%
Present value of operating lease payments on 1 January 2019	2,124,624
lease liability on 1 January 2019	2,124,624

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New lease standard (continued)

The impact of balance sheet for implementation of the new lease criteria on 1 January 2019 is as follows:

Consolidated balance sheet

	Report data	Assume follow the original criteria	Impact
Prepayment	251,788	329,458	(77,670)
Other payables	485,837	558,153	(72,316)
Right-of-use asset	2,110,778	–	2,110,778
Lease liability	840,159	–	840,159
Non-current liabilities due within One year	1,308,684	24,219	1,284,465
Surplus reserve	246,788	246,885	(97)
Undistributed losses	751,603	770,706	(19,103)
	5,995,637	1,929,421	4,066,216

The impact of balance sheet for implementation of the new lease criteria on 1 January 2019 is as follows: (continued)

Balance sheet of the Company

	Report data	Assume follow the original criteria	Impact
Prepayment	82,888	86,888	(4,000)
Other payables	442,404	444,419	(2,015)
Right-of-use asset	102,577	—	102,577
Lease liability	49,329	—	49,329
Non-current liabilities due within One year	52,504	268	52,236
Surplus reserve	246,788	246,885	(97)
Undistributed profits	446,625	447,501	(876)
	1,423,115	1,225,961	197,154

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New lease standard (continued)

For the implementation of the new lease criteria,the impact of financial statements in 2019 is as follows:

Consolidated balance statement

	Report data	Assume follow the original criteria	Impact
Prepayment	101,679	125,972	(24,293)
Other payables	754,676	867,434	(112,758)
Right-of-use asset	1,609,398	–	1,609,398
Lease liability	1,300,452	–	1,300,452
Non-current liabilities due within one year	799,667	361,614	438,053
Accrued liabilities	35,299	37,577	(2,278)
Accumulated losses	1,414,703	1,325,661	89,042
	6,015,874	2,718,258	3,297,616

Consolidated income statement

	Report data	Assume follow the original criteria	Impact
Selling expenses	5,174,636	5,243,073	(68,437)
General and administrative expenses	483,183	479,734	3,449
Financial expense	241,713	164,022	77,691
Asset impairment losses	778,479	655,587	122,892
Non-operating expenses	20,357	22,635	(2,278)
Loss on disposal of assets	19,876	(24,399)	44,275
	6,718,244	6,540,652	177,592

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New lease standard (continued)

For the implementation of the new lease criteria,the impact of financial statements in 2019 is as follows: (continued)

Balance sheet of the Company

	As stated	Assuming that original standard was applied	Impact
Prepayment	24,417	26,455	(2,038)
Other payables	1,076,630	1,081,572	(4,942)
Right-of-use asset	31,044	–	31,044
Lease liability	25,327	–	25,327
Non-current liabilities due within one year	32,648	–	32,648
Accumulated losses	1,068,311	1,045,258	23,053
	2,258,377	2,153,285	105,092

Income statement of the Company

	As stated	Assuming that original standard was applied	Impact
Selling expenses	950,167	953,975	(3,808)
General and Administrative expenses	246,665	244,607	2,058
Financial expense	38,760	34,963	3,797
Asset impairment losses	795,885	774,480	21,405
Loss on disposal of assets	86	485	(399)
	2,031,563	2,008,510	23,053

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New lease standard (continued)

For the implementation of the new lease criteria,the impact of financial statements in 2019 is as follows: (continued)

In addition, the Group includes the cash from repay debt principal and interest of lease payment in the financing activities of cash outflows from the first execution day, paying for the adoption of simplified handling the short-term lease payment and low value assets lease payment and not included in the lease liabilities measurement variable lease payment is still included in the operating activities cash outflows.

Based on the notification "about revised printing and distribution of 2019 annual general enterprise financial report format" (finance and accounting) [2019] No.6, " notes receivable and accounts receivable " in balance sheet should be splited into "notes receivables "and "account receivables", "notes payable" and "accounts payable". project for the break-up of "notes payable" and "accounts payable";"Other receivables" in the "interest" reflect the profit which the related financial instruments was expired but in the interest of the balance sheet date has not yet received the provision of financial instruments (based on the actual interest rate method of interest included in the book balance of the corresponding financial instruments). "interest" in "other payables" reflect the profit which is not been paid in the the balance sheet but the related financial instruments was expired. (provision of financial instruments based on the actual interest rate method of interest included in the book balance of the corresponding financial instruments). The accounting policy change has no effect on the merger and the company's net profit and owners' equity.

(All amounts in RMB'000 unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

The main effects of the retroactive adjustment caused by the above changes in accounting policies on the financial statements are as follows:

The Group

2019

	Before accounting policy alternative	accounting policy alternative		After accounting policy alternative
	Balance at the end of 2018	Impact of new lease criteria	Impact of changes in the presentation of other financial statements	Balance at the beginning of 2019
Notes receivable and accounts receivable	1,031,810	–	(1,031,810)	–
Account receivable	–	–	1,031,810	1,031,810
Prepayment	329,458	(77,670)	–	251,788
Notes payable and accounts receivable	1,833,543	–	(1,833,543)	–
Notes payable	–	–	712,556	712,556
Accounts receivable	–	–	1,120,987	1,120,987
Other payables	558,153	(72,316)	–	485,837
Right-of-use asset	–	2,110,778	–	2,110,778
Lease liability	–	840,159	–	840,159
Non-current liabilities due within One year	24,219	1,284,465	–	1,308,684
Surplus reserve	246,885	(97)	–	246,788
Undistributed profit at the beginning	770,706	(19,103)	–	751,603

(All amounts in RMB'000 unless otherwise stated)

IV. TAXES

1. The Main tax and tax rate

Value-added tax (VAT)	–	(For general taxpayers) VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value since 1 April 2019 (16% before 1 April 2019). (For small-scale taxpayers) VAT is levied at 3% of the taxable value. The output tax of the taxable income of NaF NaF SAS is calculated at the tax rate of 20%, and the value-added tax is calculated and paid according to the difference after deducting the input tax allowed to be deducted in the current period.
Urban maintenance construction tax	–	Domestic company is levied at 1%、3%、7% on the turnover taxes paid.
Corporate income tax	–	The enterprise income tax of domestic companies within the scope of group merger shall be calculated and paid at 25% of the taxable income; the enterprise income tax of Lacha fashion I limited, a subsidiary within the scope of group merger shall be calculated and paid at 8.25% of the taxable income; the enterprise income tax of Lacha apparel II Sàrl shall be calculated and paid at 15% of the taxable income; the enterprise income tax of NaF SAS shall be calculated and paid at 31% of the taxable income
Educational surcharge	–	Domestic company is levied at 3% on the turnover taxes paid.
Local educational surcharges	–	Domestic company is levied at 2% on the turnover taxes paid.
Property tax	–	The real estate tax of domestic companies shall be calculated and paid at 1.2% of the residual value after deducting 30% of the original value of the real estate or 12% of the rental income
Tax preference	–	The corporate income tax of Lacha fashion I limited, a subsidiary within the scope of group consolidation, is calculated at 8.25%, and is further reduced by 75%, with the upper limit of reduction being HK $20,000.

(All amounts in RMB'000 unless otherwise stated)

V. NOTES TO THE MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Bank and Cash

	2019	2018
Cash on hand	**6,763**	24,642
Bank deposits	**168,786**	425,221
Other cash and bank	**182,135**	155,430
	357,684	605,293

As at December 31, 2019, restricted cash and bank refer to Note V.59.

As at December 31, 2019, the Group's monetary capital deposited overseas was RMB76,030,000 (December 31, 2018: RMB60,000).

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

2. Financial Assets Held for Trading

	2019	2018
Financial assets at fair value through profit or loss		
Equity instrument investment	**–**	25,475
	–	25,475

As of 31 December, 2019, there is no financial assets at fair value through profit or loss designated, The credit risk exposure faced is RMB0 (31 December, 2018: RMB25,475,000)

3. Accounts Receivable

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

Aging analysis of the Accounts Receivable is as follows:

	2019	2018
Within 90 days	**528,954**	976,255
90 days to 1 year	**77,813**	72,327
1 to 2 years	**14,016**	13,293
2 to 3 years	**15,121**	5,155
3 years above	**30,221**	16,440
	666,125	1,083,470
Less: Provision for bad debts	**79,002**	51,660
	587,123	1,031,810

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts Receivable (continued)

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

	Opening balance	Provision for the curent year	Reversal for the current year	Disposal subsidiary	Closing Balance
2019	51,660	30,572	(1,575)	(1,655)	**79,002**
2018	56,779	1,349	(6,468)	—	**51,660**

	2019				2018			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**(%)**	**Amount**	**(%)**	Amount	(%)	Amount	(%)
Individual bad debt provision	**169,345**	**25**	**63,066**	**37**	24,635	2	24,635	100
Bad debt provided by portfolio of credit ris	**496,780**	**75**	**15,936**	**3**	1,058,835	98	27,025	3
	666,125	**100**	**79,002**		1,083,470	100	51,660	

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

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

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts Receivable (continued)

As at 31 December 2018, accounts receivable with provision of bad debts individually reserved are analyzed as follows:

	Book balance	Bad debt provision	Expected credit Loss rate	Reason
Accounts receivables from shopping malls	24,635	24,635	100%	(ii)

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

(ii) As at December 31,2019 and December 31, 2018, the accounts receivables from shopping malls individually reserved provision for bad debts due to the poor operating conditions of the shopping malls, there was a capital turnover problem, and some shopping malls were closed. The group considered that the receivables could not be collected, so it made partly provision for bad debts.

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

	2019			2018		
	Estimated book balance for default	**Expected credit loss rate (%)**	**Expected credit loss for the entire life**	Estimated book balance for default	Expected credit loss rate (%)	Expected credit loss for the entire life
Within 90 days	**424,655**	**2**	**8,494**	976,255	2	19,527
90 days to 1 year	**59,550**	**5**	**2,978**	72,327	5	3,616
1 to 2 years	**10,334**	**30**	**3,100**	5,984	20	1,197
2 to 3 years	**2,191**	**60**	**1,314**	3,169	50	1,585
3 years above	**50**	**100**	**50**	1,100	100	1,100
	496,780		**15,936**	1,058,835		27,025

The provision for bad debts in 2019 is RMB30,572,000 (2018: RMB1,349,000), and the provision for bad debts shall be recovered or transferred back to the tune of RMB1,575,000(2018: RMB6,468,000).

(All amounts in RMB'000 unless otherwise stated)

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

3. Accounts Receivable (continued)

Total amount of the top five accounts receivable analyzed as follows:

	2019			2018		
	Book balance	**Provision of bad debts**	**% of total accounts receivable balance**	Book balance	Provision of bad debts	% of total accounts receivable balance
Total amount of the top five accounts receivable	**81,886**	**9,093**	**12%**	142,001	3,694	13%

4. Prepayments

Aging analysis of prepayments is as follows:

	2019		2018	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**88,091**	**87**	329,458	100
1 to 2 years	**13,588**	**13**	—	—
	101,679	**100**	329,458	100

As at December 31, 2019, the prepaid accounts with an aging of more than 1 year are mainly the purchase payment to the supplier in 2018. Due to the decrease in purchase volume, the aging accounts of this year exceed 1 year.

Total amount of the top five advances to suppliers analyzed as follows:

	2019		2018	
	Book balance	**% of total advances to suppliers balance**	Book balance	% of total advances to suppliers balance
Total amount of the top five advances to suppliers	**61,222**	**60**	119,336	36

(All amounts in RMB'000 unless otherwise stated)

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

5. Other Receivables

	2019	2018
Interest receivables	–	2,560
Other receivables	174,643	379,651
	174,643	382,211

Interest receivables

	2019	2018
Interest receivable on related party loans	3,314	1,788
Interest receivable on time deposits	–	772
	3,314	2,560
Less: provision for bad interest	3,314	—
	–	2,560

Other receivables

Aging analysis of other receivables is as follows:

	2019	2018
Within one year	70,563	387,953
1 to 2 years	37,331	9,257
2 to 3 years	26,636	8,159
3 years above	97,292	1,741
	231,822	407,110
Less: provision for bad debts	57,179	27,459
	174,643	379,651

(All amounts in RMB'000 unless otherwise stated)

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

5. Other Receivables (continued)

Other receivables (continued)

Category by character of other receivables is as follows:

	2019	2018
Deposits	166,224	369,299
Tax return receivable	18,868	—
Refund of service charges	14,028	—
Staff advances	4,532	11,413
Paid on behalf of related parties	—	23,376
Others	7,707	3,022
Others -Naf Naf SAS	20,463	—
	231,822	407,110
Less: provision for bad debts	57,179	27,459
	174,643	379,651

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

2019

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime Expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	26,168	–	1,291	27,459
Opening balance in current year				
– Transfer to stage2	(4,156)	4,156	–	–
– Transfer to stage3	(1,361)	–	1,361	–
– reverse to stage2	–	–	–	–
– reverse to stage1	–	–	–	–
Provision during this year	3,781	12,570	30,801	47,152
Reversal during this year	(11,725)	–	–	(11,725)
Write -off during this year of subsidiary	(1,940)	–	–	(1,940)
Exchange realignment	14	–	–	14
Current year reclassification (note1)	(3,781)	–	–	(3,781)
Closing balance	7,000	16,726	33,453	57,179

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

(All amounts in RMB'000 unless otherwise stated)

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

5. Other Receivables (continued)

Other receivables (continued)

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

2018

	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses in the next 12 months	Lifetime Expected credit losses	Credit-impaired financial assets (lifetime expected credit losses)	
Opening balance	23,882	—	2,291	26,173
Opening balance in current year				
– Transfer to stage2	—	—	—	—
– Transfer to stage3	—	—	—	—
– reverse to stage2	—	—	—	—
– reverse to stage1	—	—	—	—
Provision during this year	2,564	—	—	2,564
Reversal during this year	(278)	—	(1,000)	(1,278)
Write -off during this year	—	—	—	—
Other changes	—	—	—	—
Closing balance	26,168	—	1,291	27,459

(All amounts in RMB'000 unless otherwise stated)

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

5. Other Receivables (continued)

Other receivables (continued)

The book balance of other receivables affecting the change of loss provision in the current year is as follows:

2019

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime Expected credit losses	Stage 3 Credit-impaired financial assets lifetime expected credit losses	Total
Opening balance	405,819	–	1,291	407,110
Opening balance in current year				
– Transfer to stage2	(83,121)	83,121	–	–
– Transfer to stage3	(27,217)	–	27,217	–
Increase during the year	–	–	4,945	4,945
Decrease during the year	(104,621)	–	–	(104,621)
Write-off during the year	–	–	–	–
Reclassification during the year	(75,612)	–	–	(75,612)
Closing balance	115,248	83,121	33,453	231,822

2018

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Lifetime Expected credit losses	Stage 3 Credit-impaired financial assets lifetime expected credit losses	Total
Opening balance	347,418	–	2,291	349,709
Increase during the year	386,662	–	–	386,662
Decrease during the year	(328,261)	–	(1,000)	(329,261)
Closing balance	405,819	–	1,291	407,110

Provision for bad debts shall be made in 2019 of RMB47,152,000 (2018: RMB2,564,000), reclassified to long-term receivables of RMB3,781,000, and the provision for bad debts shall be recovered or transferred back to RMB11,725,000 (2018: RMB1,278,000).

(All amounts in RMB'000 unless otherwise stated)

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

5. Other Receivables (continued)

Other receivables (continued)

As at 31 December 2019, the top five other receivables are as follows:

	Closing balance	Percentage of total balance of other receivables (%)	Nature	Aging	Bad-debt provision Closing balance
Shanghai ice cocoon digital media Co., Ltd	**12,528**	**5**	**Contract refunds**	**1 to 2 years**	**(2,506)**
Shanghai zizhu science park wujing town development office	**3,437**	**1**	**Deposit**	**over 3 years**	**(172)**
Tianjin international shopping mall Co., Ltd	**2,016**	**1**	**Deposit**	**over 3 years**	**(198)**
Beijing kaidejia MAO xizhimen real estate management Co., Ltd	**1,768**	**1**	**Deposit**	**2 to 3 years/ over 3 years**	**(1,753)**
Shanghai yuechuang network technology Co., Ltd	**1,500**	**1**	**Contract refunds**	**Within 1 year**	**(75)**
	21,249	**9**			**(4,704)**

As at 31 December 2018, the top five other receivables are as follows:

	Closing balance	Percentage of total balance of other receivables (%)	Nature	Aging	Bad-debt provision Closing balance
Xuhui district people's court	8,100	2	Deposit	Within 1 year	(567)
Anhui donglong down co. LTD	5,613	1	Deposit	Within 1 year	(393)
Shanghai zizhu science park wujing town development office	3,437	1	Deposit	2 to 3 years	(241)
Chaozhou hengyali down products Co., Ltd	2,548	1	Deposit	Within 1 year	(178)
Shanghai meiluo city commercial management Co., Ltd	2,397	1	Deposit	Within 1 year	(168)
	22,095	6			(1,547)

(All amounts in RMB'000 unless otherwise stated)

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

6. Inventories

	2019			2018		
	Book balance	**Impairment provision**	**Book value**	Book balance	Impairment provision	Book value
Raw materials	**8,025**	**–**	**8,025**	12,155	–	12,155
Finished goods	**2,054,011**	**(342,606)**	**1,711,405**	2,826,632	(326,851)	2,499,781
Low value consumables	**9,215**	**–**	**9,215**	22,302	–	22,302
	2,071,251	**(342,606)**	**1,728,645**	2,861,089	(326,851)	2,534,238

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

2019

	31 December 2018	**provision**	**Decrease in the current period**			**Exchange realignment Translation**	**31 December 2019**
			Reversal	**write-off**	**Disposal of subsidiary**		
Finished goods	**326,851**	**348,842**	**–**	**(312,698)**	**(20,595)**	**206**	**342,606**

2018

	31 December 2017	Accrual in the current year	Decrease in the current year Reverse or Resold	31 December 2018
Raw materials	588	–	(588)	–
Finished goods	235,503	269,317	(177,969)	326,851
	236,091	269,317	(178,557)	326,851

(All amounts in RMB'000 unless otherwise stated)

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

7. Non-current assets due within one year

	2019	2018
Equity disposal receivable	25,588	—
Debt investment	7,287	—
Less: impairment provision for non-current assets due within one year	7,287	—
	25,588	—

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

2019

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	–	–	–	–
Opening balance in current year				
– transfer to stage1	–	–	–	–
– transfer to stage2	–	–	–	–
– reverse to stage2	–	–	–	–
– reverse to stage1	–	–	–	–
Provision during the year	–	–	7,287	7,287
Reveral during the year	–	–	–	–
Write-off during the year	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	7,287	7,287

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

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

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

2019

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	7,287	–	–	7,287
Opening balance in current year				
– Transfer to stage2	–	–	–	–
– Transfer to stage3	(7,287)	–	7,287	–
– reverse to stage2	–	–	–	–
– reverse to stage1	–	–	–	–
Increases during the year	–	–	–	–
Decrease during the year	–	–	–	–
Write-off during the year	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	7,287	7,287

(All amounts in RMB'000 unless otherwise stated)

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

8. Other Current Assets

	2019	2018
Input VAT to be certified	**89,094**	185,036
Bank borrowings deposit	**72,000**	—
Prepaid income tax	**63,967**	50,491
Borrowings to related parties (note1)	**39,500**	72,007
Entrusted loan (note 2)	**42,400**	5,000
Prepaid stock repurchase	**8,858**	—
Cost of returns receivable	**4,106**	—
Less: Impairment loss	**95,366**	5,000
	224,559	307,534

Note 1: As at 31 December 2019, the Group provided a total of RMB39,500,000 (2018: RMB32,500,000) to an associate company, Hongche industrial (Shanghai) co., LTD., at an interest rate of 6%.

Note 2: As at 18 December 2019, the Group entered into the Equity Transfer Agreement with Lanhu Investment Management Consulting (Shanghai) Co., Ltd. (藍湖投資管理諮詢(上海)有限公司), pursuant to which the Group agreed to acquire 60% equity held in Xingji at consideration of RMB1. As at 31 December 2019, Xingji was no longer included in the scope of consolidation. As at 31 December 2019, the borrowing balance provided by the Group to Xingji industrial (Shanghai) co., ltd amounted to RMB37,400,000 in total at a loan interest rate of 5.22% to 5.66%. The borrowing provided by the Group to Chengdu BeCool Technology Co., Ltd (成都必酷科技有限公司) amounted to RMB5,000,000 in total at a loan interest rate of 6.00%.

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

8. Other Current Assets (continued)

Due to the bankruptcy and liquidation of Jack Walk this year, the Group made full provision for the impairment amounted to RMB13,466,000 of input tax. The changes in the provision for bad debts of the remaining current assets in accordance with the expected credit losses of the entire duration are as follows:

2019

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	–	–	5,000	5,000
Opening balance in current year				
– Transfer to stage2	–	–	–	–
– Transfer to stage3	–	–	–	–
– reverse to stage2	–	–	–	–
– reverse to stage1	–	–	–	–
Provision during this year	–	–	76,900	76,900
Reversal during this year	–	–	–	–
Write-off during this year	–	–	–	–
Other changes	–	–	–	–
Closing balance	–	–	81,900	81,900

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

8. Other Current Assets (continued)

The changes in the provision for bad debts of other current assets in accordance with the expected credit losses of the entire duration are as follows:

2018

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	—	—	—	—
Opening balance in current year				
– Transfer to stage2	—	—	—	—
– Transfer to stage3	—	—	—	—
– reverse to stage2	—	—	—	—
– reverse to stage1	—	—	—	—
Provision during this year	—	—	5,000	5,000
Reversal during this year	—	—	—	—
Write-off during this year	—	—	—	—
Other changes	—	—	—	—
Closing balance	—	—	5,000	5,000

(All amounts in RMB'000 unless otherwise stated)

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

8. Other Current Assets (continued)

Other significant changes in the book balance of receivables affecting the change in loss provision in the current year include:(1) due to the poor business performance of Hongche, the book balance in the stage 3 of the current year increased by RMB32,500,000, which correspondingly led to an increase in the expected credit loss in the whole duration; (2) the disposal of Xingji industrial (Shanghai) co., ltd. in the current year resulted in an increase of RMB37,400,000 in other current assets in the third stage due to Xingji's poor business performance, and a corresponding increase in the expected credit loss in the whole duration.Specific analysis is as follows:

2019

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	72,007	–	5,000	77,007
Opening balance in current year	–	–	–	–
– Transfer to stage2	–	–	–	–
– Transfer to stage3	–	–	–	–
– reverse to stage2	–	–	–	–
– Transfer to stage3	(32,500)	–	32,500	–
Increases during the year	–	–	7,000	7,000
Decrease during the year	(39,507)	–	–	(39,507)
Write-off during the year	–	–	–	–
Other changes	–	–	37,400	37,400
Closing balance	–	–	81,900	81,900

(All amounts in RMB'000 unless otherwise stated)

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

8. Other Current Assets (continued)

2018

	Stage 1 Expected credit losses in The next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	77,007	—	—	77,007
Opening balance in current year	—	—	—	—
— Transfer to stage2	—	—	—	—
— Transfer to stage3	—	—	—	—
— reverse to stage2	—	—	—	—
— Transfer to stage3	(5,000)	—	5,000	—
Increase during the year	—	—	—	
Decrease during the year	—	—	—	—
Write-off during the year	—	—	—	—
Other changes	—	—	—	—
Closing balance	72,007	—	5,000	77,007

9. Debt investments

	31 December 2019			31 December 2018		
	Book balance	**Impairment provision**	**Book value**	Book balance	Impairment provision	Book value
Jiuwo debt instrument investment	**–**	**–**	**–**	6,934	—	6,934

In 2017, the Group provided a loan of RMB6,500,000 to Shanghai Jiuwo co., LTD. ("Jiuwo "), at an interest rate of 5.22%. The loan was extended for two years after its expiration on November 30, 2018, the loan interest rate during the extended period was 5.77% and the loan's due date is November 30, 2020.As at 31 December 2019, the Group reclassified Jiuwo debt instrument into Non-current assets due within one year.

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

(All amounts in RMB'000 unless otherwise stated)

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

10. Long-term Receivable

	2019			2018		
	Book balance	**Impairment provision**	**Book value**	Book balance	Impairment provision	Book value
Disposal of subsidiaries	**55,188**	**–**	**55,188**	—	—	—
Deposit	**137,613**	**(3,781)**	**133,832**	—	—	—
	192,801	**(3,781)**	**189,020**	—	—	—

As at 31 December 2019, the discount rate used in long-term receivable is 5.46% (2018: Nil).

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

	Stage 1 Expected credit losses in The next 12 months	**Total**
Opening balance	—	—
Current year reclassification (note 1)	3,781	3,781
Reversal during the year	—	—
Write-off during this year	—	—
Other changes	—	—
Closing balance	3,781	3,781

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

(All amounts in RMB'000 unless otherwise stated)

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

11. Long-term Equity Investments

2019

		Increase/decrease during the year									
	31 December 2018	Increase in investment	Transfers to subsidiaries	Share of net profit or loss using the equity method	Share of OCI	Disposals of associates	Exchange differences	Cash dividends declared	Provision for impairment	Book value of year end	Balance of provision for impairmen
Joint Venture											
Lacha Apparel II S.a r.l.	161,343	–	(134,068)	(27,275)	–	–	–	–	–	–	–
Associates:											
Tibet Baoxin Equity Investment Partnership Enterprise	157,593	–	–	67	–	–	–	–	–	157,660	–
Hong Che Industrial (Shanghai) Co., Ltd.	45,127	–	–	(5,877)	–	–	–	–	(39,250)	–	(39,250)
Beijing Ao Ni Trading Co., Ltd.	20,820	–	–	702	–	–	–	–	–	21,522	–
Shanghai Youshi Household Science and Technology Co., Ltd.	300	–	–	(300)	–	–	–	–	–	–	–
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership)	236,397	–	–	132,411	–	(362,609)	–	(6,199)	–	–	–
Hangzhou KaiHui E-Commerce Co., Ltd.	3,766	–	–	(56)	–	(3,710)	–	–	–	–	–
Fuzhou Badi Fashion Co., Ltd.	7,681	–	–	(810)	–	–	–	–	–	6,871	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,907	–	–	(445)	–	–	–	–	–	2,462	–
Xinjiang hengding cotton textile international trading co. LTD	–	3,500	–	1,201	–	–	–	–	–	4,701	–
	635,934	3,500	(134,068)	99,618	–	(366,319)	–	(6,199)	(39,250)	193,216	(39,250)

The Group acquired 60% equity of the joint venture Lacha Apparel II Sàrl on 4 June, 2019, so Lacha Apparel II Sàrl has become the wholly-owned subsidiary of the Group. Disclosure refer to Note VI-1.

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

(All amounts in RMB'000 unless otherwise stated)

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

11. Long-term Equity Investments (continued)

2018

	31 December 2017	Increase/decrease during the period: Increase in investment	Transfers to subsidiaries	Share of net profit or loss using the equity method	Share of OCI	Disposals of associates	Exchange differences	Cash dividends declared	Book value of year end	Balance of provision for impairmen
Joint Venture:										
Lacha Apparel II Sàrl.	–	156,497	–	(7,029)	–	–	11,875	–	161,343	–
Associates:										
Tianjin Xing Kuang Enterprise Management Consulting Partnership (Limited Partnership)	215,523	–	–	34,342	–	–	–	(13,468)	236,397	–
Tibet Baoxin Equity Investment Partnership Enterprise	107,712	45,000	–	4,881	–	–	–	–	157,593	–
Hong Che Industrial (Shanghai) Co., Ltd.	56,241	–	–	(11,114)	–	–	–	–	45,127	–
Beijing Ao Ni Trading Co., Ltd.	20,000	–	–	820	–	–	–	–	20,820	–
Fuzhou Badi Fashion Co., Ltd.	8,658	–	–	(977)	–	–	–	–	7,681	–
Hangzhou KaiHui E-Commerce Co., Ltd.	2,582	–	–	1,184	–	–	–	–	3,766	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	–	3,000	–	(93)	–	–	–	–	2,907	–
Shanghai Youshi Household Science and Technology Co., Ltd.	–	300	–	–	–	–	–	–	300	–
Hangzhou Mixin E-commerce Co., Ltd.	1,235	–	–	–	–	(1,235)	–	–	–	–
Hangzhou Jianing E-Commerce Co., Ltd.	739	–	–	(37)	–	(702)	–	–	–	–
Pincheng	15,775	–	(15,629)	(146)	–	–	–	–	–	–
	428,465	204,797	(15,629)	21,831	–	(1,937)	11,875	(13,468)	635,934	–

Impairment provision for long-term equity investment:

2019

	31 December 2018	**Increase in the current year**	**Decrease in the current year**	**31 December 2019**
Hong Che Industrial (Shanghai) Co., Ltd.	**–**	**(39,250)**	**–**	**(39,250)**

(All amounts in RMB'000 unless otherwise stated)

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

12. Other Equity Instrument Investments

2019

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

2018

	Accumulative changes through other comprehensive losses	Fair value	Reasons for designating at fair value through OCI
TNPI HK Co., Ltd	(24,344)	—	(a)
Beijing Mingtongsiji Technology Co., Ltd.	—	15,000	(b)
Shanghai O2bra Co., Ltd.	—	13,605	(c)
	(24,344)	28,605	

(All amounts in RMB'000 unless otherwise stated)

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

12. Other Equity Instrument Investments(Continued)

(a) In 2016, the Group invested in TNPI by acquiring 20.75% interests with a total consideration of USD 3,750,000 (equivalent to RMB25,026,000). The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through Other Comprehensive Income (OCI) at initial recognition, which are presented in other equity investment. As at 31 December 2019, the fair value of the equity instrument is nil (31 December 2018: Nil).

(b) In 2017, the Group acquired 1,075,000 shares, or 3.75% equity interests in Beijing Mingtongsiji Technology Co., Ltd. through National Equities Exchange and Quotations with a consideration of RMB15,000,000. In 2019, the Group completed the equity change in the equity investment in Beijing Mingtongsiji Technology Co., Ltd. due to the increase of other equity instrument investment of RMB15,002,000 this year, and the shareholding ratio changed to 7.07%. The Group considered the purpose of holding the financial assets was not for short-term trading, which does not belong to an equity instrument held for trading. So the Group chose to designate the assets in financial assets at fair value through OCI at initial recognition, which are presented in other equity investment. As at 31 December 2019, the fair value of the equity instrument is RMB10,534,000 (31 December 2018: RMB15,000,000).

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

13. Other non-current financial assets

	2019	2018
Financial assets at fair value through profit or loss	**97,777**	28,200

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets

2019

	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
Original cost					
31 December 2018	808,867	57,928	8,386	161,473	1,036,654
Purchase	3,626	4,192	725	11,072	19,615
Transferred from CIP	895,643	509	–	7,932	904,084
Acquired from business combination	2,523	6,057	–	–	8,580
Exchange realignment	189	115	–	–	304
Disposal of subsidiaries	–	(123)	(4,592)	(12,181)	(16,896)
Disposal and retirement	–	(1,968)	(6)	(28,513)	(30,487)
31 December 2019	1,710,848	66,710	4,513	139,783	1,921,854
Accumulated depreciation					
Beginning balance	52,456	17,099	4,143	97,907	171,605
Accrual	57,156	8,403	905	28,984	95,448
Disposal of subsidiaries	–	(73)	(2,984)	(6,963)	(10,020)
Disposal and retirement	–	(226)	(1)	(22,706)	(22,933)
Year end balance	109,612	25,203	2,063	97,222	234,100
Provision for impairment					
31 December 2018	–	–	–	–	–
Provision	2,682	6,036	–	–	8,718
Exchange realignment	30	67	–	–	97
31 December 2019	2,712	6,103	–	–	8,815
Carrying amount					
31 December 2019	1,598,524	35,404	2,450	42,561	1,678,939
31 December 2018	756,411	40,829	4,243	63,566	865,049

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets (continued)

2018

	Properties and plants	Machinery and equipment	Motor vehicles	Office equipment	Total
Original cost					
31 December 2017	390,962	41,350	9,120	136,080	577,512
Purchase	—	15,967	567	34,117	50,651
Transferred from CIP	417,905	611	—	—	418,516
Acquired from business combination	—	—	—	585	585
Disposal and retirement	—	—	(1,301)	(9,309)	(10,610)
31 December 2018	808,867	57,928	8,386	161,473	1,036,654
Accumulated depreciation					
31 December 2017	29,962	10,297	2,944	78,827	122,030
Accrual	22,494	6,802	2,357	25,824	57,477
Disposal of subsidiaries	—	—	(14)	(336)	(350)
Disposal and retirement	—	—	(1,144)	(6,408)	(7,552)
31 December 2018	52,456	17,099	4,143	97,907	171,605
Carrying amount					
31 December 2018	756,411	40,829	4,243	63,566	865,049
31 December 2017	361,000	31,053	6,176	57,253	455,482

(All amounts in RMB'000 unless otherwise stated)

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

14. Fixed assets (continued)

As at 31 December 2019, the Group has no fixed assets leased by finance. The Group owned some operating lease buildings, as operating lease buildings cannot be measured and sold separately, the Group did not recognize them as investment real estate (31 December 2018:Nil).

As at December 31, 2019, part of the Group's houses and buildings are idle.

As at 31 December 2019, fixed Assets with restricted ownership or use right refer to Note V 59.

Fixed assets without property certificate on 31 December 2019

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

fixed assets without property certificate on 31 December 2018

	Carrying amount	Reasons for not completing the property certificate
Properties and plants	502,115	Supporting facilities have not been checked and accepted

As of the date of this financial report, the book value of the houses and buildings with ownership certification is RMB906,067,000.

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress

	2019			2018		
	Carrying amount before provision	**Provision for impairment**	**Carrying amount**	Carrying amount before provision	Provision for impairment	Carrying amount
Tianjin logistics center project	**68,165**	**–**	**68,165**	37,942	–	37,942
Wu Jing headquarter project	**71,232**	**–**	**71,232**	525,861	–	525,861
La chapelle AI commodity operation platform project	**2,390**	**–**	**2,390**	–	–	–
Taicang logistics center project phase II and III	**–**	**–**	**–**	40,827	–	40,827
Stores lifecycle management project	**–**	**–**	**–**	9,465	–	9,465
ERP system upgrade	**–**	**–**	**–**	872	–	872
Others	**12,034**	**(12,034)**	**–**	985	–	985
	153,821	**(12,034)**	**141,787**	615,952	–	615,952

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress (continued)

Movement in significant construction in progress within 2019:

	Budget	31 December 2018	Increase in the current year	Transferred to intangible assets and long-term prepaid expenses	Transferred to fixed assets	Other decreases	31 December 2019	Sources of funds	Investment percentage of budget
Wu Jing headquarter project	1,099,961	525,861	356,066	–	(810,695)	–	71,232	borrowing and working capital	93%
Taicang logistics center project phase II and III	273,922	40,827	5,553	–	(46,380)	–	–	borrowing and working capital	100%
Tianjin logistics center project	296,286	37,942	62,496	–	(32,273)	–	68,165	borrowing and working capital	69%
La chapelle AI commodity operation platform project	4,999	–	2,390	–	–	–	2,390	working capital	48%
Product lifecycle management project	49,000	9,465	6,467	(15,932)	–	–	–	working capital	100%
ERP system upgrade	5,898	872	–	(872)	–	–	–	working capital	100%
Chengdu logistics center project	113,310	–	14,736	–	(14,736)	–	–	borrowing and working capital	100%
Others		985	12,034	(985)	–	(12,034)	–	working capital	0%
		615,952	459,742	(17,789)	(904,084)	(12,034)	141,787		

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress (continued)

Movement in significant construction in progress during 2018:

	Budget	31 December 2017	Increase in the current year	Transferred to intangible assets and long-term prepaid expenses	Transferred to fixed assets	31 December 2018	Sources of funds	Investment percentage of budget
Wu Jing headquarter project	1,099,961	380,343	355,058	–	(209,540)	525,861	borrowing and working capital	61%
Taicang logistics center project phase II and III	273,922	–	41,370	(543)	–	40,827	borrowing and working capital	90%
Tianjin logistics center project	296,286	114,263	39,684	–	(116,005)	37,942	borrowing and working capital	48%
Product lifecycle management project	49,000	–	9,465	–	–	9,465	working capital	19%
ERP system upgrade	5,898	4,867		(3,995)	–	872	working capital	83%
Chengdu logistics center project	113,310	77,625	15,346	–	(92,971)	–	borrowing and working capital	100%
Others		577	1,986	(1,578)	–	985	working capital	0%
		577,675	462,909	(6,116)	(418,516)	615,952		

(All amounts in RMB'000 unless otherwise stated)

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

15. Construction in progress (continued)

Movement in significant construction in progress during 2019:

	Project progress	Interest Capitalization accrued balance	including: current year Interest Capitalization	Interest in this year Capitalization Rate
Wu Jing headquarter project	**93%**	**47,027**	**9,025**	**5.09%**
Taicang logistics center project phase II and III	**100%**	**15,736**	**675**	**5.46%**
Tianjin logistics center project	**69%**	**14,894**	**2,239**	**5.46%**
Chengdu logistics center project	**100%**	**5,569**	**–**	**5.46%**
		83,226	**11,939**	

Movement in significant construction in progress during 2018:

	Project progress	Interest Capitalization accrued balance	including: current year Interest Capitalization	Interest in this year Capitalization Rate
Wu Jing headquarter project	61%	38,002	29,033	4.84%
Taicang logistics center project phase II and III	90%	15,061	3,441	4.72%
Tianjin logistics center project	48%	12,655	7,017	4.72%
Chengdu logistics center project	100%	5,569	2,508	4.72%
		71,287	41,999	

As at 31 December 2019, the Group reserves impairment provision RMB12,034,000 for construction in progress.(31 December 2018:Nil).

Construction in progress with restricted ownership or use right refers to Note V 59.

(All amounts in RMB'000 unless otherwise stated)

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

16. Right-of-use assets

2019

	Properties and plants
Original cost	
31 December 2018	2,129,978
Increases	215,892
Acquired from business combination	887,088
Disposal	(1,012,272)
Disposal of subsidiaries	(18,569)
Exchange realignment	16,892
31 December 2019	2,219,009
Accumulated depreciation	
31 December 2018	–
Accrual	637,119
Disposal	(166,163)
Disposal of subsidiaries	(4,372)
Exchange realignment	724
31 December 2019	467,308
Provision for impairment	
31 December 2018	19,200
Accrual	122,892
Write-off	–
Exchange realignment	211
31 December 2019	142,303
Carrying amount	
31 December 2019	1,609,398
31 December 2018	2,110,778

(All amounts in RMB'000 unless otherwise stated)

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

17. Intangible assets

2019

	Trademark	Purchased software	Land use right	Brands	Favorable contracts	Total
Original cost						
31 December 2018	4,086	77,599	162,818	60,815	1,550	306,868
Purchase	–	30,399	–	–	–	30,399
Transfer in construction	78	17,711	–	–	–	17,789
Acquired from business combination	3,844	17,098	–	107,641	–	128,583
Exchange realignment	74	454	–	2,039	–	2,567
Disposal	–	(17,894)	–	–	–	(17,895)
Disposal of subsidiaries	–	(723)	–	(34,110)	–	(34,833)
31 December 2019	8,082	124,644	162,818	136,385	1,550	433,479
Accumulated amortization						
31 December 2018	1,917	63,404	13,361	21,837	697	101,216
Accrual	443	9,994	3,274	11,718	853	26,282
Exchange realignment	–	27	–	77	–	104
Disposal	–	(281)	–	–	–	(281)
Disposal of subsidiaries	–	(455)	–	(17,766)	–	(18,221)
31 December 2019	2,360	72,689	16,635	15,866	1,550	109,100
Provision for impairment						
31 December 2018	–	–	–	–	–	–
The depreciation amortization	3,874	26,142	–	109,354	–	139,370
Exchange realignment	44	289	–	1,122	–	1,455
31 December 2019	3,918	26,431	–	110,476	–	140,825
Carrying amount						
31 December 2019	1,804	25,524	146,183	10,043	–	183,554
31 December 2018	2,169	14,195	149,457	38,978	853	205,652

(All amounts in RMB'000 unless otherwise stated)

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

17. Intangible assets (continued)

2018

	Trademark	Purchased software	Land use right	Brands	Favorable contracts	Total
Original cost						
31 December 2017	4,086	69,424	162,818	48,130	1,550	286,008
Purchase	—	2,219	—	—	—	2,219
Transferred from construction in progress	—	6,016	—	—	—	6,016
Acquired from business combination	—	—	—	12,685	—	12,685
Disposal and retirement	—	(60)	—	—	—	(60)
31 December 2018	4,086	77,599	162,818	60,815	1,550	306,868
Accumulated amortization						
31 December 2017	1,485	56,313	10,086	15,114	493	83,491
Accrual	432	7,104	3,275	6,723	204	17,738
Disposal and retirement	—	(13)	—	—	—	(13)
31 December 2018	1,917	63,404	13,361	21,837	697	101,216
Carrying amount						
31 December 2018	2,169	14,195	149,457	38,978	853	205,652
31 December 2017	2,601	13,111	152,732	33,016	1,057	202,517

As at 31 December 2019,there is no intangible asset formed through internal research and development (31 December 2018: Nil).

As at 31 December 2019, the Group has no intangible asset with uncompleted property certificate (31 December 2018:Nil).

As at 31 December 2019, intangible assets with restricted ownership or use right refer to Note V 59.

As at 31 December 2019, the provision of RMB7,828,000 had been made due to the poor operation of Jack Walk brand. The provision of RMB102,648,000 had been made due to the poor operation of brand Naf Naf SAS brand.

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill

2019

	31 December 2018	Increases	Decreases	Exchange realignment	31 December 2019
		Business combinations not under the common control	Disposal		
Acquire NAF NAF SAS	–	72,088	–	1,378	73,466
Acquire Hangzhou Anshe E-Commerce Company Limited ("Hangzhou Anshe")	92,339	–	(14,108)	–	78,231
Acquire Jack Walk Fashion Co., Ltd.. ("Jack Walk")	13,383	–	–	–	13,383
Acquire Pincheng	7,992	–	–	–	7,992
	113,714	72,088	(14,108)	1,378	173,072

	31 December 2018	Increases	Decreases	Exchange realignment	31 December 2019
Less: Provision for impairment					
Acquire NAF NAF SAS	–	72,664	–	802	73,466
Acquire Hangzhou Anshe	5,179	–	(5,179)	–	–
Acquire Jack Walk	–	13,383	–	–	13,383
Acquire Pincheng	–	7,992	–	–	7,992
	5,179	94,039	(5,179)	802	94,841
	108,535				78,231

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill (continued)

2018

	31 December 2017	Increases	Decreases	31 December 2018
		Business combinations not under the same control	Disposal	
Acquire Hangzhou Anshe	92,339	—	—	92,339
Acquire Jack Walk	13,383	—	—	13,383
Acquire Jiuwo	7,833	—	(7,833)	—
Acquire Pincheng	—	7,992	—	7,992
	113,555	7,992	(7,833)	113,714

	31 December 2017	Increases	Decreases	31 December 2018
Less: Provision for impairment				
Acquire Hangzhou Anshe	—	5,179	—	5,179
	113,555	2,813	(7,833)	108,535

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

Movement of provision for impairment is as follow:

2019

	31 December 2018	**Increase in the current year**	**Decrease in the current year**	**Exchange realignment**	**31 December 2019**
		Accrual	**Disposal**		
Acquire NAF	**—**	**72,664**	**—**	**802**	**73,466**
Acquire Hangzhou Anshe	**5,179**	**—**	**(5,179)**	**—**	**—**
Acquire Jack Walk	**—**	**13,383**	**—**	**—**	**13,383**
Acquire Pincheng	**—**	**7,992**	**—**	**—**	**7,992**

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill (continued)

2018

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
		Accrual	Disposal	
Acquire Hangzhou Anshe	—	5,179	—	5,179

Goodwill in 2019 increased by RMB72,088,000 arising from purchase subsidiaries (Note VI.1). Net goodwill decreased by RMB8,929,000 arising from disposal of subsidiaries (Note VI.2).

The goodwill resulting from the merger has been allocated to the following asset groups or combinations of asset groups for impairment testing:

- Asset Group A: La Chapelle original brand Group (Only 100% controlled subsidiaries are included)
- Asset Group B: Jack Walk Fashion Co.,Ltd Group
- Asset Group C:Shanghai pincheng industrial Co., Ltd. Group
- Asset Group D: NAF Group

La chapelle original brand Group

The group to which goodwill belongs is recognized as an asset group for goodwill impairment test. The recoverable amount of the asset group where the goodwill is located is determined according to the present value of the expected future cash flow of the asset group, and its future cash flow is determined based on the financial budget of the forecast period (2020-2024) approved by the management. The pre tax discount rate used in the cash flow forecast of the asset group during the forecast period is 15% (2018: 18%), and the cash flow growth rate during the forecast period is 4% (2018: 7%). Used to infer that the growth rate of cash flow after the forecast period is 3% (2018: 3%). It is estimated that the present value of the expected future cash flow of the original brand group of La chapelle is higher than the book value of the portfolio of the asset group, and the Group believes that there is no impairment of the goodwill arising from the acquisition.

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

18. Goodwill (Continued)

Jack Walk Fashion Co., Ltd. Group

The goodwill generated from the acquisition of Jack Walk belongs to asset group A in 2018. Due to the change of Jack Walk's asset group this year, the goodwill originally allocated to asset group A is re allocated to the asset group of Jack Walk Fashion Co., Ltd. according to reasonable method. The subsidiary of goodwill is recognized as an asset group for goodwill impairment test. The recoverable amount of the asset group in which the goodwill is located is determined according to the present value of the expected future cash flow of the asset group. In 2019, the management expects that asset group B will continue to operate for two years, so the future cash flow is determined based on the financial budget of the forecast period (2020-2021) approved by the management. The pre tax discount rate used in the cash flow forecast of the asset group during the forecast period is 14% (2018: 19%), and the cash flow growth rate during the forecast period is – 34% (2018: 7%). In 2019, the present value of Jack Walk's estimated future cash flow is lower than the book value of the portfolio of asset groups, and the Group shall make full provision for the impairment of goodwill generated from the acquisition of Jack Walk.

NAF Group

The subsidiary to which goodwill belongs is recognized as an asset group for goodwill impairment test. The recoverable amount of the asset group in which the goodwill is located is determined according to the present value of the expected future cash flow of the asset group, and the future cash flow is determined based on the financial budget of the forecast period (2020-2024) approved by the management. The pre tax discount rate used in the cash flow forecast of the asset group during the forecast period is 11%, and the cash flow growth rate during the forecast period is 0%. It is used to infer that the growth rate of cash flow after the forecast period is 2%. It is estimated that the present value of the estimated future cash flow of NaF NaF SAS is lower than the book value of the portfolio of asset groups, and the Group makes provision for impairment in full for the goodwill generated from the acquisition of NAF NAF SAS.

Shanghai pincheng industrial CO., Ltd Group

The subsidiary to which goodwill belongs is recognized as an asset group for goodwill impairment test. The recoverable amount of the asset group in which the goodwill is located is determined according to the present value of the expected future cash flow of the asset group, and the future cash flow is determined based on the financial budget of the forecast period (2020-2024) approved by the management. The pre tax discount rate used in the cash flow forecast of the asset group during the forecast period is 19% (2018: 18%), and the cash flow growth rate during the forecast period is 49% (2018: 40%). It is used to infer that the growth rate of cash flow after the forecast period is 3% (2018: 3%). If the present value of the estimated future cash flow of the measured products is lower than the book value of the asset group portfolio, the Group shall make provision for impairment in full for the goodwill generated from the purchased products.

(All amounts in RMB'000 unless otherwise stated)

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

18. Goodwill (Continued)

Shanghai pincheng industrial co., LTD (Continued)

The following illustrates the key assumptions made by management in determining cash flow forecasts for the purpose of conducting impairment tests on goodwill:

La chapelle original brand group, NAF Group, Shanghai pincheng industrial Co., Ltd

Budgeted gross margin – Based on the average gross profit margin realized in the year before the budget year, the average gross profit margin is appropriately increased according to the expected efficiency improvement.

Discount rate – The discount rate used is the pre-tax discount rate reflecting the specific risks of the relevant asset group or portfolio of asset group.

Jack Walk Fashion Co., Ltd.

Budgeted gross margin – Based on the average gross profit margin realized in the year before the budget year, the average gross profit margin is appropriately decreased according to the expected efficiency improvement.

Discount rate – The discount rate used is the pre-tax discount rate reflecting the specific risks of the relevant asset group or portfolio of asset group.

19. Long-term prepaid expenses

2019

	31 December 2018	Additions	Amortization	Business combinations not under the common control	Exchange realignment	Other decreases	31 December 2019
Leasehold improvement	570,867	281,894	(591,654)	22,358	100	(9,324)	274,241

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

2018

	31 December 2017	Additions	Amortization	Other decreases	31 December 2018
Leasehold improvement	711,780	378,095	(516,188)	(2,820)	570,867

(All amounts in RMB'000 unless otherwise stated)

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

20. Deferred tax assets and liabilities

Deferred tax assets before offsetting:

	2019 Deductible temporary differences	**2019** Deferred tax assets	2018 Deductible temporary differences	2018 Deferred tax assets
Deferred tax assets				
Fee recognized in the rent-free period	**–**	**–**	102,054	25,514
Difference between tax and accounting	**928,276**	**232,069**	–	–
Tax losses carried forward	**770,200**	**192,550**	440,323	110,081
Provision for inventories impairments	**183,744**	**45,936**	326,851	81,713
Provision for bad debts	**176,068**	**44,017**	84,119	20,921
Differences in amortization of Long-term prepaid expense between tax and accounting	**92,264**	**23,066**	10,982	2,746
Elimination of intra-group unrealized profit	**52,396**	**13,099**	112,311	28,078
Disposal difference of Hanzhou Anshe	**9,224**	**2,306**	–	–
Employee benefits payable	**7,632**	**1,908**	8,714	2,178
Integral income contract liability	**4,252**	**1,063**	–	–
Fair value changes of other equity instrument investments	**–**	**–**	24,344	4,017
	2,224,056	**556,014**	1,109,698	275,248

	2019 Taxable temporary differences	**2019** Deferred tax liabilities	2018 Taxable temporary differences	2018 Deferred tax liabilities
Deferred tax liabilities				
Right-of-use asset	**789,144**	**197,286**	–	–
Capitalized borrowing costs	**86,676**	**21,669**	80,243	20,061
Business combination involving enterprises not under common control	**41,097**	**10,728**	39,831	9,958
Differences between long-term equity investment tax laws and accounting	**7,664**	**1,916**	103,465	25,866
Fair value changes on financial instruments	**4,576**	**1,144**	–	–
Other	**80,238**	**24,874**	–	–
	1,009,395	**257,617**	223,539	55,885

(All amounts in RMB'000 unless otherwise stated)

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

20. Deferred tax assets and liabilities (continued)

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

	2019		2018	
	Offsetting amount	**Net amount**	Offsetting amount	Net amount
Deferred tax assets	**(220,100)**	**335,914**	(27,461)	247,787
Deferred tax liabilities	**220,100**	**37,517**	27,461	28,424

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

	2019	2018
Deductible temporary differences	**677,730**	—
Tax losses	**1,782,189**	300,665
	2,459,919	300,665

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

	2019	2018
2020	**8,284**	8,134
2021	**84,622**	72,882
2022	**196,361**	81,484
2023	**273,918**	138,165
2024	**920,953**	—
No due date (Note 1)	**298,051**	—
	1,782,189	300,665

Note 1: Deductible losses without expiration date are mainly generated by French Naf Naf SAS. According to the French local tax law, the tax losses incurred by an enterprise have no expiry period but are limited in amount. Losses with a cumulative loss of less than 1 million euros can be compensated before tax. For losses exceeding 1 million euros, the compensation limit is 1 million euros plus 50% of the cumulative excess.

(All amounts in RMB'000 unless otherwise stated)

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

21. Other non-current assets

	2019	2018
Prepaid decoration expenses of department stores	17,879	144,962
Prepayments for long-term equity investment	–	15,002
	17,879	159,964

22. Provision for asset impairment

2019

	31 December 2018	Accrual	Decrease in the current year			Exchange realignment	31 December 2019
			Reversal	Write-off	Disposal of subsidiaries		
Provision for bad debts of accounts receivable	51,660	30,572	(1,575)	–	(1,655)	–	79,002
Other Provision for bad debts of other receivables	27,459	46,685	(11,725)	–	(1,940)	14	60,493
Inventory provision	326,851	348,842	–	(312,698)	(20,595)	206	342,606
Impairment provision for non-current assets due within one year	–	7,287	–	–	–	–	7,287
Provision for bad debts of other current assets	5,000	90,366	–	–	–	–	95,366
Provision for long-term receivables and bad debts	–	3,781	–	–	–	–	3,781
Impairment provision for long-term equity investment	–	39,250	–	–	–	–	39,250
Fixed assets depreciation reserves	–	8,718	–	–	–	97	8,815
Impairment of construction in progress	–	11,902	–	–	–	132	12,034
Provision for impairment of the right to use assets	–	122,892	–	–	–	211	123,103
Impairment of intangible assets	–	139,370	–	–	–	1,455	140,825
Goodwill impairment provision	5,179	94,039	–	–	(5,179)	802	94,841
	416,149	943,704	(13,300)	(312,698)	(29,369)	2,917	1,007,403

(All amounts in RMB'000 unless otherwise stated)

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

22. Provision for asset impairment (continued)

2018

	31 December 2017	Accrual	Decrease in the current year		31 December 2018
			Reversal	Write-off	
Provision for bad debts of accounts receivable	56,779	1,349	(6,468)	—	51,660
Provision for bad debts of other receivables	26,173	2,564	(1,278)	—	27,459
Provision for bad debts of other current assets	—	5,000	—	—	5,000
Inventory provision	236,091	269,317	—	(178,557)	326,851
Goodwill impairment provision	—	5,179	—	—	5,179
	319,043	283,409	(7,746)	(178,557)	416,149

Impairment of fixed assets and intangible assets

The group has recognized the impairment losses of fixed assets and intangible assets in this year, which are RMB8,718,000 and RMB139,370,000 respectively, of which the impairment reserves of Jack Walk intangible assets are RMB7,828,000. The recoverable amount is determined according to the present value of the expected future cash flow of the asset group. The pre-tax discount rate used to forecast the cash flows of the asset group during the forecast period was 19%, and the growth rate of the cash flows during the forecast period is-34%.

Provision for impairment of fixed assets of Naf Naf SAS is RMB8,718,000, and provision for impairment of intangible assets is RMB131,542,000. The recoverable amount is determined according to the present value of the expected future cash flow of the asset group. The asset group consists of NaF NaF SAS. The pre-tax discount rate used to forecast the cash flows of the asset group during the forecast period was 11%, and the growth rate of the cash flows during the forecast period is 0%

(All amounts in RMB'000 unless otherwise stated)

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

23. Short-term borrowings

	2019	2018
Mortgaged loan	**292,289**	—
Secured borrowing	**427,400**	1,856
Unsecured loan	**51,418**	1,909,789
Mortgages and guaranteed loans	**310,000**	—
Mortgage, pledge and guarantee loan	**400,000**	—
	1,481,107	1,911,645

As at December 31, 2019, the annual interest rate range of the above borrowings is 4.35% to 8.00% (December 31, 2018: 4.35% to 5.66%).

As at December 31, 2019, the balance of overdue loans was RMB292,289,000 (December 31, 2018: Nil)

24. Notes payable

	2019	2018
Trade acceptance notes	**248,288**	634,723
Bank acceptance notes	**7,188**	77,833
	255,476	712,556

As at December 31, 2019, no notes payable was due and unpaid (December 31, 2018: Nil)

(All amounts in RMB'000 unless otherwise stated)

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

25. Accounts payable

Accounts payable are non-interest bearing and are usually settled within 3 months.

	2019	2018
Payable for purchase	**1,721,205**	1,120,987

As at 31 December 2019, the aging of accounts payable over 1 year showed as below:

	Amount	Reason for non-payment
Payable for purchase	23,688	Group fund arrangement

26. Advance from customers

	2019	2018
Rent in advance	**2,489**	—

27. Contract liabilities

	2019	2018
Advance from customers	**52,268**	2,399

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

	Amount change	Reason
Changes resulting from business merger	30,034	An increase in mergers
Franchise sales performance obligations	15,582	The increase resulted from the implementation of the new franchise sales model
Member points performance obligations	4,253	The introduction of the membership points system led to an increase in sales
	49,869	

As at December 31, 2019, the Group has no important advance from customers with an account age over 1 year.

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll Payable

2019

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

2018

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Short-term compensation	197,566	2,137,643	(2,135,455)	199,754
Retirement benefits (defined contribution) plans	23,276	252,947	(252,615)	23,608
	220,842	2,390,590	(2,388,070)	223,362

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll Payable (continued)

Details of short-term compensation of domestic company are as follows:

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

2018

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Wages or salaries, bonuses, allowances and subsidies	178,534	1,931,887	(1,929,974)	180,447
Staff welfare	2,202	21,855	(21,828)	2,229
Social insurance	10,173	110,738	(110,596)	10,315
Including: Medical insurance	6,421	69,813	(69,727)	6,507
Others	3,752	40,925	(40,869)	3,808
Housing fund	6,657	72,685	(72,579)	6,763
Labor union and staff education fund	—	478	(478)	—
	197,566	2,137,643	(2,135,455)	199,754

(All amounts in RMB'000 unless otherwise stated)

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

28. Payroll Payable (continued)

Defined contribution plans of domestic company as follows:

2019

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

2018

	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance premium	21,263	231,206	(230,897)	21,572
Unemployment Insurance premium	2,013	21,741	(21,718)	2,036
	23,276	252,947	(252,615)	23,608

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

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

(All amounts in RMB'000 unless otherwise stated)

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

29. Taxes Payable

	2019	2018
Unpaid VAT	**115,356**	77,865
Corporate income tax payable	**65,678**	69,058
City maintenance and construction tax payable	**13,820**	7,122
Educational surcharge payable	**8,002**	5,204
Withholding income tax	**4,455**	3,060
Others	**19,897**	4,159
	227,208	166,468

30. Other payables

	2019	2018
Interests payable	**6,774**	7,680
Dividend payable	**–**	8,616
Other payables	**747,902**	541,857
	754,676	558,153

Interests payable

	2019	2018
Short-term borrowing interests	**6,170**	7,680
Long-term borrowing interests	**604**	–
	6,774	7,680

Dividend payable

	2019	2018
Common stock dividends payable	**–**	8,616

(All amounts in RMB'000 unless otherwise stated)

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

30. Other payables (continued)

Other payables

	2019	2018
Payables for construction and decoration of department stores	**431,687**	264,911
Suppliers' deposits	**82,666**	86,326
Vedors' deposit	**77,012**	37,880
Outsourcing staff service fee	**35,709**	—
Payables for logistic expense	**31,505**	19,786
Trustee fees	**16,868**	—
Payable for posts props and store promotion	**8,751**	13,904
Payables for rental fees	**8,308**	102,248
Litigation compensation	**8,058**	—
Loan from the 3rd party	**6,000**	—
Payable for e-commercial	**5,568**	—
consulting fees	**3,066**	—
Payables for software purchase	**2,930**	710
Audit fees	**1,628**	—
Payable for consideration of Pincheng	**—**	4,000
Other	**12,964**	12,092
Naf Naf SAS	**15,182**	—
	747,902	541,857

As at 31 December 2019, the aging of other payable over 1 year showed as below:

	Amount	Reason for non-payment
More than one year	75,952	Deposit payable

31. Non-current liabilities due within one year

	2019	2018
Long-term borrowing due within one year	**361,614**	17,416
Lease subsidies due within one year	**—**	6,803
Lease liabilities due within one year	**438,053**	—
	799,667	24,219

(All amounts in RMB'000 unless otherwise stated)

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

32. Long-term borrowing

	2019	2018
Secured borrowing	**361,614**	348,327
Less: current portion of long-term borrowing	**361,614**	17,416
	–	330,911

As at 31 December 2019, the interest rate of the long-term borrowings is 5.46% (31 December 2018: 5.46%).

33. Lease liabilities

	2019
Lease liabilities	**1,738,505**
Less: lease liabilities due within one year	**438,053**
	1,300,452

34. Accrued liability

2019

	31 December 2018	**Increase in the current period**	**Decrease in the current period**	**31 December 2019**
Domestic entity – Estimated return		**8,350**	**–**	**8,350**
Overseas entity – Naf Naf SAS	**–**	**26,949**	**–**	**26,949**
		35,299	**–**	**35,299**

(All amounts in RMB'000 unless otherwise stated)

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

35. Other non-current liabilities

	2019	2018
Decoration subsidy	**20,726**	48,637
Less: due within one year	**–**	6,803
Governmental grants	**6,246**	6,583
	26,972	48,417

2019

	31 December 2018	**Increase in the current year**	**Decrease in the current year**	**31 December 2019**
Decoration subsidy	**48,637**	**5,768**	**(33,679)**	**20,726**
Governmental grants	**6,583**	**–**	**(337)**	**6,246**
	55,220	**5,768**	**(34,016)**	**26,972**

2018

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Decoration subsidy	69,822	14,927	(36,112)	48,637
Governmental subsidy	6,620	–	(37)	6,583
	76,442	14,927	(36,149)	55,220

As at 31 December 2019, the liabilities relating to government subsidies are as follows:

	Opening balance	**Increase in the current year**	**Other income is included in the current year**	**Other changes**	**Closing balance**	**related to assets/income**
Tianjin logistics project subsidies	**6,000**	**–**	**(300)**	**–**	**5,700**	Related to asset
Taicang logistics project subsidies	**583**	**–**	**(37)**	**–**	**546**	Related to asset
	6,583	**–**	**(337)**	**–**	**6,246**	

(All amounts in RMB'000 unless otherwise stated)

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

35. Other non-current liabilities (continued)

As at 31 December 2018, the liabilities relating to government subsidies are as follows:

	Opening balance	Increase in the current year	Recognized in other income in the current year	Other changes	Closing balance	related to assets/income
Tianjin logistics project subsidies	6,000	–	–	–	6,000	Related to asses
Taicang logistics project subsidies	620	–	(37)	–	583	Related to asset
	6,620	–	(37)	–	6,583	

36. Share capital

2018 & 2019

	Opening balance	**Closing balance**
RMB-denominated ordinary shares (A Shares)	332,882	332,882
H Shares	214,790	214,790
	547,672	547,672

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus

2019

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
Share premium (b)	**1,850,708**	**13,535**	**–**	**1,864,243**
Other capital surplus(a)	**44,634**	**1,923**	**–**	**46,557**
	1,895,342	**15,458**	**–**	**1,910,800**

2018

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Share premium	1,850,708	–	–	1,850,708
Other capital surplus (a)	43,389	1,245	–	44,634
	1,894,097	1,245	–	1,895,342

(a) Other capital surplus

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

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

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

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus (continued)

(a) Other capital surplus (continued)

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

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

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

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

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

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

	2019	2018
The percentage of equity interest in the Company indirectly held by the 1st Batch, 2nd Batch, 3rd Batch and 4th Batch employees	**6.21%**	6.21%

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

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

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus (continued)

(a) Other capital surplus (continued)

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

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

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

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

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

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

The information of share payment amortization included in the consolidated income statement of the Group in 2019 and 2018 is summarized as follows:

	2019	2018
Administration expense	**1,680**	847
Selling expense	**243**	398
	1,923	1,245

(b) Equity premium

In the current period, the Group disposed 20% of the shares of a subsidiary without losing control, for details please refer to Notes VI 2.

(All amounts in RMB'000 unless otherwise stated)

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

37. Capital surplus (continued)

(a) Other capital surplus (continued)

38. Treasury Share

	31 December 2018	Increase in the current year	Decrease in the current year	**31 December 2019**
Treasury share	—	10,165	—	**10,165**

As of December 31, 2019, the company has repurchased 1,881,800 A shares by means of centralized bidding trading, and the repurchased A shares account for 0.34% of the company's total share capital and 0.57% of the company's a share capital. The highest transaction price is 6.15 yuan per share, the lowest transaction price is 4.14 yuan per share, and the amount used for repurchasing is RMB10,165,347 (excluding transaction costs)

39. Other comprehensive income

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

2019

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

2018

	1 January 2018	Increase/ decrease	31 December 2018
Fair value change gains of other equity instrument investments	—	(20,327)	(20,327)
Exchange realignment	(723)	7,863	7,140
	(723)	(12,464)	(13,187)

(All amounts in RMB'000 unless otherwise stated)

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

39. Other comprehensive income (continued)

Current amount of other comprehensive income:

2019

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

2018

	The pre-tax amount in the current period	Less: transferred out from which was recognized in OCI in the previous period	Less: income tax expenses	Attributable to shareholders of the Company, net of tax	Attributable to minority interests, net of tax
Fair value change gains of other equity instrument investments	(24,344)	–	4,017	(20,327)	–
Exchange realignment	7,863	–	–	7,863	–
	(16,481)	–	4,017	(12,464)	–

(All amounts in RMB'000 unless otherwise stated)

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

40. Surplus reserve

2019

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

2018

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Statutory surplus reserve	217,030	29,855	—	246,885

In accordance with the Company Law of the PRC and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. For the year ended 31 December 2019, the Company didn't appropriate the statutory surplus reserve. (2018: appropriated RMB29,855,000).

Discretionary surplus reserves' plan should be suggested by the board of directors and approved by the shareholders' meeting. Discretionary surplus reserves can be used to make up for losses or to increase the share capital after approval from the appropriate authorities. For the year ended 31 December 2019 and the year ended 31 December 2018, the Company did not appropriate the discretionary surplus reserve.

(All amounts in RMB'000 unless otherwise stated)

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

41. (Uncovered loss)/Undistributed profits

	2019	2018
Undistributed profits at the beginning of year (before adjustments)	**770,706**	1,215,356
Changes of accounting policies	**(19,103)**	2,124
Undistributed profits at the beginning of year (after adjustments)	**751,603**	1,217,480
Net loss attributable to shareholders of the Company	**(2,166,306)**	(159,513)
Less: appropriation to statutory surplus reserve	**–**	(29,855)
dividend declared (a)	**–**	(257,406)
Accumulated loss/Undistributed profits at the end of the period	**(1,414,703)**	770,706

(a) No payment of cash dividends or stock dividends and no transfer from capital surplus to share capital for the year ended 31 December 2018, and the accumulated profit is rolled over to the next year were approved at the 2018 annual general meeting of the Company held on 28 May 2019.

The interim dividend for the six months ended 30 June 2018 of RMB0.25 per share (tax inclusive), amounting to a total dividend of RMB136,918,000 (tax inclusive) based on the total issued shares of 547,671,642, was approved at the 2018 third extraordinary general meeting of the Company held on 19 October 2018.

The final dividend for the year ended 31 December 2017 of RMB0.22 per share (tax inclusive), amounting to a total dividend of RMB120,488,000 (tax inclusive) based on the total issued shares of 547,671,642, was approved at the 2017 annual general meeting of the Company held on 15 May 2018.

(All amounts in RMB'000 unless otherwise stated)

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

42. Revenue and cost of sales

	2019		2018	
	Revenue	**Cost**	Revenue	Cost
Principal business	**7,666,229**	**3,242,779**	10,175,853	3,528,337

The revenue of sales set out as follows:

	2019	2018
Revenue from contracts with customers		
– Retail	**7,528,645**	10,153,673
– Wholesale/Franchise	**119,707**	7,798
– Rendering services	**16,840**	12,928
– Others	**1,037**	1,454
	7,666,229	10,175,853

In 2019, the Group's revenue classified as it recognized at a point in time and over time is RMB7,648,352,000 and RMB17,877,000 respectively.

Revenue from major business is mainly made of the revenue from offline retail outlets and online e-commerce platform sales. Offline retail outlets operate in the form of counters and boutiques, which are located in department stores.

(All amounts in RMB'000 unless otherwise stated)

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

43. Taxes and surcharges

	2019	2018
City maintenance and construction tax	**24,356**	36,961
Educational surcharge	**9,869**	24,558
Others	**13,713**	16,492
	47,938	78,011

44. Selling and distribution expenses

	2019	2018
Employee benefits expenses	**1,735,848**	2,071,109
Concessionaire fees	**980,259**	1,378,292
Depreciation of right of use assets	**631,697**	—
Amortization of long-term prepaid expenses	**552,822**	509,543
Rental fees	**366,712**	1,054,915
Department store expenses	**244,387**	261,583
Online platform expenses	**150,800**	180,998
Utilities and electricity fees	**150,415**	177,090
Logistic expenses	**134,716**	153,700
Depreciation of fixed assets	**58,967**	40,703
Marketing expense	**38,015**	46,168
Low value consumbles	**32,931**	70,099
Repair and maintenance expenses	**22,226**	11,340
Travelling and communication expenses	**16,312**	29,363
Amortisation of intangible assets	**15,678**	10,867
Quality inspection fee	**13,452**	12,755
Office supplies	**12,530**	12,733
Consulting expenses	**10,516**	11,177
Sample purchase fee	**359**	—
Others	**5,994**	—
	5,174,636	6,032,435

(All amounts in RMB'000 unless otherwise stated)

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

45. General and administrative expenses

	2019	2018
Employee benefits expenses	**282,164**	316,826
Consulting expenses	**58,269**	54,386
Depreciation of fixed assets	**36,481**	16,774
Office supplies	**14,402**	19,505
Rental fees	**17,181**	17,527
Amortization of intangible assets	**10,604**	6,871
Travelling and communication expenses	**10,478**	17,807
Utilities and electricity fees	**10,071**	6,040
Sample purchase fee	**6,298**	18,918
Depreciation of right of use assets	**5,422**	—
Amortization of long-term prepaid expenses	**5,153**	6,645
Costs of low value consumables	**3,961**	8,424
Auditor charge-Audit service	**3,750**	4,347
Logistic expenses	**2,894**	5,402
Repair and maintenance expenses	**1,984**	3,102
Others	**289**	1,603
Others-Naf Naf SAS	**13,782**	—
	483,183	504,177

46. Financial expenses

	2019	2018
Interest expenses	**246,251**	87,161
Less: interest income	**8,915**	8,570
Less: Amounts to interest capitalization	**11,939**	41,999
Exchange gains and losses	**1,836**	(2,151)
Bank charges	**14,480**	18,024
	241,713	52,465

The amounts to interest expenses capitalization have been included in construction in progress.

(All amounts in RMB'000 unless otherwise stated)

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

47. Other income

	2019	2018
Govermental grants relating to daily operational activities	**102,159**	125,657
Others	**1,098**	197
	103,257	125,854

Govermental grants relating to daily operational activities are as follows:

	2019	2018	Related to assests/profit
Enterprise support policy	**102,159**	125,657	Related to profit
Others	**1,098**	197	Related to profit
	103,257	125,854	

48. Investment income

	2019	2018
Share of net profit of associates and a joint venture accounted for using the equity method	**99,618**	21,831
Investment loss of disposal of long-term equity investment	**(63,651)**	(10,089)
Losses of re-measurement of equity of Pincheng	**–**	(2,716)
Gains on step acquisition of long-term equity investment re-assessed at fair value	**21,592**	–
Others	**2,708**	–
	60,267	9,026

49. Gain on fair value changes

	2019	2018
Other non-current financial assets	**4,577**	–
financial assets held for trading	**–**	9,475
	4,577	9,475

(All amounts in RMB'000 unless otherwise stated)

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

50. Credit impairment losses

	2019	2018
Impairment losses of other current assets	**76,900**	5,000
Impairment losses/(reversal) of accounts receivables	**28,997**	(5,119)
Impairment losses of other receivables	**31,646**	1,286
Impairment losses of other non-current assets due within one year	**7,287**	—
Impairment losses of interest receivable	**3,314**	—
Impairment losses of long-term receivable	**3,781**	—
	151,925	1,167

51. Asset impairment losses

	2019	2018
Impairment loss of Inventory provision	**348,842**	269,317
Impairment loss of intangible assets	**139,370**	—
Impairment loss of the right to use assets	**122,892**	—
Impairment of goodwill	**94,039**	5,179
Loss of Impairment of long-term equity investment	**39,250**	—
Impairment losses on other current assets	**13,466**	—
Impairment loss of construction in progress	**11,902**	—
Impairment loss of fixed assets	**8,718**	—
	778,479	274,496

52. Gains/(losses) on disposals of assets

	2019	2018
Domestic entity – Gains on disposal of right of use assets	**44,275**	—
Domestic entity – Losses on disposal of fixed assets	**(3,196)**	(801)
Foreign entity – Naf Naf SAS	**(21,203)**	—
	19,876	(801)

(All amounts in RMB'000 unless otherwise stated)

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

53. Non-operating income

	2019	2018	Non-recurring profit or loss in 2019
Domestic entity – Quality compensation income	**6,639**	4,661	6,639
Domestic entity – Government subsidies	**1,397**	—	1,397
Domestic entity – Other	**617**	122	617
Foreign entity – Naf Naf SAS	**13,145**	—	13,145
	21,798	4,783	21,798

54. Non-operating expenses

	2019	2018	Non-recurring profit or loss in 2019
Compensation for closing stores	**7,281**	—	7,281
Compensation for litigaton	**9,544**	—	9,544
Donations	**125**	8,863	125
Others	**3,407**	4,456	3,407
	20,357	13,319	20,357

(All amounts in RMB'000 unless otherwise stated)

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

55. Expenses by nature

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

	2019	2018
Costs of inventories	**3,242,779**	3,525,682
Employee benefits expenses	**2,018,012**	2,390,590
Concessionaire fees	**980,259**	1,378,292
Depreciation of right of use assets	**637,119**	—
Amortization of long-term prepaid expenses	**557,975**	516,188
Rental fees	**383,893**	1,072,442
Department Store expenses	**244,387**	261,583
Utilities and electricity expenses	**160,486**	183,130
Online platform expenses	**150,800**	180,998
Logistic expenses	**137,610**	159,102
Depreciation of fixed assets	**95,448**	57,477
Consulting expenses	**68,785**	65,563
Marketing and promotion expenses	**38,015**	46,168
Costs of low value consumables	**36,892**	78,523
Office supplies	**26,932**	32,238
Travelling and communication expenses	**26,790**	47,170
Amortization of intangible assets	**26,282**	17,738
Repair and maintenance expenses	**24,210**	14,442
Quality inspection fee	**13,452**	12,755
Sample expenses	**6,657**	18,918
Auditor charge-Audit service	**3,750**	4,347
Others	**6,283**	1,603
Others-Naf Naf SAS	**13,782**	—
	8,900,598	10,064,949

(All amounts in RMB'000 unless otherwise stated)

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

56. Income tax expenses

	2019	2018
Current income tax expense	**8,981**	41,744
Deferred income tax expense	**(21,708)**	(2,779)
	(12,727)	38,965

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

	2019	2018
Total Loss	**(2,265,006)**	(160,217)
Income tax expenses calculated at applicable tax rates	**(566,252)**	(39,408)
Impact of different tax rates applicable to subsidiaries	**(12,804)**	—
Non-taxable income	**(23,073)**	—
Profits and losses attributable to associates	**1,365**	
Tax impact of deductible temporary difference and deductible loss previously not recognized	**570,497**	75,166
Expenses not deductible for tax purposes	**17,540**	3,207
Income tax expense calculated based on the effective tax rate of the Group	**(12,727)**	38,965

57. Loss per share

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

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

	2019	2018
Losses		
Losses attributable to shareholders of the Company	**(2,166,306)**	(159,513)
Shares		
Weighted average number of ordinary shares outstanding (note)	**547,632**	547,672
Basic losses per shareand diluted losses per share	**(3.96)**	(0.29)

Note: Till December 31, 2019, the company had purchased 1,881,800 A shares through centralized bidding, accounting for 0.34% of the company's total share capital and 0.57% of the company's a-share capital. The highest transaction price was 6.15 yuan per share, the lowest transaction price was 4.14 yuan per share, and the amount used for the buyback was RMB10,165,347 (excluding transaction costs).

(All amounts in RMB'000 unless otherwise stated)

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

58. Notes to the consolidated cash flow statement

	2019	2018
Cash received relating to other operating activities		
Customers' deposits and suppliers' deposits	**152,733**	7,793
Interest income	**4,518**	4,248
Non-operating income	**21,798**	4,783
Government grants	**102,159**	125,817
Net decrease in staff advances	**6,881**	—
	288,089	142,641
Cash paid relating to other operating activities		
Utilities, electricity and department store expenses	**404,873**	444,713
Online platform expenses	**150,800**	180,998
increase in deposit	**75,660**	31,060
Consulting expense	**68,785**	65,563
Marketing and promotion expenses	**38,015**	46,168
Compensation expenses	**12,299**	—
Bank charges	**14,480**	18,024
Net increase in staff advances	**–**	2,332
Repayment of customers' deposits	**–**	3,047
	764,912	791,905

	2019	2018
Cash received relating to other investing activities		
Receipt of payments paid on behalf of related parties	**1,228**	4,067
Interest income generated from other cash balances	**541**	2,895
	1,769	6,962
Cash paid relating to other investing activities		
Net increase in entrusted loan	**7,000**	72,007
Cash paid on behalf of related parties	**–**	2,099
Net increase in other cash balances	**26,705**	40,430
	33,705	114,536
Cash paid relating to other financial assets		
Lease payment	**656,963**	
Cash paid to repurchase shares	**19,023**	—
	675,986	—

(All amounts in RMB'000 unless otherwise stated)

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

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

(1) Supplementary information of cash flow statement

Reconciliation net loss to cash flows from operating activities:

	2019	2018
Net loss	**(2,252,279)**	(199,182)
Add：Credit impairment provision	**151,925**	1,167
Asset impairment losses	**778,479**	274,496
Depreciation of fixed assets	**95,448**	57,477
Depreciation of right of use assets	**637,119**	–
Amortization of intangible assets	**26,282**	17,738
Amortization of share-based payment	**1,923**	1,245
Amortization of long-term prepaid expenses	**557,975**	516,188
(Gain)/Losses on disposal of fixed assets, intangible assets and other long-term assets	**(19,876)**	801
Gain on fair value changes	**(4,577)**	(9,475)
Financial expenses	**231,753**	39,502
Investment Loss	**(60,267)**	(9,026)
Increase in deferred tax assets	**(166,670)**	(7,442)
Increase in deferred tax liabilities	**144,962**	4,663
Decrease in deferred income	**(337)**	(21,222)
Decrease/(increase) in inventories	**655,474**	(446,671)
Decrease/(increase) in operating receivable	**724,574**	(303,156)
Increase in operating payables	**96,106**	240,517
Net cash flows from operating activities	**1,598,014**	157,620

(All amounts in RMB'000 unless otherwise stated)

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

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

(1) Supplementary information of cash flow statement (continued)

Net change in cash and cash equivalents:

	2019	2018
Closing balance of cash	**175,549**	449,863
Less: Opening balance of cash	**449,863**	815,580
Net decrease amount of cash and cash equivalents	**(274,314)**	(365,717)

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

Information for acquisition of a subsidiary and other business units

	2019	2018
Price for acquisition of subsidiaries and other business units	**427,932**	204,797
Cash and cash equivalents paid for acquisition of subsidiaries and other business units	**275,215**	204,797
Less: Cash and cash equivalents held on acquisition of subsidiaries and other business units	**23,620**	309
Net cash outflow on acquisition of subsidiaries and other business units	**251,595**	204,488

Information for disposal of subsidiaries and other business units

	2019	2018
Price for disposal of subsidiaries and other business units	**475,000**	1,937
Cash and cash equivalents received from disposal of subsidiaries and other business units	**385,000**	1,937
Less: Cash and cash equivalents held for acquisition of subsidiaries and other business units	**230,305**	213
Net cash received on disposal of subsidiaries and other business units	**154,695**	1,724

(All amounts in RMB'000 unless otherwise stated)

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

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

(3) Cash and cash equivalents

	2019	2018
Cash	**175,549**	449,863
Including: Cash on hand	**6,763**	24,642
Cash at bank that can be readily drawn on demand	**168,786**	425,221
Cash and cash equivalents at the end of year	**175,549**	449,863
Including:restricted cash and cash equivalents used by the company or subsidiaries of the Group	**76,030**	60

59. Assets with restricted ownership or use right

	2019	2018	
Cash at bank and on hand	**182,135**	155,430	(a)
Fixed assets	**1,384,412**	551,666	(b)
Construction in progress	**69,235**	566,688	(c)
Intangible assets	**142,842**	88,291	(d)
	1,778,624	1,362,075	

(a) As at 31 December 2019, the book value of RMB182,135,000 is limited in the use of monetary funds, of which RMB154,090,000 is temporarily blocked or frozen due to the judicial system, and the monetary funds of RMB28,045,000(31 December 2018: RMB155,430,000) are bank deposits.

(b) As at December 31, 2019, the book value was RMB1,384,412,000 (December 31, 2018: RMB551,666,000) houses and buildings were used for obtaining bank loan mortgage.

(c) As at December 31, 2019, the project under construction with a book value of 69,235,000 (December 31, 2018: 566,688,000) was used to obtain bank loan mortgage.

(d) As at December 31, 2019, the book value of the land use right of RMB142,842,000 (December 31, 2018: RMB88,291,000) was used to obtain the bank loan mortgage; The amortization amount of the land use right in 2019 is RMB3,201,000 (December 31, 2018: RMB1,938,000)

(All amounts in RMB'000 unless otherwise stated)

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

60. Monetary Items Denominated in Foreign Currency

	2019			2018		
	Foreign currency balance	**Exchange rate**	**RMB balance**	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand						
USD	**274**	**6.9762**	**1,911**	7	6.8632	48
EUR	**9,867**	**7.8155**	**77,116**	5,265	7.8473	41,315
HKD	**11**	**0.8958**	**10**	27	0.8762	24
Short-term borrowings						
EUR	**43,147**	**7.8155**	**337,215**	–	7.8473	–
Account receivables						
EUR	**13,563**	**7.8155**	**106,002**	–	7.8473	–
Other receivables						
EUR	**9,153**	**7.8155**	**71,535**	–	7.8473	–
Accounts payable						
EUR	**33,191**	**7.8155**	**259,401**	–	7.8473	–
Other payables						
EUR	**2,998**	**7.8155**	**23,431**	–	7.8473	–
			876,621			41,387

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

(All amounts in RMB'000 unless otherwise stated)

VI. CHANGES IN CONSOLIDATION SCOPE

1. Business Combinations Not Involving Enterprises Under Common Control

In April 2018, the Group, Trendy Pioneer Limited and East Links International (HK) Co., Ltd. invested 40%, 30% and 30% respectively to establish Lacha Apparel II Sàrl ("Apparel II") and acquired 100% of Naf Naf SAS, Which were completed on June 29, 2018.

In this year, the Group acquired the remaining 60% equity interest in "Apparel II" at a consideration of EUR 35,340,000 (RMB271,715,000). The acquisition was completed on 4 June 2019 when the Group obtained control of the operating and financial policies of Apparel II and its wholly-owned subsidiary Naf Naf SAS. Purchase date is June 4, 2019.

The fair value and book value of identifiable assets and liabilities of Apparel II and its wholly-owned subsidiary Naf Naf SAS on acquisition date are as follows:

	Acquisition date Fair value	**Acquisition date Book value**
Bank and Cash	23,620	23,620
Accounts receivable	90,294	90,294
Other receivables	83,961	83,961
Advances to suppliers	37,016	37,016
Inventories	246,878	239,182
Long-term prepaid expense	22,358	22,358
Fixed assets	8,580	8,580
Construction in progress	6,354	6,354
Intangible assets	128,583	20,941
Long-term receivables	48,139	48,139
Right-of-use assets	887,088	862,446
Deferred tax assets	119,383	119,383
Short-term borrowings	34,822	34,822
Accounts payable	248,511	248,511
Employee benefits payable	45,454	45,454
Interests payable	1,292	1,292
Taxes payable	25,920	25,920
Other payables	26,861	26,861
Other current liabilities	77,508	77,508
Accrued liability	26,693	26,693
Lease liabilities	797,601	797,601
Other non-current liabilities	301	302
Deferred income tax liabilities	61,447	24,411
	355,844	**252,899**
Goodwill	72,088	
Consideration	**427,932**	Note 1

(All amounts in RMB'000 unless otherwise stated)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

1. Business Combinations Not Involving Enterprises Under Common Control (continued)

Note 1: This amount includes the consideration of RMB271,715,000 paid by the Group for the further acquisition of the 60% equity interest in Apparel II and the fair value of RMB156,217,000 of the 40% equity interest originally held by the Group at the acquisition date.

Acquiree	Acquisition time	Purchase consideration	% of Equity interest	Acquisition Method	Acquisition Date	Basis for Acquisition	The purchaser's income from purchase date to the end of the year
Naf Naf SAS (i)	June 4, 2019	427,932	100%	Equity purchase	June 4, 2019	Contract terms	995,337

The net loss of the acquiree from the date of acquisition to the end of the year was RMB262,277,000, and the net cash flow of the acquiree from the date of acquisition to the end of the year was RMB50,534,000.

	NAF
Combination cost	
Consideration cash	271,715
The carrying amount of the original 40% of Naf Naf SAS interest	134,625
Gain of remeasurement of equity of Naf Naf SAS	21,592
Total cost of combination	427,932
Less: The fair value share of identifiable net assets acquired	355,844
Goodwill	72,088

(All amounts in RMB'000 unless otherwise stated)

VI. CHANGES IN CONSOLIDATION SCOPE (CONTINUED)

2. Disposal of Subsidiaries

	Place of incorporate	Nature of Business	Share proportion	Voting right proportion	Reason for change
Hangzhou Anshe	Hangzhou	Sales of apparel products	54.05%	54.05%	Note 2

Note 2:On 7 May, 2019, Shanghai La Chapelle Casual Fashion Co.,Ltd; a subsidiary of the Group, entered into an equity interest transfer agreement with Hangzhou Yaner Enterprise Management Consulting Co., Ltd to dispose of a 54.05% equity interest in Hangzhou Anshe at a consideration of RMB200,000,000. The Group has been receiving cash consideration in phases from 2019 to 2022. The disposal was completed on 30 May 2019, and Hangzhou Anshe was not included in the consolidated financial statements of the Group hereafter. The relevant financial information of Hangzhou Anshe E-commerce Co., Ltd. is listed as follows:

	30 May 2019 Book value	31 December 2018 Book value
Current assets	**371,400**	367,135
Non-current assets	**36,149**	34,057
Current liabilities	**(74,240)**	(71,447)
Non-current liabilities	**(5,856)**	(1,894)
	327,453	327,851
Interests in minority shareholders	**150,465**	150,648
Consideration received from disposal	**200,000**	
Present value of disposal consideration	**188,257**	
Net goodwill of termination	**8,929**	
Gain on disposal	**2,340**	

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES

1. Interests in Major Subsidiaries

Information of the Company's subsidiaries is as follows:

	Main business site	Place of incorporation	Nature of business	Registered capital Original currency	000'	Shareholding ratio (%) Direct	Indirect	
A subsidiary acquired by means of establishment or investment								
Shanghai La Chapelle Casual Fashion Co., Ltd. ("LaCha Xiuxian")	Shanghai	Shanghai	Design and sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Chongqing Lewei Fashion Co., Ltd. ("Chongqing Lewei')	Chongqing	Chongqing	Design and sales of apparel products	CNY	500	100	–	Wholly owned subsidiary
Beijing La Chapelle Lewei Fashion Co.,Ltd. ("Beijing LaCha")	Beijing	Beijing	Design and sales of apparel products	CNY	500	100	–	Wholly owned subsidiary
Chengdu La Chapelle Fashion Co., Ltd. ("ChengDu LaCha")	Chengdu	Chengdu	Sales of apparel products	CNY	500	100	–	Wholly owned subsidiary
Shanghai Weile Fashion Co., Ltd. ("Shanghai Weile")	Shanghai	Shanghai	Sales of apparel products	CNY	50,000	100	–	Wholly owned subsidiary
Shanghai Langhe Fashion Co., Ltd. ("Shanghai Langhe")	Shanghai	Shanghai	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Shanghai Xiawei Fashion Co., Ltd ("Shanghai Xiawei")	Shanghai	Shanghai	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
La Chapelle Fashion (Taicang) Co., Ltd ("Taicang LaCha")	Taicang	Taicang	Sales of apparel products	CNY	100,000	95	5	Wholly owned subsidiary
La Chapelle (Tianjin) Co., Ltd. ("Tianjin LaCha")	Tianjing	Tianjing	Sales of apparel products	CNY	10,000	100	–	Wholly owned subsidiary
Chengdu Lewei Fashion Co., Ltd. ("Chengdu Lewei")	Chengdu	Chengdu	Sales of apparel products	CNY	10,000	100	–	Wholly owned subsidiary
Shanghai Youshi Fashion Co., Ltd. ("Shanghai Youshi")	Shanghai	Shanghai	Sales of apparel products	CNY	20,000	100	–	Wholly owned subsidiary
Fujian Lewei Fashion Co., Ltd. ("Fujian Lewei")	Pucheng	Pucheng	Sales of apparel products	CNY	10,000	100	–	Wholly owned subsidiary
Shanghai La Chapelle Enterprise Management Co., Ltd. ("Enterprise Management")	Shanghai	Shanghai	Investment	CNY	800,000	100	–	Wholly owned subsidiary
Shanghai Nuoxing Fashion Co., Ltd. ("Shanghai Nuoxing")	Shanghai	Shanghai	Sales of apparel products	CNY	10,000	100	–	Wholly owned subsidiary
Shanghai Jiatuo Fashion Co., Ltd. ("Shanghai Jiatuo")	Shanghai	Shanghai	IT technology	CNY	1,000	100	–	Wholly owned subsidiary

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (continued)

	Main business site	Place of incorporation	Nature of business	Registered capital: Original currency	Registered capital: 000'	Shareholding ratio (%): Direct	Shareholding ratio (%): Indirect	
Shanghai chongan Fashion Co., Ltd. (" Shanghai chong 'an ")	Shanghai	Shanghai	Sales of apparel products	CNY	15,000	85	–	Holding subsidiaries
Candie's Shanghai Fashion co., LTD. (" Shanghai Le'ou")	Shanghai	Shanghai	Design and sales of apparel products	CNY	16,000	65	–	Holding subsidiaries
Shanghai la Chapelle Naf Fashion co., LTD.	Shanghai	Shanghai	Sales of apparel products	CNY	20,000	65	–	Holding subsidiaries
Guangzhou xichen clothing co., LTD. ("guangzhou xichen")	Guangzhou	Guangzhou	Sales of apparel products	CNY	20,000	60	–	Holding subsidiaries
Dongguan Dianlan Xinlong Fashion co., LTD. ("Dianlan Xinlong")	Dongguan	Dongguan	esign and sales of apparel products	CNY	1,000	–	59	Holding subsidiaries
La Chapelle E-commerce (Shanghai) co., LTD.	Shanghai	Shanghai	E-commercial	CNY	2,000	–	63	Holding subsidiaries
Dongtai yingxiao clothing co. LTD	Dongtai	Dongtai	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Taicang Xiawei Fashion Co., Ltd.	Taicang	Taicang	Sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Xinjiang Tongrong Fashion Co. Ltd	Urumchi	Urumchi	Clothing tech Storage and Logistics	CNY	20,000	–	100	Wholly owned subsidiary
Tianjin Xiawei Warehouse Co., Ltd.	Tianjing	Tianjing	Storage service	CNY	1,000	–	100	Wholly owned subsidiary
Shanghai pinxi technology Co., Ltd	Shanghai	Shanghai	Clothing tech	CNY	20,000	–	100	Wholly owned subsidiary
Taicang Chong'an Fashion Co., Ltd	Taicang	Taicang	sales of apparel products	CNY	5,000	100	–	Wholly owned subsidiary
Taicang Jiashang Storage Co., Ltd	Taicang	Taicang	Storage service	CNY	393,191	100	–	Wholly owned subsidiary
Chengdu Xiawei Storage Co., Ltd.	CHengdu	Taicang	Storage service	CNY	1,000	–	100	Wholly owned subsidiary
Taicang Xiawei Storage Co., Ltd.	Taicang	Taicang	Storage service	CNY	1,000	–	100	Wholly owned subsidiary
LACHA FASHION I LIMITED	HK	HK	Investment	HKD	81,134	–	100	Wholly owned subsidiary
Lacha Apparel I Ltd.	BVI	BVI	Investment	–	–	–	100	Wholly owned subsidiary

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (continued)

	Main business site	Place of incorporation	Nature of business	Registered capital: Original currency	Registered capital: 000'	Shareholding ratio (%): Direct	Shareholding ratio (%): Indirect	
A subsidiary acquired through a merger of an enterprise not under the same control								
Jack Walk Fashion Co., Ltd. ("Jack Walk")	Shanghai	Shanghai	Sales of apparel products	CNY	16,194	69	–	Holding subsidiaries
Shanghai pincheng industrial Co., Ltd. (" pincheng ")	Shanghai	Shanghai	Design and sales of apparel products	CNY	25,656	63	–	Holding subsidiaries
LaCha Appare III Sàrl	Luxembourg	Luxembourg	Investment	EUR	12	–	100	Wholly owned subsidiary
NAF NAF SAS	France	France	Sales of apparel products	EUR	76,102	–	100	Wholly owned subsidiary

subsidiaries with important minority shareholders' rights are as follows:

2019

	Minority shareholders	Profit or loss attributable to minority shareholders	Dividend paid to minority shareholders	Accumulated minority interests at the end of the year
Jack Walk	**30.88%**	**(38,464)**	**–**	**(89,674)**

2018

	Minority shareholders	Profit or loss attributable to minority shareholders	Dividend paid to minority shareholder	Accumulated minority interests at the end of the year
Hangzhou Anshe	45.95%	31,736	–	150,648

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in Major Subsidiaries (continued)

2019	Jack Walk
Current assets	**15,038**
Non-current assets	**765**
Total assets	**15,803**
Current liabilities	**(306,164)**
Non-current liabilities	**–**
Total liabilities *(Note 1)*	**(306,164)**
Revenue	**101,923**
Net loss	**(123,373)**
Total comprehensive loss	**(123,373)**
Net cash flows from operating activities	**21,432**

Note 1: total liabilities include the liability to the company RMB256,629,000. As stated in note XII, Jack Walk has entered into the formal liquidation process after the balance sheet day. The Group prepared its financial statements on the basis of liquidation on 31 December 2019.

2. A transaction in which the shareholder's equity interest of the subsidiary changes and does not affect control

Dispose of part of the investment in guangzhou Xichen in 2019 (accounting for 20% of guangzhou Xichen's shares), but do not lose control of guangzhou Xichen.The transaction resulted in a decrease of RMB13,535,000 in minority shareholders' equity in the consolidated financial statements and an increase of RMB13,535,000 in capital reserves.

3. Equity in Joint Venture and Associates

	Main business site	Place of incorporation	Nature of business	Registered capital	Shareholding ratio (%) Direct	Indirect	Accounting Treatment
Associate							
Tibet Baoxin Equity Investment Partnership (Note 1)	Tibet	Tibet	Leasing and commercial services	251,620	60	–	Equity Law
Hongche Industry (Shanghai) Co., Ltd.	Shanghai	Shanghai	Leasing and commercial services	47,100	36	–	Equity Law
Beijing Ao Ni Trading Co., Ltd.	Beijing	Beijing	Wholesale and retail	3,571	16	–	Equity Law
Xinjiang hengding cotton textile international trading co. LTD	Xinjiang Autonomous Region	Xinjiang Autonomous Region	Textiles,clothing and daily necessities	10,000	35	–	Equity Law
Fuzhou Batty Clothing Co., Ltd.	Fujian	Fujian	Wholesale and retail	8,065	38	–	Equity Law
Zhejiang Yuanrui Information Technology Co., Ltd.	Zhejiang	Zhejiang	Science research and technology services	20,000	30	–	Equity Law
Shanghai Youshi Household Science and Technology Co., LTD	Shanghai	Shanghai	Wholesale and retail	1,000	30	–	Equity method

(All amounts in RMB'000 unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

3. Equity in Joint Venture and Associates (continued)

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

Summarized financial information of non-significant associates

	2019	2018
Associates		
Total book value of the investments	–	161,343
following items are calculated according to the shareholding ratio		
Net loss	**(27,275)**	(7,029)
Total comprehensive loss	**(27,275)**	(7,029)

Summarized financial information of non-significant joint ventures:

	2019	2018
Joint ventures		
Total book value of the investments	**232,466**	474,591
following items are calculated according to the shareholding ratio		
Net loss	**126,893**	28,860
Total comprehensive loss	**126,893**	28,860

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

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

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

2019

Financial assets

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

Financial liabilities

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

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

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

2018

Financial assets

	Financial assets at fair value through profits or losses			measured at fair value through other comprehensive income		
	Required by the standards	Designated	measured at amortized cost	Required by the standards	Designated	Total
Cash and bank balance trading financial assets	–	–	605,293	–	–	605,293
Financial assets held for trading	25,475	–	–	–	–	25,475
Account receivables	–	–	1,031,810	–	–	1,031,810
Other receivables	–	–	382,211	–	–	382,211
Other current assests	–	–	77,007	–	–	77,007
other equity instrument investment	–	–	–	–	28,605	28,605
Other non-current financial assets	28,200	–	–	–	–	28,200
Debt investment	–	–	6,934	–	–	6,934
	53,675	–	2,103,255	–	28,605	2,185,535

Financial liabilities

	Financial assets at fair value through profits or losses			
	Required by the standards	Designated	measured at amortized cost	Total
Short term borrowings	–	–	1,911,645	1,911,645
Notes payables	–	–	712,556	712,556
Account payables	–	–	1,120,987	1,120,987
Other payables	–	–	558,153	558,153
Non-current liabilities due within one year	–	–	24,219	24,219
Long term borrowings	–	–	330,911	330,911
	–	–	4,658,471	4,658,471

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks

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

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

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

Credit Risk

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

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Credit Risk (continued)

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

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

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

Criteria for judging significant increases in Credit risk

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

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

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

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Credit Risk (continued)

Definition of credit-impaired assets

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

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

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

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

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

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

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

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Credit Risk (continued)

Measure parameterof Expected credit loss

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

The relevant definition is as follows:

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

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

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

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

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

No significant increase in credit risk

On December 31, 2019, for other receivables stores with no withdrawal plan, the margin is considered to have not significantly increased the credit risk due to the lower credit risk of counterparites, and the Group still reserves the impairment provision according to the expected credit loss of 12 months.

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Liquidity risk

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

The group's goal is to use a variety of financing tools such as bank lending to maintain a balance between sustainability and flexibility. It is the Group's policy that, based on the book value of borrowings reflected in the financial statements, borrowings not exceeding 100% are due within 12 months. On 31 December 2019, the Group's debt of 79.7% (31 December 2018: 92.0%) matured in less than 1 year.

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

2019

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

2018

	Within one year	1-2 years	2-5 years	Over 5 years	Total
Short-term Loans	1,958,994	–	–	–	1,958,994
Notes Payable	712,556	–	–	–	712,556
Accounts Payable	1,120,987	–	–	–	1,120,987
Other Payables	558,153	–	–	–	558,153
Long-term borrowings	36,170	52,133	322,545	–	410,848
	4,386,860	52,133	322,545	–	4,761,538

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Market Risk

Interest Rate Risk

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

2019

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

	December 31 2019
Bank Loan	
– Floating interest rate	**16,823**

2018

The interest-bearing debt of the floating interest rate of the Group is primarily the bank borrowings denominated in RMB, the specific amounts are as follows:

	December 31 2018
Bank borrowings	
– Floating interest rate	337,473

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Financial Risks (continued)

Market Risk (continued)

Exchang Rate Risk

The main business of the Group is located in China and France, and its main business is settled in RMB. Due to the acquisition of NAF, foreign currency financing exists. The financial department of the headquarters of the Group is responsible for monitoring the scale of foreign currency transactions and foreign currency assets and liabilities of the Group to minimize foreign exchange risks.For the years 2019 and 2018, the Group has not entered into any forward foreign exchange contracts or currency swap contracts.

As at December 31, 2019 and December 31, 2018, the foreign currency financial assets and foreign currency financial liabilities held by the Group with the functional currency in RMB are shown below:

	December 31 2019 RMB('000)	December 31 2018 RMB('000)
The euro items		
Foreign currency financial assets –		
Cash and bank	**3,150**	41,315
Foreign currency financial liabilities –		
Short-term borrowing	**292,289**	—
The dollar items		
Foreign currency financial liabilities –		
Cash and bank	**1,910**	13

On December 31, 2019, if the Hong Kong dollar appreciates or depreciates by 10% against the euro for various euro financial assets of the Group, and other factors remain unchanged, the Group's net profit will decrease or increase by RMB315,000 due to exchange rate fluctuations or increase (December 31, 2018: RMB3,099,000).

As of December 31, 2019, for all kinds of euro financial liabilities of the Group, if the Hong Kong dollar appreciates or depreciates by 10% against the euro, and other factors remain unchanged, the Group's net profit will increase or decrease by about RMB29,230,000 due to exchange rate fluctuations (December 31, 2018: Nil).

As of December 31, 2019, if the Hong Kong dollar appreciates or depreciates by 10% against the us dollar for all kinds of us dollar financial assets of the Group, and other factors remain unchanged, the Group's net profit will decrease or increase by about RMB191,000 due to the exchange rate fluctuations (December 31, 2018: 1,000).

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Capital management

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

The Group manages its capital structure and makes adjustments in response to changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not constrained by any external mandatory requirements on capital. There was no change in the Group's capital management objectives, policies or procedures in 2019 and 2018.

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

	2019	2018
Total borrowings	**1,842,721**	2,259,972
Total capital	**1,126,196**	3,561,957
Leverage ratios	**164%**	63%

(All amounts in RMB'000 unless otherwise stated)

IX. DISCLOUSURE OF FAIR VALUE

1. Assets and liability measured at fair value

2019

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

2018

	Inputs used in the measurement of fair value			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Persistent fair value measurement				
Financial assets held for trading	–	–	25,475	25,475
Other equity instrument	–	–	28,605	28,605
Other non-current financial assets	–	–	28,200	28,200
	–	–	82,280	82,280

2. Assets and liabilities disclosed at fair value

2019

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

IX. DISCLOUSURE OF FAIR VALUE(CONTINUED)

3. Fair value valuation

Except for lease liabilities and long-term receivables disclosed at fair value, the difference between the book value and fair value of other financial instruments is small. The management has assessed the monetary funds, accounts receivable, notes payable, accounts payable and so on. The fair value is similar to the book value due to the short remaining period.

The Group's finance department is led by the finance manager and is responsible for formulating policies and procedures for fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. On each date of the balance sheet, the financial department analyzes the changes in the value of financial instruments and determines the main input values applicable to the valuation. The valuation must be reviewed and approved by the chief financial officer. For the purpose of interim and annual financial statements, the valuation process and results are discussed with the audit committee twice a year.

The fair value of financial assets and financial liabilities is determined by the amount of assets exchanged or debt settlement voluntarily in the fair transaction between the parties who are familiar with the situation, rather than the amount in the case of forced sale or liquidation. The following methods and assumptions are used to the valuation of fair value.

Long-term receivables use the discounted future cash flow method to determine the fair value and use the market rate of return of other financial instruments with similar contract terms, credit risk, and remaining maturity as the discount rate. As at 31 December 2019, the assessment of its own non-compliance risks such as long-term and short-term loans was non-significant.

For the fair value of unlisted equity instrument investments, the Group estimates and quantifies the potential impact of using other reasonable and possible assumptions as inputs to the valuation model: if we adopt the more unfavorable assumptions, the fair value decreases by approximately RMB9,763,000; if we adopt the more favorable assumption, the fair value increases by approximately RMB6,126,000.

(All amounts in RMB'000 unless otherwise stated)

IX. DISCLOUSURE OF FAIR VALUE (CONTINUED)

4. Unobservable inputs

	Fair value	Valuation techniques	Unobservable inputs	range (Weighted average)
Equity Instrument Investments: TNPI HK Co., Ltd.	2019: -	The discounted cash flow method	Weighted average cost of capital	2019: 14%
	2018: -			2018: 14%
Equity Instrument Investments: Beijing Mingtongsiji Technology Co., Ltd.	2019: RMB10,534,000	Listed company comparison method	Liquidity discount	2019: 10%-30%
	2018: RMB15,000,000			2018: 10%-30%
			Enterprise value/income multiplier	2019: 0.3-3.3
				2018: 0.3-2.0
Equity Instrument Investments: O2bra Co., Ltd.	2019: RMB1,112,000	Listed company comparison method	Liquidity discount	2019: 10%-30%
	2018: RMB13,605,000			2018: 10%-30%
			Enterprise value/income multiplier	2019: 0.5-6.4
				2018: 0.3-5.3
Other non-current liabilities: Ningbo lansheng qianhui investment partnership (limited partnership)	2019: RMB22,777	Recent transaction price method		
	2018: RMB18,200,000			
Other non-current liabilities: Hangzhou smart investment equity investment partnership (limited partnership)	2019: RMB10,000,000	Recent transaction price method		
	2018: RMB10,000,000			

As at 31 December 2019, the Group has added an investment amount of RMB65,000,000 into the Nantong Xunming Fund Partnership (Limited Partnership). As Nantong Xunming has not yet completed its investment in its investment project, the fair value and investment cost of Nantong Xunming were equal as at 31 December 2019.

(All amounts in RMB'000 unless otherwise stated)

IX. DISCLOUSURE OF FAIR VALUE (CONTINUED)

5. Adjustment of fair value measurement

The adjustment information for the continuous third level fair value measurement is as follows:

2019

	Initial balance	Turn to the third level	Turn out of the third level	Total gains or losses of current period: amortized in profit or loss	Total gains or losses of current period: amortized in other comprehensive income	purchase	issue	sell	settle accounts	end of year balance	Assets held at the end of the year Changes in current unrealized gains or losses amortized in profit or loss
Financial assets held for trading											
Financial assets at fair value through profit or loss	**53,675**	**–**	**–**	**4,577**	**–**	**65,000**	**–**	**(25,475)**	**–**	**97,777**	**–**
Other equity instruments	**28,605**	**–**	**–**	**–**	**(31,961)**	**15,002**	**–**	**–**	**–**	**11,646**	**–**
	82,280	**–**	**–**	**4,577**	**(31,961)**	**80,002**	**–**	**(25,475)**	**–**	**109,423**	**–**

2018

	Initial balance	Changes in accounting policies	1st January 2018	Turn to the third level	Turn out of the third level	Total gains or losses of current period: amortized in profit or loss	Total gains or losses of current period: amortized in other comprehensive income	purchase	issue	sell	settle accounts	end of year balance	Assets held at the end of the year Changes in current unrealized gains or losses amortized in profit or loss
Financial assets held for trading													
Financial assets at fair value through profit or loss	–	45,200	45,200	–	–	10,189	–	16,000	–	(17,714)	–	53,675	9,475
Available-for-sale financial assets –													
Available-for-sale equity instruments	67,544	(67,544)	–	–	–	–	–	–	–	–	–	–	–
Other non-current financial assets –													
Capital Guaranteed Floating Income Wealth Management Products	17,000	(17,000)	–	–	–	–	–	–	–	–	–	–	–
Other equity Instruments investment –													
Other equity instruments	–	39,344	39,344	–	–	–	(24,344)	13,605	–	–	–	28,605	–
	84,544	–	84,544	–	–	10,189	(24,344)	29,605	–	(17,714)	–	82,280	9,475

IX. DISCLOUSURE OF FAIR VALUE(CONTINUED)

6. Fair value level conversion

The group takes the date of the event that led to the transition between levels as the time point for the transition between levels.There were no transitions between levels this year.

X. RELATIONSHIP WITH RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. The ultimate controlling party

(a) General information of the ultimate controlling party

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

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

	2019		2018	
	Share holding (%)	**Voting rights (%)**	Share holding (%)	Voting rights (%)
Mr. Xing Jiaxing	**26%**	**34%**	26%	34%

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

2. Subsidiaries

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

3. Joint Ventures and Associates

The general information of the Joint Ventures and Associates are set out in Note VII、3.

(All amounts in RMB'000 unless otherwise stated)

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

4. Major Transactions between the Group and Related Parties

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

Purchase of goods and receipt of services from related parties

	Note	2019	2018
Xinjiang hengding cotton textile international trading Co. Ltd	(1)a	**164,295**	—
Naf Naf SAS	(1)c	**–**	3,797
		164,295	3,797

Sales of goods and rendering of services to related parties

	Note	2019	2018
Hongche Industry (Shanghai) Co., Ltd.	(1)b	**3,723**	—
Naf Naf SAS	(1)c	**–**	651
Hangzhou Kaihui E-Commerce Co., Ltd.		**–**	13,430
Hangzhou Mixin E-Commerce Co., Ltd.		**–**	301
		3,723	14,382

(2) Leases with related party

As lessors

	Note	Type of leased assets	2019 Rental income	2018 Rental income
Hongche Industry (Shanghai) Co., Ltd.	(2)a	Property and plant	**526**	—

(All amounts in RMB'000 unless otherwise stated)

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

4. Major Transactions between the Group and Related Parties (continued)

(3) Guarantees from Related Parties

Lending

2019

	Note	Loan amount	Inception date	Expiration date
Hongche Industry (Shanghai) Co., Ltd.	(3)a	39,500	22 March 2018	27 December 2021

2018

	Note	Loan amount	Inception date	Expiration date
NAF NAF SAS		39,507	20 August 2018	20 August 2019
Hongche Industry (Shanghai) Co., Ltd.	(3)a	32,500	22 March 2018	27 December 2019

(4) Interest income

	Note	2019	2018
Hongche Industry (Shanghai) Co., Ltd.	(3)a	**2,228**	1,086
NAF NAF SAS		**817**	702
		3,045	1,788

(4) Transactions with other relevant parties

	Note	2019	2018
Key executive compensation	(4)a	**11,531**	13,487
Revenue from trademark use		**2,830**	—

Note:

(1) Transactions of goods and services with related party

(a) The Group purchased garments from Xinjiang Hengding cotton textile international trading co., ltd. at market price of RMB164,295,000 in 2019. (2018: Nil).

(b) The Group sold garments to Hong che industrial (Shanghai) co., LTD with RMB3,723,000 at cost plus 2% in 2019. (2018: Nil).

(c) The Group acquired the remaining 60% of NAF NAF SAS shares held by the original shareholders, achieving the control of NAF NAF SAS and incorporating it into the scope of merger in this year.

(All amounts in RMB'000 unless otherwise stated)

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

4. Major Transactions between the Group and Related Parties (continued)

(5) Transactions with other relevant parties (continued)

Note: (continued)

(2) Asset leasing with related party

(a) The company leases office buildings and warehouses to Hongche industrial (Shanghai) co., LTD., and recognized the rental income of RMB526,000 according to the lease contract in 2019. (2018: Nil).

(3) Funds lending with related party

(a) The Group is offered loan of RMB7,000,000 to hong che industrial (Shanghai) Co., Ltd with an annual interest rate 6% in 2019. The loan offered by the Group totaled RMB39,500,000 (2018: RMB32,500,000 with annual interest rate 6%).

(4) Other major related transactions

(a) The total compensation of key management personnel of the company (including in monetary, physical and other forms) incurred by the Group is RMB11,531,000 in 2019. (2018: RMB13,487,000).

5. Amount due from related parties

(1) Account receivable

	2019		2018	
	Ending balance	**Provision**	Ending balance	Provision
Hongche Industry (Shanghai) Co., Ltd.	**4,284**	**(4,284)**	—	—
Hangzhou Kaihui E-Commerce Co., Ltd.	**–**	**–**	3,498	—
Naf Naf SAS	**–**	**–**	552	—
	4,284	**(4,284)**	4,050	—

(All amounts in RMB'000 unless otherwise stated)

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

5. Amount due from related parties (continued)

(2) Other receivable

Other receivable – Paid on behalf of related parties

	2019	2018
Hongche Industry (Shanghai) Co., Ltd.	**618**	–
Hangzhou Kaihui E-Commerce Co., Ltd.	**–**	1,292
Naf Naf SAS	**–**	22,084
Less: Provision for impairment		
Hongche Industry (Shanghai) Co., Ltd.	**618**	–
	–	23,376

Other receivable – Interest receivables

	2019	2018
Hongche Industry (Shanghai) Co., Ltd.	**3,314**	1,086
Naf Naf SAS	**–**	702
Less: Provision for impairment		
Hongche Industry (Shanghai) Co., Ltd.	**3,314**	
	–	1,788

(3) Other current assets

	2019	2018
Hongche Industry (Shanghai) Co., Ltd.	**39,500**	32,500
Naf Naf SAS	**–**	39,507
Less: Provision for impairment		
Hongche Industry (Shanghai) Co., Ltd.	**39,500**	–
	–	72,007

(All amounts in RMB'000 unless otherwise stated)

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

6. Amount due to related parties

(1) Account payable

	2019	2018
Xinjiang hengding cotton textile international trading co. LTD	**101,362**	–

(2) Other payables

	2019	2018
Other payables		
Hangzhou Kaihui E-Commerce Co., Ltd.	–	2,844

7. Directors' remuneration and rights

(1) Directors' and CEO's remuneration

2019

	Remuneration	Wages and subsidies	Pension scheme contributions	Bonuses	Other allowances and benefits	Remuneration for other services provided for the management of the company or its subsidiaries	Share-based payment	Total
Executive director								
Xing Jiaxing (i)	–	1,042	49	30	–	–	–	1,121
Yu Qiang (ii)	–	1,717	49	30	–	–	–	1,796
Hu Lijie (iii)	–	1,515	41	3	–	–	–	1,559
Non-Executive Director								
Mao Jiaonong (iv)	–	663	16	–	–	–	–	679
Wang Wenke (vi)	–	100	4	–	–	–	–	104
Lu Weiming	–	–	–	–	–	–	–	–
Luo Bin	–	–	–	–	–	–	–	–
Independent Director								
Chen Jieping (v)	–	167	–	–	–	–	–	167
Rui Peng (vii)	–	50	–	–	–	–	–	50
Chen Yongyuan	–	200	–	–	–	–	–	200
Zhang Zeping	–	200	–	–	–	–	–	200
	–	5,654	159	63	–	–	–	5,876

(All amounts in RMB'000 unless otherwise stated)

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

7. Directors' remuneration and rights (continued)

(1) Directors' and CEO's remuneration (continued)

2018

	Remuneration	Wages and subsidies	Pension scheme contributions	Bonuses	Other allowances and benefits	Remuneration for other services provided for the management of the company or its subsidiaries	Share-based payment	Total
Executive director								
Xing Jiaxing (i)	–	1,365	50	110	–	–	87	1,612
Yu Qiang (ii)	–	1,845	50	268	–	–	–	2,163
Hu Lijie (iii)	–	1,373	26	–	–	–	–	1,399
Non-Executive Director								
Lu Weiming	–	–	–	–	–	–	–	–
Luo Bin	–	–	–	–	–	–	–	–
Mao Jianong (iv)	–	–	–	–	–	–	–	–
Independent Director								
Chen Jieping (v)	–	200	–	–	–	–	–	200
Chen Yongyuan	–	200	–	–	–	–	–	200
Zhang Zeping	–	200	–	–	–	–	–	200
	–	5,183	126	378	–	–	87	5,774

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

7. Directors' remuneration and rights (continued)

(1) Directors' and CEO's remuneration (continued)

(i) Xing Jiaxing resigned as the president in October 2019 and continued to serve as the chairman.

(ii) Yu Qiang served as the executive director in February 2018 and resigned in February 2020.

(iii) Hu Lijie served as the executive director in October 2018.

(iv) Mao Jianong served as the non-executive director in May 2017, was elected as the executive director in June 2019 and resigned in October 2019.

(v) Chen Jieping has served as the independent director since April 2016 and resigned in October 2019.

(vi) Wang Wenke has served as the non-executive director since December 2019.

(vii) Rui Peng has served as the independent director since October 2019.

(2) Director's retirement benefits

The Group has no retirement benefits for directors. The Group only pays pension plans by the national regulation for directors in China.

(3) Director's terminated benefits

The Group has no terminated benefits for directors.

(4) Consideration paid to third parties for director services

In 2019, the Company did not pay consideration to third parties for obtaining services from directors(2018: Nil).

(5) In 2019, the Company did not provide loans, loan equivalents and other transactions to directors, legal persons controlled by directors and related persons of directors (2018: Nil).

(6) There are three board members (2018: 3) members) out of the top five highest remuneration of the Group in 2019. Details of their remuneration are shown in Notes X, 7, apart from Naf Naf SAS. The salary details of the remaining two (2018: 2 members) non-directors' highest remuneration employee are as follows:

(All amounts in RMB'000 unless otherwise stated)

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

7. Directors' remuneration and rights (continued)

	2019	2018
Wages, bonuses and subsidies	**2,584**	2,642
Pension	**77**	59
Housing fund, medical insurance and other social insurance	**113**	85
Share-based payment	**–**	—
	2,774	2,786

Salary range:

	2019	2018
HKD 1,000,000 to HKD 1,500,000 (equivalent to RMB858,000 to RMB1,287,000)	**–**	1
HKD 1,500,000 to HKD 2,000,000 (equivalent to RMB1,287,000 to RMB1,716,000)	**2**	1
HKD 2,000,000 to HKD 2,500,000 (equivalent to RMB1,716,000 to RMB2,144,000)	**–**	—
HKD 2,500,000 to HKD 3,000,000 (equivalent to RMB2,144,000 to RMB2,573,000)	**–**	—
	2	2

XI. COMMITMENTS

1. Significant Commitments

	2019	2018
Contracted but not provisioned		
Capital commitments	**850**	515,049

No unconfirmed commitments related to investment in joint ventures and associated enterprises in the current year.

In 2019 the Group promised to repurchase A shares by means of centralized auction transactions. the total capital to be repurchased is not more than RMB100,000,000 and not less than RMB50,000,000 as at December 31, 2019, the Group has repurchased 1,881,800 A shares through a centralized auction transaction, and the amount used for repurchase was RMB10,165,000 with the remaining repurchase commitment that is not less than RMB39,835,000. As at 29 June, 2020, the Group has repurchased 1,691,400 A shares through a centralized auction transaction, and the amount used for repurchase was RMB9,845,000 (excluding transaction fees)

XII. EVENTS AFTER THE BALANCE SHEET DATE

(1) On January 22, 2020, the Group received the bankruptcy decision of the subsidiary Jack Walk issued by the Shanghai Third Intermediate People's Court and appointed Shanghai Jinmao Kaide Law Firm as the administrator. As at 9 June 2020, the Group submitted declaration of creditor and convened the first meeting of creditors on 12 July 2020. As at 31 December 2019, Jack Walk had total assets of RMB15,803,000 and net liabilities of RMB290,362,000, of which Jack Walk's balance of borrowings to the Group amounted to RMB256,629,000. The Group has accrued fully provision of the loan to Jack Walk (see Note VII.1), and the liquidation matters are not expected to have a significant impact on the Group's existing business.

(2) Novel coronavirus ("**COVID-19**") started to spread throughout the country since January 2020. On March 11, 2020, the world health organization announced that the COVID-19 epidemic would be listed as a public health emergency of international concern. In order to cope with the public health risks brought by COVID-19, China has successively carried out the prevention and control work related to the epidemic, including traffic control and the closure of public places. With the easing of the COVID-19 pandemic in the Mainland, various regions resumed work and production, the operating performance of the Group has gradually recovered.

The group expects that the COVID-19 epidemic and related prevention and control measures will have a certain impact on the operation of the Group. The degree of impact depends on the subsequent development of the the COVID-19 epidemic. The group will continue to pay close attention and respond actively. As of the date of approval of the financial statements, the relevant assessment of the impact on the financial status and operating results of the Group is still in progress.

(3) As Naf Naf SAS, a wholly-owned subsidiary of the Group, was unable to repay debts in arrears owed to suppliers and the local government, the French local court formally made a ruling on 15 May 2020 that Naf Naf SAS would initiate rehabilitation proceedings, and the court has appointed an administrator for the rehabilitation proceedings to assist with all or part of Naf Naf SAS's business operations, the Company consequently lost control over Naf Naf SAS.

On June 19, 2020, the French local court ruled that Naf Naf SAS will transfer part of its assets and liabilities, including Naf Naf SAS intangible assets, fixed assets, inventory, payable employee rights, leases, franchise agreements, etc. (excluding monetary funds, accounts receivable, accounts payable, bank loans, etc.) The transfer price is about 8.232 million euros, while the judicial reorganization procedure of Naf Naf SAS was transferred to the judicial liquidation procedure. The proceeds of the transfer will be included in the judicial liquidation procedures to repay its related debts. As of December 31, 2019, the total assets and net assets of Naf Naf SAS included in the Group's consolidated financial statements were RMB1,422,639 thousand and RMB99,785 thousand (see Note II for details).The above Naf Naf SAS asset and liability sales arrangements may contain significant discounts so that subsequent judicial liquidation procedures may have a significant adverse impact on Naf Naf SAS' net assets attributable to the Group. However, since the Group is unable to obtain further information on the liquidation with Naf Naf SAS, the impact on the Group has not yet been determined, and the final liquidation result is pending.

(4) In 2020, the Group entered into an Accounts Payable Restructuring Agreement with some of its suppliers to waive part of their account payables. The reduced amount was RMB216,000,000.

(5) In 2020, La Chapelle Apparel (Taicang) Co., Ltd. as the vendor and Shanghai Shihuai Logistics Co., Ltd. as the purchaser entered into the Equity Transfer Agreement in Relation to the Sale and Purchase of 100% Equity Interest (《關於買賣太倉夏微倉儲有限公司100%股權權益的股權轉讓協議》) at a consideration of RMB725,000,000.

(All amounts in RMB'000 unless otherwise stated)

XII. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(6) In 2019, the Group undertook to repurchase A Shares by way of centralized bidding trading with an aggregate amount of not more than RMB100,000,000 and not less than RMB50,000,000. Subsequent to the end of the period of 29 June 2020, the Company of the Group repurchased 1,691,400 new A Shares through a centralized bidding trading, with an amount of RMB9,845,000 for repurchase (excluding transaction fees).

(7) As of the date of this financial report, the Group has a total of 21 outstanding litigations in connection with disputes over supplier processing contracts, with a cumulative target amount of RMB183,971, and the Group is negotiating payment arrangements with the suppliers.

XIII. OTHER SIGNIFICANT EVENTS

1. Segment reporting

Operating segment

In 2019, for management purposes, the Group is organized into business units based on their internal organizational structure, management requirements and internal reporting system, and has 2 reporting segments as follows:

(1) Segment of Naf Naf SAS Brand, mainly for the overseas operation and management of the Naf Naf SAS brand；

(2) Segment of other Brands, mainly for the domestic operations and management of brands other than the Naf Naf SAS brand.

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance are evaluated based on the segment profits reported. The indicator is consistent with the Group's total profit of continuing operation.

The transfer pricing between operating segments is determined by reference to the fair price used for transactions with third parties.

2019

	Foreign entity	Domestic entity	adjustment and offset	Total
Revenue from external customers	995,932	6,670,297	–	7,666,229
Investment income from joint ventures and associates	–	60,267	–	60,267
Asset impairment loss	262,249	516,230	–	778,479
Depreciation and amortization expenses	44,518	635,187	–	679,705
Total loss	348,059	1,916,947	–	2,265,006
Income tax expenses	95,319	(108,106)	–	(12,727)
Total assets	1,430,829	6,627,614	(46,920)	8,011,523
Total liabilities	1,662,699	5,269,548	(46,920)	6,885,327
Depreciation of Right-of-use assets	68,776	568,343	–	637,119
Long-term equity investments in joint ventures and associates	–	193,216	–	193,216

(All amounts in RMB'000 unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Segment reporting (continued)

Operating segment (continued)

2018

The Group is engaged in apparel sales business in mainland China. Due to the non-diversified business, the management of the Group manages its daily operations as a whole, to facilitate performance appraisal and resource allocation. Therefore, the Group has only one operating segment for reporting.

Other information

Product and labor information

Revenue from external customers

	2019	2018
Retail	**7,528,645**	10,153,673
Wholesale/Franchise	**119,707**	7,798
Providing services	**16,840**	12,928
Others	**1,037**	1,454
	7,666,229	10,175,853

Geographic information

Revenue from external customers

	2019	2018
Mainland, China	**6,670,892**	10,175,853
Europe	**995,337**	—
	7,666,229	10,175,853

Revenue from external transactions is attributable to the client's region

Total non-current assets

	2019	2018
Mainland, China	**3,364,418**	3,473,479
Europe	**812,827**	—
	4,177,245	3,473,479

Non-current assets belong to the area where the assets are located, excluding financial assets and deferred tax assets.

(All amounts in RMB'000 unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Segment reporting (continued)

Operating segment (continued)

Major customer information

In 2019 and 2018, the Group's revenue to any single external customer did not exceed 10% of the Group's revenue.

2. Leases

(1) As a lessor

The group leased part of the houses and buildings from 1 January 2019 to 31 December 2027 as an operating lease. According to the lease contract, the rent will be adjusted according to the market rent status each year. The group's income from leasing houses and buildings was RMB1,037,000 in 2019, as shown in note V 42. As the houses and buildings rented out can not be split and measured separately, they were not accounted as investment property.

(2) As a lessee

	2019
Interest charges on lease liabilities	**128,072**
Short-term lease expense with simplified treatment included in current profit and loss	**249,071**
Variable lease payments not included in the measurement of lease liabilities	**134,822**
Total cash outflows related to leases	**383,893**

The leasing assets leased by the Group include houses and buildings used in the operation and the lease term of the houses and buildings is usually from 2-7 years. The lease contract usually stipulates that the Group cannot sublease the leased assets, and part of the lease contract requires the financial indicators of the Group to be kept at a certain level.A few leases contain options for renewal, termination, and variable rent clauses. The impact of variable rent terms on future potential cash outflows is shown in "future potential cash outflows not included in the measurement of lease liabilities".

Potential future cash outflows not included in the measurement of lease liabilities

The potential future cash outflow of the Group not included in the measurement of leasing liabilities mainly comes from the risk exposure such as variable lease payment, lease renewal option and termination option in the lease contract, residual value of lease guarantee and lease that has been committed but not yet started.

(All amounts in RMB'000 unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Leases (continued)

(2) As a lessee (continued)

Variable lease payments

Many of the Group's real estate leases contain variable lease payment terms linked to the sales of the leased stores. Where possible, the Group use these terms for the purpose of matching lease payments with stores that generate more cash flow.

Renewal option and termination option

In 2019, the Group's recognized lease liability decreased by RMB47,093,000 due to changes in the assessment results or actual exercise of the renewal option or termination option.

The group has no leases committed but not yet commenced

Significant operating lease (Only applicable in 2018)

According to the lease contract signed with the lessor, minimum lease payment under irrevocable lease is as follows:

	2018
Within 1 year (including 1 years)	767,489
1 to 2 years (including 2 years)	647,170
2 to 3 years (including 3 years)	438,747
3 to 4 years (including 4 years)	251,509
4 to 5 years (including 5 years)	176,095
Over 5 years	120,412
	2,401,422

Other leasing information

For the right to use the assets, please refer to note V 16; For Simplified treatment of short-term lease and low-value asset leases, please, refer note III 33; For Lease liabilities, please refer to note V 33.

3. Comparative Data

As mentioned in note III 33, and according to "Notice on the Amendment and Issuance of the Format of General financial statements for 2019 (Cai Kuai [2019]) and "notice on the Amendment and issuance of Consolidated Financial Statements Format ([2019] Edition)" (Cai Kuai [2019]), the accounting treatment and presentation of certain items in the financial statements and the amount in the financial statements have been revised to meet the new requirements. Accordingly, some comparative data have been reclassified and restated to meet the reporting and accounting treatment requirements for the current year. The comparative data of the consolidated cash flow statement, Note V42 and Note V58 of the financial statements have been reclassified according to the presentation in 2019.

(All amounts in RMB'000 unless otherwise stated)

XIV.NOTES TO THE COMPANY'S FINANCIAL STATEMENT

1. Accounts Receivable

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

	31 December 2019	31 December 2018
Accounts Receivable	**2,287,497**	934,280
Less: provision for bad debts	**44,826**	21,763
	2,242,671	912,517

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

	31 December 2019	31 December 2018
90 days	**2,259,139**	912,697
Over 90 days to one year	**12,786**	10,703
One year to two years	**1,729**	3,863
Two years to three years	**5,721**	2,587
Above three years	**8,122**	4,430
	2,287,497	934,280
Less: provision of bad debts	**44,826**	21,763
	2,242,671	912,517

Movement of provision of bad debts:

	31 December 2018	Increase in the current year	Decrease in the current year	31 December 2019
2019	21,763	29,776	(6,713)	44,826
2018	17,283	4,480	—	21,763

	2019				2018			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**(%)**	**Amount**	**(%)**	Amount	(%)	Amount	(%)
Individual bad debt provision	**20,033**	**1**	**20,033**	**100**	9,214	1	9,214	100
Credit risk characteristics combined with Provision for bad debts	**2,267,464**	**99**	**24,793**	**1**	925,066	99	12,549	1
	2,287,497	**100**	**44,826**		934,280	100	21,763	

(All amounts in RMB'000 unless otherwise stated)

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

1. Accounts Receivable (continued)

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

	Book balance	Bad debt provision	Lifetime expected credit loss rate	Reason
Accounts receivable from related parties outside the Group	4,284	4,284	100%	(i)
Amounts due from department stores	15,749	15,749	100%	(ii)

As at 31 December 2018, accounts receivable with provision of bad debts individually reserved are analysed as follows:

	Book balance	Bad debt provision	Lifetime expected credit loss rate	Reason
Amounts due from department stores	9,214	9,214	100%	(i)

(i) As of at 31 December 31, 2019, due to the receivables from related parties other than the consolidated company amounted to RMB4,284,000. Due to the overall poor operation of the enterprise situation and the capital difficulties in cash flow turnover problem, the Company considered, part of department stores have shut down. The management of the Group is of the view that the receivables can barely be recovered, so the it is difficult to collect the receivable amount therefore full bad debt reserves were fully accrued provision has been made accordingly.

(ii) As at 31 December 2019 and 31 December 2018, individual bad debt provision was accrued due to the poor operation of the department store and the capital turnover problem. Some department stores have been in a state of suspension. The Company considered that the receivables can barely be recovered, so the bad debt reserves were fully accrued.

(All amounts in RMB'000 unless otherwise stated)

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

1. Accounts Receivable (continued)

The Company's accounts receivable with provision for bad debts using the ageing analysis method are as follows:

	2019			2018		
	Carrying amount before provision	**Lifetime expected credit loss rating**	**Lifetime expected credit loss**	Carrying amount before provision	Lifetime expected credit loss rating	Lifetime expected credit loss
The 3rd party						
Within 90 days	**95,304**	**2**	**1,906**	241,436	2	4,538
Over 90 days to one year	**10,926**	**5**	**546**	10,703	5	535
One year to two years	**1,305**	**30**	**392**	231	20	46
Two years to three years	**62**	**60**	**37**	1,435	50	717
Above three years	**316**	**100**	**316**	—	100	—
Subsidiary						
Within 90 days	**2,159,551**	**1**	**21,596**	671,261	1	6,713
	2,267,464		**24,793**	925,066		12,549

Provision for bad debt in 2019 is RMB29,776 000 (2018: RMB4,480,000); withdrawal or transfer of bad debt provision is RMB6,713,000. (2018: Nil)

Accounts receivable in the top five of the ending balance by the debtor:

	2019			2018		
	Book balance	**Provision of bad debts**	**% of total accounts receivable balance**	Book balance	Provision of bad debts	% of total accounts receivable balance
Total receivables of the top five balances	**1,837,045**	**18,370**	**80%**	605,883	6,059	65%

(All amounts in RMB'000 unless otherwise stated)

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

2. Other receivables

	2019	2018
Other receivables	**584,616**	2,289,664

Other receivables

An aging analysis of the other receivables based on the transection date is as follows:

	2019	2018
Within one year	**116,941**	2,312,552
One year to two years	**218,698**	2,736
Two years to three years	**610,668**	714
Over 3 years	**77,305**	1,172
	1,023,612	2,317,174
Less: provision for bad debts	**438,996**	27,510
	584,616	2,289,664

Other receivables are classified by nature as follows:

	2019	2018
Amounts due from subsidiaries	**983,517**	2,254,847
Deposits	**23,857**	60,407
Refund of service charges	**14,028**	—
Staff advances	**314**	524
Others	**1,896**	1,396
	1,023,612	2,317,174

(All amounts in RMB'000 unless otherwise stated)

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

2. Other receivables (Continued)

Other receivables (Continued)

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

2019

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Balance on 1 January 2019	**26,994**	**–**	**516**	**27,510**
The balance at the beginning of the year				
–Transfer to stage 2	**(418)**	**418**	**–**	**–**
–Transfer to stage 3	**(4,407)**	**–**	**4,407**	**–**
Provison	**–**	**2,865**	**421,825**	**424,690**
reversal/write-off of this year	**(13,204)**	**–**	**–**	**(13,204)**
Disposal of subsidiary	**–**	**–**	**–**	**–**
	8,965	**3,283**	**426,748**	**438,996**

2018

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Beginning balance on 1 January 2018	18,541	–	516	19,057
Provison	8,453	–	–	8,453
	26,994	–	516	27,510

(All amounts in RMB'000 unless otherwise stated)

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

2. Other receivables (Continued)

Other receivables (Continued)

The book balance of other receivables affecting the change of loss provision in the current year is as follows:

2019

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Opening balance	2,316,658	–	516	2,317,174
Opening balance in				
– transfer to stage 2	(8,358)	8,358	–	–
– transfer to stage 3	(426,132)	–	426,132	–
Provision during the year	–	–	100	100
Reversal during the year	(1,293,662)	–	–	(1,293,662)
Write-off during the year	–	–	–	–
Other movement	–	–	–	–
Balance of year end	588,506	8,358	426,748	1,023,612

2018

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses (credit impairment incurred)	Total
Opening balance	1,487,606	–	516	1,488,122
Provision	2,312,035	–	–	2,312,035
Reversal	(1,482,983)	–	–	(1,482,983)
Closing balance	2,316,658	–	516	2,317,174

The provision for bad debts in 2019 shall be RMB424,690,000 (2018: RMB8,453,000), and the provision for bad debts shall be withdrawn or transferred back for RMB13,204,000 (2018: Nil).

(All amounts in RMB'000 unless otherwise stated)

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

2. Other receivables (Continued)

Other receivables (Continued)

As at 31 December 2019, the top five other receivables are as follows:

	Year end balance	**Percentage of other receivable**	**Nature**	**Aging**	**Bad debt provision Year end balance**
Shanghai Weile	338,893	33	Account receivable from subsidiary	Within one year	(33,889)
Jack Walk	256,629	25	Account receivable from subsidiary	Within one year/one to two years/two to three years	(256,629)
Guangzhou XiChen	103,873	10	Account receivable from subsidiary	Within one year/one to two years/two to three years More than three years	(103,873)
Shanghai Le'ou	86,037	8	Account receivable from subsidiary	within one year	(8,604)
Shanghai ChongAn	63,723	6	Account receivable from subsidiary	Within one year/one to two years/two to three years	(63,723)
	849,155	82			(466,718)

As at 31 December 2018, the top five other receivables are as follows:

	Year end balance	**Percentage of other receivable**	**Nature**	**Aging**	**Bad debt provision Year end balance**
Taicang LaCha	697,592	30%	Account receivable from subsidiary	Within one year	(6,976)
Shanghai Weile	620,447	27%	Account receivable from subsidiary	Within one year	(6,204)
Jack Walk	278,496	12%	Account receivable from subsidiary	Within one year	(2,785)
Shanghai Youshi	163,545	7%	Account receivable from subsidiary	Within one year	(1,635)
Shanghai Nuoxing	128,792	6%	Account receivable from subsidiary	Within one year	(1,288)
	1,888,872	82%			(18,888)

(All amounts in RMB'000 unless otherwise stated)

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

3. Inventories

	2019			2018		
	Carrying amount before provision	**Provision**	**Carrying amount**	Carrying amount before provision	Provision	Carrying amount
Raw materials	**422**	**–**	**422**	433	–	433
Finished goods	**1,543,582**	**(283,068)**	**1,260,514**	2,408,905	(259,219)	2,149,686
Low value consumables	**8,590**	**–**	**8,590**	15,397	–	15,397
	1,552,594	**(283,068)**	**1,269,526**	2,424,735	(259,219)	2,165,516

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

2019

	31 December 2018	**Provision**	**Decrease in the current period reversal or write-off**	**31 December 2019**
Finished goods	**259,219**	**277,246**	**(253,397)**	**283,068**

2018

	31 December 2017	Increase in the current year	Decrease in the current year reversal or write-off	31 December 2018
Finished goods	178,841	221,443	(141,065)	259,219

(All amounts in RMB'000 unless otherwise stated)

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

4. Long-term equity investments

2019

		Movement in the current period					
	31 December 2018	Additional investment	Return on investment under equity method	Disinvestmen	Impairment provision	31 December 2019	Balance of provision for impairment
Subsidiaries:							
Enterprise Management	800,000	–	–	–	(375,480)	424,520	(375,480)
Hangzhou Anshe	208,000	–	–	(208,000)	–	–	–
Taicang LaCha	95,000	–	–	–	–	95,000	–
Jack Walk	75,000	–	–	–	(75,000)	–	(75,000)
Shanghai Weile	50,000	–	–	–	–	50,000	–
Pincheng	39,629	–	–	–	(16,005)	23,624	(16,005)
Shanghai Youshi	20,000	–	–	–	–	20,000	–
Shanghai Chongan	12,750	–	–	–	(12,750)	–	(12,750)
Shanghai Le'ou	10,400	–	–	–	–	10,400	–
Nuoxin	10,000	–	–	–	(10,000)	–	(10,000)
Tianjin LaCha	10,000	–	–	–	–	10,000	–
Chengdu Lewei	10,000	–	–	–	–	10,000	–
Fujian Lewei	10,000	–	–	–	–	10,000	–
Shanghai Xiawei	5,000	–	–	–	–	5,000	–
Shanghai Langhe	5,000	–	–	–	(5,000)	–	(5,000)
Lacha Xiuxian	5,000	–	–	–	–	5,000	–
Shanghai Jiatuo	1,000	–	–	–	–	1,000	–
Chengdu Lacha	500	–	–	–	–	500	–
Chongqing Lewei	500	–	–	–	–	500	–
Beijing Lasha	500	–	–	–	–	500	–
Shanghai Nafu	–	3,000	–	–	(3,000)	–	(3,000)
Associates:							
Xinjiang hengding cotton textile international trading Co., Ltd.	–	3,500	1,201	–	–	4,701	–
Fuzhou Badi Fashion Co., Ltd.	7,681	–	(810)	–	–	6,871	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	2,907	–	(445)	–	–	2,462	–
	1,378,867	6,500	(54)	(208,000)	(497,235)	680,078	(497,235)

(All amounts in RMB'000 unless otherwise stated)

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

4. Long-term equity investments (continued)

2018

		Movement in the current year					
	31 December 2017	Additional investment	Conversion to subsidiary	Return on investment under equity method	Disinvestment	31 December 2018	Declare payment of cash dividends or profits
Subsidiaries:							
Enterprise Management	300,000	500,000	–	–	–	800,000	–
Hangzhou Anshe	208,000	–	–	–	–	208,000	72,968
Taicang Lacha	95,000	–	–	–	–	95,000	28,500
Jack Walk	75,000	–	–	–	–	75,000	–
Shanghai Weile	50,000	–	–	–	–	50,000	–
Pincheng	–	24,000	15,629	–	–	39,629	–
Shanghai Youshi	20,000	–	–	–	–	20,000	–
Shanghai Chongan	12,750	–	–	–	–	12,750	–
Shanghai Le'ou	10,400	–	–	–	–	10,400	–
Nuoxin	–	10,000	–	–	–	10,000	150,000
Tianjin LaCha	10,000	–	–	–	–	10,000	72,000
Chengdu Lewei	10,000	–	–	–	–	10,000	–
Fujian Lewei	10,000	–	–	–	–	10,000	32,000
Shanghai Xiawei	5,000	–	–	–	–	5,000	–
Shanghai Langhe	5,000	–	–	–	–	5,000	–
Lacha Xiuxian	5,000	–	–	–	–	5,000	–
Shanghai Jiatuo	1,000	–	–	–	–	1,000	–
Chengdu Lacha	500	–	–	–	–	500	–
Chongqing LeWei	500	–	–	–	–	500	4,000
Beijing Lacha	500	–	–	–	–	500	2,000
Jiuwo	20,000	–	–	–	(20,000)	–	–
Associates:							
Pincheng	15,775	–	(15,629)	(146)	–	–	–
Fuzhou Badi Fashion Co., Ltd.	8,658	–	–	(977)	–	7,681	–
Zhejiang Yuanrui Information Science and Technology Co., Ltd.	–	3,000	–	(93)	–	2,907	–
	863,083	537,000	–	(1,216)	(20,000)	1,378,867	361,468

As at 31 December 2019, provision for the impairment of long-term equity investments is RMB497,235,000. (2018: Nil)

(All amounts in RMB'000 unless otherwise stated)

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

5. Revenue and cost of sales

	2019		2018	
	Revenue	**Cost**	Revenue	Cost
Principle business	**3,470,134**	**(2,458,776)**	5,076,450	(3,179,766)

Details of revenue are listed below:

	2019	2018
Revenue generated by contracts with customers		
– Retail	**3,450,396**	5,076,450
– Wholesale/Franchise	**18,496**	—
– Providing services	**1,242**	—
	3,470,134	5,076,450

In 2019, the Group's revenue classified as it recognized at a point in time and over time is RMB3,468,892,000 and RMB1,242,000 respectively.

Revenue from major business is mainly made of the revenue from offline retail outlets and online e-commerce platform sales. Offline retail outlets operate in the form of counters and boutiques, which are located in department stores.

6. Investment income

	2019	2018
Long-term equity interest investment income calculated by equity method	**(55)**	—
Long-term equity interest investment income calculated by cost method	**–**	361,468
Disposal of long-term equity investments resulting in investment losses	**(19,742)**	(21,216)
Investment losses from debt restructuring (Note 1)	**(25,124)**	—
	(44,921)	340,252

Note 1:The debt restructuring resulted in an investment loss due to a waiver of interest on loans to subsidiary Jack Walk.

Supplementary Information of Financial Statements

For the year ended 31 December 2019
(All amounts in RMB'000 unless otherwise stated)

1. SUMMARY OF NON-RECURRING PROFIT OR LOSS

	2019
Gains and Loss from disposal of non-current assets, including the write-off portion of the provision for impairment of assets	19,876
Government grants(It is closely related to the normal business operations, except for the government subsidies that are in line with the provisions of the national policies and in accordance with certain standard quota or quantitative continuous enjoyment)	102,159
Gains and losses on debt restructuring	1,098
Investment income from acquisition of subsidiaries	21,592
Investment income from disposal of subsidiaries	23,958
Investment income from disposal of associates	(87,609)
Gains from changes in fair value of financial assets held for trading	4,577
Other profit and loss items that meet the definition of non-recurring profit and loss	1,441
Other non-operating income and expenses except the above items	–
Total	87,092
Impact of income tax expense	(17,061)
Impact on the minority interests, net of tax	30
	70,061

There is no Government grants for non recurring profit and loss in this year.

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2019

	Weighted average return on net assets (%)	earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(91.81)	(3.96)	(3.96)
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	(94.78)	(4.08)	(4.08)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

2018

	Weighted average return on net assets (%)	earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(4.31)	(0.29)	(0.29)
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	(6.62)	(0.45)	(0.45)

The Group has no potentially dilutive ordinary shares.