年報 2018

Annual Report

中國服飾控股有限公司
CHINA OUTFITTERS HOLDINGS LIMITED

Stock Code: 1146
Incorporated in the Cayman Islands
with limited liability

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. ZHANG Yongli
(Chairman and Chief Executive Officer)
Mr. SUN David Lee
Ms. HUANG Xiaoyun *(Chief Financial Officer)*

NON-EXECUTIVE DIRECTOR

Mr. WANG Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWONG Wilson Wai Sun
Mr. CUI Yi
Mr. YEUNG Chi Wai

COMPANY SECRETARY

Ms. LI Rita Yan Wing

AUTHORISED REPRESENTATIVES

Ms. HUANG Xiaoyun
Ms. LI Rita Yan Wing

AUDIT COMMITTEE

Mr. KWONG Wilson Wai Sun *(Chairman)*
Mr. CUI Yi
Mr. YEUNG Chi Wai

REMUNERATION COMMITTEE

Mr. CUI Yi *(Chairman)*
Mr. ZHANG Yongli
Mr. KWONG Wilson Wai Sun

NOMINATION COMMITTEE

Mr. ZHANG Yongli *(Chairman)*
Mr. YEUNG Chi Wai
Mr. KWONG Wilson Wai Sun

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

HEAD OFFICE IN THE PRC

No. 9 Lane 1225, Tong Pu Road
Pu Tuo District
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1303, 13/F.
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

WEBSITE

www.cohl.hk

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank, Hong Kong Branch
China Construction Bank

LEGAL ADVISOR

Herbert Smith Freehills LLP

AUDITOR

Ernst & Young, Certified Public Accountants

Chairman's Statement

Dear Shareholders,

I am pleased to present to you the annual report and consolidated financial statements of China Outfitters Holdings Limited (the "Company" or "China Outfitters", together with its subsidiaries, the "Group") for the year ended 31 December 2018.

In 2018, the growth of Chinese economy slowed as the growth rate of Gross Domestic Product ("GDP") was 6.6%, recording the lowest growth rate in the 28 years since 1990. The growth rate of the total retail sales of consumer goods decreased by 1.2 percentage points from 10.2% in 2017 to 9.0% in 2018; the growth rate of the retail sales of the top 100 key and large-scale retailers decreased by 2.1 percentage points from 2.8% in 2017 to 0.7% in 2018. Particularly, the retail sales of apparel products for the top 100 key and large-scale retailers achieved a growth rate of 1.0% year on year, with the growth rate down by 3.3 percentage points compared with last year.

Suffering from the consistently sluggish macro economy, the Group recorded a total revenue of RMB898.3 million during the year (2017: RMB918.3 million), representing a decrease of 2.2% compared with last year; but the profit attributable to equity holders of the parent increased by 9.7% to approximately RMB60.2 million (2017: RMB54.9 million).

To respond to the ever-changing and challenging market, the Group has taken positive measures during the year and continued to increase investments in brand, business digitalisation and logistics warehousing for the purpose of laying a foundation for future growth.

BRAND

The continuing implementation of the multi-brand strategy is the key to our sustainable expansion and growth. We have completed the acquisition of "MCS" business during the year, making "MCS" a brand wholly-owned by the Company in the Greater China region. We believe that adding "MCS" to the portfolio of Company's self-owned brands will be beneficial to attainment of the strategic objectives of the Company that is to increase the sales proportion from the self-owned brands.

In addition to the investment in brand acquisition, our brands also sponsored sports and culture events and film and television works from a number of our brands to further enhance brand awareness and better demonstrate the history and culture of the brands and the life style represented by the brands.

BUSINESS DIGITALISATION

The combination of science and technology and retail puts China's retail industry in a transformative phase where conventional retail is substituted by new retail. The emergence of new technologies not only enhances customer experience, but also requires retail companies to reform their models of operations to adapt to new retail models.

In order to adapt to the changing market environment, the Company launched the strategy of "Digitalisation driven, retail terminal empowerment" in 2018. We are pleased to see that digitisation has been deeply applied in various business processes and procedures of the Company. We launched several business systems driven by information technology during the year, including "Apparel Pattern and Fitting System", "Ali's Smart Store", and "Electronic Payment System of Third-party Retailers", so as to optimize the operation processes and improve operational efficiency.

Meanwhile, our self-developed O2O system which allows our customers to order and purchase a desired product even though the product is not available in a particular location, and the Group will then distribute the product to customers through a third-party logistics company. The sales contributed by the O2O system sustained an increase of RMB6.7 million, or approximately 8.9%, from RMB74.9 million in 2017 to RMB81.6 million in 2018.

In addition, our sales staff can use the customer relations management ("CRM") system at mobile terminals to communicate and interact with our customers anytime, anywhere, and achieve targeted marketing by sharing our product information and brand stories. We are also working with Weimob to look for new ways of increasing sales by using and activating our existing resources such as sales staff, VIP consumers and e-commerce consumers through social marketing and e-commerce tools such as WeChat Public Account and Weimob and its WeChat Business system.

LOGISTICS WAREHOUSING

The growth of e-commerce, new retail and other non-conventional store businesses led to a significant increase in B2C single-piece logistics. As a result, the Group continued to increase investments in logistics warehousing during the year to adapt to the new logistics warehousing model. From the 2017 fall/winter season and onwards, the Group has implanted Radio Frequency Identification (RFID) microchips into the product tags of our products, and installed RFID identification and reading equipment in warehouses in Shanghai and Guangzhou. With the application of RFID technology, the receiving and dispatching of goods in the warehouse have been simplified from the original item-by-item scanning by manual operation to contactless and mass scanning of full containers by using of automatic equipment, thus greatly improving the efficiency of goods receiving and dispatching activities in the warehouses.

At the same time, we also equipped the warehouses with automatic packers, automatic box makers, vertical rotary containers and other mechanical and automatic equipment, and connected the hardware equipment through network and software systems to improve the operational efficiency of warehousing logistics.

FUTURE PROSPECTS

We will remain committed to the strategy of "Digitalisation driven, retail terminals empowerment" and aim to attract new customers, activate existing customers and improve their consumption experience through the use of digital tools such as O2O system, CRM system, Ali's Smart Store, Weimob and its WeChat Business System. At the same time, we will continue to accumulate images, videos and other digital assets, and apply them to different scenarios and retail channels to achieve sales conversion. With regard to the development of offline physical conventional retail channels, we will increase cooperation with local boutiques, selected shops and customized stores, and expand and develop of retail network of self-owned brands. We believe that the implementation of these measures will further enhance the competitiveness of the Company in the Chinese apparel retail market.

ACKNOWLEDGEMENT

I would like to thank the former Chairman of the Company, Mr. LO Peter. Under his leadership, the Company steadily advanced the business, which laid a solid foundation for the future development of the Group. I would also like to thank my fellow directors for their support and wise advice on the development of the Company since I took over as Chairman of the Company.

In closing, on behalf of the Board of Directors, I would like to take the opportunity to express my sincere gratitude to all shareholders for their sustained support and staff members for their professional dedication, diligence and contributions to the Group, all of which laid the foundation for the sustainable development of the Company.

ZHANG Yongli
Chairman

Hong Kong, 18 March 2019

Management Discussion and Analysis

MARKET OVERVIEW

Amid the continuous slowdown of China's macro-economy, demonstrated by the weakest Gross Domestic Product growth rate ("GDP") of 6.6% for the past 28 years since 1990, the growth rate of total retail sales of consumer products has decreased by 1.2 percentage points from 10.2% in 2017 to 9.0% in 2018. The growth rate of retail sales achieved by the top 100 key and large-scale retailers also decreased by 2.1 percentage points from 2.8% in 2017 to 0.7% in 2018.

Confronted with the ever-changing market place, the Group is searching for ways to better adapt to the competitive landscape. The Group reported a decrease in revenue by 2.2% from RMB918.3 million in 2017 to RMB898.3 million in 2018 and an increase in profit attributable to equity holders of the parent by 9.7% from RMB54.9 million in 2017 to RMB60.2 million in 2018.

FINANCIAL REVIEW

Revenue

We derive our revenue primarily from retail sales of our products to our end-consumers through self-operated retail points in department stores and shopping malls in major cities in the PRC, sales of products to third-party retailers who directly manage concession counters and retail stores in other cities in the PRC where we do not operate retail points and sales of products through online channels.

Our revenue is stated at the net invoiced value of goods sold after trade discounts.

The total revenue of the Group was RMB898.3 million in 2018, representing a decrease by RMB20.0 million, or approximately 2.2% as compared to RMB918.3 million in 2017. The decrease in revenue was mainly attributable to the decrease in revenue from sale of products to third-party retailers.

By sales channel

Revenue from sales of products through self-operated retail points decreased by RMB3.1 million, or 0.5%, from RMB688.0 million in 2017 to RMB684.9 million in 2018 and accounted for approximately 76.2% (2017: 74.9%) of the total revenue. The decrease in revenue was primarily due to the decrease in same store sales by 5.3%. In terms of the retail channel, we continued to see an increase in revenue from outlet stores by RMB1.8 million, or 0.8%, from RMB219.7 million in 2017 to RMB221.5 million in 2018.

Revenue from sales of products to third-party retailers decreased by RMB22.9 million, or 13.1% from RMB175.1 million in 2017 to RMB152.2 million in 2018 and accounted for approximately 16.9% (2017: 19.1%) of the total revenue. The decrease in revenue was primarily attributable to the decrease in number of retail points operated by third-party retailers.

Revenue from sales of products through online channels increased by RMB6.0 million, or 10.9%, from RMB55.2 million in 2017 to RMB61.2 million in 2018 and accounted for approximately 6.9% (2017: 6.0%) of the total revenue. The increase in revenue was primarily attributable to (i) an increase in sales from online discount platform such as VIP.com by RMB1.8 million or approximately 15.0% from RMB12.0 million in 2017 to RMB13.8 million in 2018; (ii) an increase in sales of products to online third-party retailers by RMB1.5 million or approximately 5.4%, from RMB27.8 million in 2017 to RMB29.3 million in 2018; and (iii) an increase in sales of product through our e-shops on Tmall.com and JD.com by RMB2.7 million or approximately 17.5%, from RMB15.4 million in 2017 to RMB18.1 million in 2018.

The table below sets forth the breakdown of our revenue contributed by sales made through our self-operated retail points, sales to third-party retailers and sales through online channels:

	Year ended 31 December			
	2018		2017	
	Revenue RMB million	**% of total revenue**	Revenue RMB million	% of total revenue
Retail sales from self-operated retailers	**684.9**	**76.2%**	688.0	74.9%
Sales to third-party retailers	**152.2**	**16.9%**	175.1	19.1%
Sales through online channels	**61.2**	**6.9%**	55.2	6.0%
Total	**898.3**	**100.0%**	918.3	100.0%

By Brand

Revenue contributed from self-owned brands increased by RMB6.2 million, or approximately 6.6%, from RMB94.3 million in 2017 to RMB100.5 million in 2018. Percentage of revenue from self-owned brands over total revenue has increased from 10.3% in 2017 to 11.2% in 2018.

The table below sets forth our revenue contributed by licensed brands and self-owned brands:

	Year ended 31 December			
	2018		2017	
	Revenue RMB million	**% of total revenue**	Revenue RMB million	% of total revenue
Licensed brands	**797.8**	**88.8%**	824.0	89.7%
Self-owned brands	**100.5**	**11.2%**	94.3	10.3%
Total	**898.3**	**100.0%**	918.3	100.0%

Cost of sales

Our cost of sales decreased by RMB75.9 million, or approximately 26.0%, from RMB291.9 million in 2017 to RMB216.0 million in 2018. The decrease in cost of sales was primarily due to a mixed effect of (i) a decrease in inventory provisions by RMB104.4 million from write-down of inventories to net realisable value of RMB64.0 million in 2017 to a reversal of write-down of inventories to net realisable value of RMB40.4 million in 2018 as a result of our initiative to reduce the level of aged inventories; and partially offset by (ii) an increase in cost of inventories sold by RMB25.9 million from RMB212.7 million in 2017 to RMB238.6 million in 2018 due to the increase in units of inventories sold during the year.

Gross profit and gross profit margin

Our gross profit increased by RMB55.9 million, or approximately 8.9%, from RMB626.4 million in 2017 to RMB682.3 million in 2018 as a result of the decrease in cost of sales. Our overall gross profit margin also increased by 7.8 percentage points from 68.2% in 2017 to 76.0% in 2018, which was primarily due to the decrease in inventory provisions. Save for the inventory provisions, our overall gross profit margin would have been 72.4% in 2018, as compared with the gross profit margin at 75.2% in 2017. The decrease in gross profit margin excluding inventory provisions was mainly attributable to the increase in sales through outlet stores, bargain sales and online channels which have lower gross profit margins.

Other income and gains

Our other income and gains increased by RMB21.4 million, or approximately 83.3%, from RMB25.7 million in 2017 to RMB47.1 million in 2018, which was primarily due to an increase in government subsidies by RMB16.8 million and an increase in rental income by RMB3.3 million during the year.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB18.5 million, or approximately 3.9%, from RMB477.2 million in 2017 to RMB495.7 million in 2018.

Rents and concession fees for occupying concession counters within department stores and department store charges decreased by RMB4.8 million, or approximately 2.0%, from RMB238.9 million in 2017 to RMB234.1 million in 2018, which was largely due to decrease in sales from self-operated retail points.

The labour costs related to sales and marketing staff increased from RMB91.7 million in 2017 to RMB106.9 million in 2018 which was primarily attributable to the increase in basic salary of the sales and marketing staff.

We incurred advertising and promotion expenses of RMB24.9 million (2017: RMB22.3 million) during the year for organising promotion activities and spending on social media marketing to share our brand stories and product knowledge with our customers through WeChat, Weibo and mainstream websites such as Sina.com, Sohu.com etc.

Decoration fees for self-operated retail points decreased from RMB50.3 million in 2017 to RMB46.2 million in 2018 which was primarily attributable to the decrease in number of retail points opened during the year.

The other selling and distribution expenses, including royalty fees, freight and vehicle expenses, sample expenses, travelling expenses, office expenses and other operating expenses remained consistent during the both years indicated.

Administrative expenses

Our administrative expenses increased by RMB4.0 million, or approximately 6.7%, from RMB59.6 million in 2017 to RMB63.6 million in 2018 which was largely due to the increase in amortization of share option expenses of RMB0.9 million.

Impairment losses on financial assets, net

Impairment losses on financial assets mainly represented credit losses arising from trade receivables of RMB4.4 million (2017: RMB0.8 million).

Other expenses

Other expenses mainly included a loss on remeasurement of the previously held interest in a joint venture — MCS of RMB62.6 million (2017: Nil) and an exchange loss of RMB12.1 million arising from the depreciation of RMB against Hong Kong Dollars ("HK$") during the year (2017: RMB23.8 million).

Finance income

Our finance income decreased to RMB20.7 million in 2018 as compared to RMB28.7 million in 2017, representing a decrease by 27.9%, primarily due to the decrease in interest rate for short-term deposits during the year.

Share of profits and losses of joint ventures

Share of profits and losses of joint ventures represented share of profits of a joint venture — MCS of RMB4.1 million (2017: RMB2.8 million) which was partially offset by share of losses of joint ventures — Henry Cotton's and Marina Yachting of RMB0.5 million and RMB1.1 million, respectively (2017: share of losses of Henry Cotton's and Marina Yachting of RMB0.8 and RMB0.6 million, respectively).

Profit before tax

As a result of the foregoing factors, our profit before tax increased by RMB14.8 million, or approximately 15.9%, from RMB93.2 million in the 2017 to RMB108.0 million in 2018.

Income tax expense

Income tax expense increased by RMB9.7 million, or approximately 25.9%, from RMB37.4 million in 2017 to RMB47.1 million in 2018, which was primarily due to a mixed effect of (i) an increase in deferred tax expense by RMB32.5 million primarily arising from the decrease in deferred tax assets in respect of inventory provisions; and partially offset by (ii) a decrease in current income tax by RMB22.8 million. The decrease in current income tax mainly resulted from the receipt of income tax refund of RMB6.4 million by a subsidiary of the Group in PRC and utilisation of tax losses by certain subsidiaries of the Group in PRC in 2018.

Profit for the year

Profit for the year increased by RMB5.0 million, or approximately 9.0%, from RMB55.8 million in 2017 to RMB60.8 million in 2018. The net profit margin was 6.8% in 2018 which was largely consistent with 6.1% in 2017.

Profit attributable to equity holders of the parent

As a result of the foregoing, profit attributable to equity holders of the parent increased by RMB5.3 million, or approximately 9.7%, from RMB54.9 million in 2017 to RMB60.2 million in 2018.

Working Capital Management

	31 December 2018	31 December 2017
Inventory turnover days	**330**	269
Trade receivables turnover days	**47**	44
Trade payables turnover days	**49**	36

The increase in inventory turnover days by 61 days was mainly due to the acquisition of MCS business which resulted in a full consolidation of MCS inventories kept by the then joint venture of RMB11.3 million.

The turnover days of trade receivables and payables remained consistent for the both years indicated.

Liquidity, financial position and cash flows

As at 31 December 2018, we had net current assets of approximately RMB990.4 million, as compared to RMB902.6 million as at 31 December 2017. The current ratio of our Group was 3.9 times as at 31 December 2018, as compared to 3.9 times as at 31 December 2017.

There was no undrawn banking facility as at 31 December 2018.

As at 31 December 2018, we had an aggregate cash and cash equivalents, financial assets at fair value through profit or loss, pledged deposits and structured bank deposits of approximately RMB759.5 million. The table below sets forth selected cash flow data from our consolidated statement of cash flows:

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Net cash flows from operating activities	**52.1**	71.3
Net cash flows from investing activities	**27.3**	242.9
Net cash flows used in financing activities	**(0.3)**	(386.8)
Net increase/(decrease) in cash and cash equivalents	**79.1**	(72.6)
Effect of foreign exchange rate changes, net	**11.7**	42.2
Cash and cash equivalents at the beginning of the year	**127.4**	157.8
Cash and cash equivalents at the end of the year	**218.2**	127.4

Operating activities

Net cash flows from operating activities decreased by RMB19.2 million, or approximately 26.9%, from RMB71.3 million in 2017 to RMB52.1 million in 2018 which was primarily attributable to (i) a decrease in the operating cash inflows before changes in working capital by RMB37.6 million from RMB175.0 million in 2017 to RMB137.4 million in 2018; and (ii) a decrease in cash outflows from changes in working capital from RMB103.7 million in 2017 to RMB85.3 million in 2018.

Investing activities

Net cash flows from investing activities of RMB27.3 million mainly represented a decrease of investments in structured bank deposits of RMB167.8 million, partially offset by an increase of investments in short-term deposits with original maturity of over three months of RMB142.0 million.

Financing activities

There were no material cash flows generated from or used in financing activities during the year.

Pledge of Group assets

As at 31 December 2018, the Group pledged short-term bank deposits of RMB4.9 million for issuance of bank acceptance notes.

Capital commitments and contingent liabilities

As at 31 December 2018, the Group had capital commitments of approximately RMB47.7 million (31 December 2017: RMB69.9 million) and there were no significant contingent liabilities (31 December 2017: Nil).

Foreign exchange management

We conduct business primarily in Hong Kong and the PRC with most of our transactions denominated and settled in HK$ and RMB. To minimise foreign-exchange risks, the Group has a hedging policy in place.

Use of proceeds from the IPO

The shares of the Company were listed on 9 December 2011 on the Stock Exchange. The total net proceeds from the IPO amounted to approximately HK$803.9 million (equivalent to approximately RMB654.8 million), including the net proceeds from the partial exercise of the over-allotment option on 30 December 2011.

In 2018, an aggregate of HK$43.5 million (equivalent to RMB37.8 million) was used for the acquisition of the remaining 50% equity interest in MCS business.

The table below sets forth the utilisation of the net proceeds from the IPO and the unused amount as at 31 December 2018. All the unused proceeds were deposited into licensed banks in the PRC and Hong Kong:

Use of fund raised

	Percentage to total amount	Net proceeds (HK$ million)	Utilised amount as at 31 December 2018 (HK$ million)	Unutilised amount as at 31 December 2018 (HK$ million)
Licensing or acquisition of additional recognised international brands	47%	380.7	278.0	102.7
Expansion and enhancement of existing logistical system	24%	193.1	193.1	–
Settlement of shareholder's loan	19%	152.8	147.1	5.7
General working capital	10%	77.3	–	77.3
	100%	803.9	618.2	185.7

OPERATION REVIEW

Retail and distribution network

As at 31 December 2018, our sales network comprised a total of 576 self-operated retail points, consisting of concession counters, consignment stores and standalone stores, and 290 retail points operated by our third-party retailers.

The following table sets forth the number of our self-operated retail points and retail points operated by our third-party retailers in the PRC by brand as at 31 December 2018 and 31 December 2017:

Brand	**As at 31 December 2018** Self-operated retail points	**As at 31 December 2018** Retail points operated by third-party retailers	**As at 31 December 2018** Total retail points	As at 31 December 2017 Self-operated retail points (reclassified)	As at 31 December 2017 Retail points operated by third-party retailers (reclassified)	As at 31 December 2017 Total retail points (reclassified)
Jeep	**242**	**276**	**518**	217	332	549
SBPRC	**170**	**10**	**180**	153	15	168
London Fog	**49**	**–**	**49**	48	–	48
MCS	**32**	**4**	**36**	36	–	36
Zoo York	**39**	**–**	**39**	23	1	24
Barbour	**19**	**–**	**19**	14	–	14
LINCS	**10**	**–**	**10**	14	–	14
Marina Yachting	**11**	**–**	**11**	10	–	10
Others	**4**	**–**	**4**	54	–	54
Total	**576**	**290**	**866**	569	348	917

Self-operated retail points

As at 31 December 2018, we had a network of 557 self-operated concession counters (31 December 2017: 550 self-operated concession counters). A majority of the concession counters are located within mainstream department stores in the first and second tier cities in China, including Parkson (百盛), Golden Eagle (金鷹), MOI (茂業), Intime (銀泰), Wangfujing (王府井) etc., among which a total of 180 were outlet stores as at 31 December 2018 (31 December 2017: 159 outlet stores).

As at 31 December 2018, we had a network of 19 standalone stores (31 December 2017: 19 stores) which were located in shopping malls within major cities in the PRC to ensure a steady flow of consumers as well as to enhance our sales and brand awareness.

Faced with the challenging market conditions and evolving consumer behavior, the following adjustments were made to our strategy for self-operated retail points:

- a net increase by 21 outlet stores in response to changes in consumer behavior and sales growth in outlet store channel; and

- a net increase by 29 multi-brand lifestyle stores (31 December 2017: 9) during the year. The multi-brand lifestyle stores combine sophisticated store decorations and enriched product offerings that better demonstrate the culture and lifestyle of our brands.

Retail points operated by third party retailers

Under the current uncertain and ever-changing market conditions, our third-party retailers have become more conservative in placing orders and opening new stores. As at 31 December 2018, we had a total of 290 retail points that were operated by third-party retailers, representing a decrease by 16.7% as compared to 348 as at 31 December 2017.

Online Channels

We primarily sell past season products through online channels which consisted of (1) online discount platforms such as VIP.com; (ii) online third-party retailers; and (iii) our self-operated e-shops on mainstream online platforms such as Tmall.com, JD.com etc..

During the year, we participated in the just-in-time delivery program (the "JIT Program") of VIP.com, which allows us to receive orders placed by customers on VIP.com and make direct distribution of the products to customers from our warehouse. The JIT Program has significantly improved the efficiency of our order-fulfillment process and enhanced customer's shopping experience. We also actively developed new online third-party retailers for online retailing of our products and increased sales from our self-operated e-shops on online platforms such as Tmall.com, JD.com etc. during the year.

Branding

The continuing implementation of a multi-brand strategy is critical to our sustainable expansion and growth. We believe that our multi-brand strategy will allow us to capture more market segments, take advantage of a wider range of market opportunities and ultimately increase our overall market share in China's menswear market. Our initiatives in brand portfolio diversification and building brand equity during the year included the followings:

MCS

The Group completed acquisition of 100% equity interest in the then joint venture — MCS Apparel Hong Kong Limited (曼瑟斯香港服飾有限公司) during the year and MCS became a brand fully owned by the Company. Adding MCS to the Company's portfolio of brands augments and complements the Company's multi-brand strategy and direct control business model.

Barbour

We, in collaboration with the Dandy King, a renowned buyer shop in China, organised a salon in Hangzhou in March 2018 to introduce the British lifestyle as well as the classic Barbour waxed cotton jackets. Almost 100 local celebrities attended the event. In May 2018, Barbour sponsored apparel for the 2018 China GT Championship in Beijing (2018年北京賽車節). We also attended the "Best British" exhibition in Shanghai in October 2018.

Zoo York

During the year, Zoo York sponsored the team uniform for the Taichi Team (太極電子競技戰隊), a renowned electronic sports team in China which won the third prize in the Samsung Cup (三星玄龍杯) for the game of "Player Unknown's Battle Grounds" (絕地求生).

LINCS

During the year, LINCS sponsored apparel for the China Entrepreneur Golf Team and the award for the "Longest Drive Prize" in the golf event "BMW Daonong Cup" Challenge, the leading amateur golf event in China.

Marina Yachting

Marina Yachting sponsored apparel for the Children's Choir of Shanghai Poly Grand Theater (上海保利大劇院童聲合唱團) in 2018.

Sponsorship of movies and TV shows

In 2018, we provided apparel from a number of our brands to the movie "A Lifetime Treasure" (如珠如寶) and the music video "My eyes" (我的眼睛). We also provided apparel to a number of celebrities including Mr. Andy Lau (劉德華先生), Mr. Patrick Tam (譚耀文先生), Mr. Alex Fong (方力申先生) and Mr. Zifeng Li (李子峰先生) etc. The TV dramas we sponsored including "Royal Highness" (回到明朝當王爺), "First Fight" (兄弟) and "Cold Cases" (冷案) were broadcasted during the year.

Business Digitalisation

We developed an O2O system that is tailored to our retail network and allows our customers to make purchases on demand even if the desired item is out of stock at a particular location, which in turn both enhances customers' shopping experience and drives our sales. Sales contributed by the self-developed O2O system increased by RMB6.7 million, or approximately 8.9%, from RMB74.9 million in 2017 to RMB81.6 million in 2018.

As our Customer Relationship Management (CRM) system has been online, we are also working on a customer loyalty program with an aim to further promote customer loyalty, encourage repeat purchases and cross-selling.

Design and product development

The local design team continues to keep abreast of the latest trends and developments in new designs, through our collaborations with the international design teams from Barbour in London, LINCS in New York, Greg Norman in Sydney and Zoo York in Hong Kong.

Production and supply chain

Microchips with Radio Frequency Identification (RFID) technology have been implanted on product tags of our products. RFID reading devices have also be equipped in our new logistic centers in Shanghai and Guangzhou during the year to read and identify product information. The use of this new technology will significantly improve our operational efficiency, from product receiving, positioning, stocktaking to order fulfillment process, and accelerate the transforming of our warehousing system into a B2C logistics center for direct distribution of product to customers.

Employee information

As at 31 December 2018, the Group had approximately 2,461 full-time employees. Staff costs, including Directors' remuneration, totalled RMB136.0 million in 2018 (2017: RMB116.4 million).

The Company also operated a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of our Group. A total of 273,000,000 options under the Share Option Scheme that was granted to 103 participants (including 7 directors) remain outstanding as at 31 December 2018.

Corporate Social Responsibility

Being a responsible corporate citizen is a core fundamental of our culture. During the year, we continued to participate in the sponsorship of an animal protection program organised by the Beijing Loving Animals Foundation (北京愛它動物保護公益基金) and the sponsorship of "I fly" (愛飛翔) training program for village school teachers organised by the Chinese Red Cross Foundation and Beijing Yongyuan Foundation (北京市永源公益基金會) for the purpose of supporting education in rural areas of China. A total donation of approximately RMB0.4 million was made by the Group to the above programs in 2018. The Group also made a donation of RMB0.2 million to the Red Cross Society of Shangrao Xinzhou Sub-branch (上饒市信州區紅十字會) in Jiangxi Province during the year.

We are also looking for opportunities to reduce the consumption of paper, electricity and other resources in order to reduce the impact to the environment and set reduction targets as appropriate.

Prospects

Combining the online and offline business seamlessly through information technology and business digitalisation remains our first priority for the year ending 31 December 2019. Therefore, we will focus on the following initiatives in 2019:

- launch our social network-based commerce and marketing program in collaboration with Weimob (微盟) and sell and deliver our products on WeChat in the form of WeChat Mini Programs and WeChat Official Accounts;
- encourage our sales staff and third-party retailers to use our self-developed O2O system as well as the online product picture system and cross-brand product sales function in order to increase the conversion rate at retail points and accelerate the response to ultimate consumers' demands for our products;
- roll out our customer loyalty program to increase interactions with customers and encourage repeat purchases;
- increase sales of aged inventories through factory outlets, bargain sales, discount stores and online channels; and
- to expand the retail network of our self-owned brands.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group are summarised as below:

Risks Relating to the Retail and Apparel Industry

Fluctuations in consumer spending caused by changes in macroeconomic conditions in the PRC may significantly affect our business, financial condition, results of operations and prospects

The Group derives substantially all of revenue from sales of our products in the PRC. The success of the Group's business depends on the condition and growth of the PRC consumer market, which, in turn, depends on worldwide economic conditions and individual income levels in the PRC and their impact on levels of consumer spending.

Economic growth in the PRC slowed down over the past years and there is no assurance that the robust growth rates that the PRC economy and the PRC consumer market have achieved in the past will be achieved in the future. Any further slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect the Group's business, financial condition and results of operations.

The Group operates in a very competitive market and faces intense competition

The retail and apparel industry in the PRC is highly competitive, and the competitors in this market include both international and domestic companies. The Group competes against competitors primarily on brand loyalty, product variety, product design, product quality, marketing and promotion, price and the ability to meet delivery commitments to retail points. Some of the competitors may have greater financial, management, human, distribution or other resources than the Group. The Group's results of operations and market position may be adversely affected by a number of competitive factors, including competitors increasing their operational efficiencies, adopting competitive pricing strategies, expanding their operations or adopting innovative retail sales methods or product designs etc.

Risks Relating to the Group

If the Group is unable to predict or meet consumer preferences or fashion trends, the Group's products may lose their appeal to customers

As apparel products are subject to changing consumer preferences and fashion trends, the Group's sales and profit are dependent on the Group's ability to cater to different consumer fashion tastes. Demand for the Group's products is dependent on market perception and consumers' acceptance that the Group's brands are fashionable and trendy, which require continued anticipation of and responsiveness to ever-changing market and fashion trends. The Group cannot assure that it will be successful in anticipating changing consumer preferences or developing new products to meet shifts in demand. The Group's failure to anticipate or accurately respond to market changes and fashion trends in a timely manner could result in lower sales volumes, lower selling prices or lower profits for the Group and the Group's third-party retailers. This could in turn materially and adversely affect the Group's business, financial condition and results of operations.

The Group's endeavours to launch new brands or new product lines may not be successful

To enhance sustainable growth, the Group plans to expand and diversify our brands and products by introducing new brands and new product lines to target new consumer groups.

The launch and development of a new brand or a new product line involves considerable time and financial commitment that may impose a substantial strain on the Group's ability to manage the existing business and operations. The Group may face inherent risks and uncertainties, lack sufficient experience in the management of new brands and products, and may not be able to reach agreements with our third-party retailers for the distribution of the products under the new brands or the new product lines. Failure of any of our new brands or new products could lead to wasted resources and damage to our reputation and could materially and adversely affect our business, financial condition and results of operations.

The Group relies on licence agreements for the use of international brands in the design, manufacturing, marketing and sales of branded apparel

The Group entered into licence agreements with a number of organisations to use their respective brands in the design, manufacturing, marketing and sales of apparel products and sales of products under these licensed brands accounted for approximately 90% of total sales.

The Group can give no assurance that the licensors will be satisfied with our performance under the licence agreements, that the licensors will not attempt to terminate the licence agreements, or that the Group will be able to renew the licence agreements on the same or similar terms, or at all. If the licence agreements are terminated or if the Group fails to renew any of them upon their expiration, the Group will be unable to continue the design, manufacturing, marketing and sales of products under that licensed brand, and our business, financial condition and results of operations will be materially and adversely affected.

The Group relies on third-party manufacturers and suppliers for the production of a significant portion of our products and the supply of raw materials, respectively, and any interruptions in the operation of these manufacturers or suppliers may adversely affect our results of operations

The Group relies on third-party manufacturers for the production of a significant majority portion of our products and also relies on third-party suppliers for the supply of raw materials for our own production and some of the outsourced production. These third-party manufacturers and suppliers may be unable to supply the Group with the finished goods or to provide the Group with the required raw materials, respectively. The Group may experience material disruptions in the supply of finished goods or raw materials due to any of the factors, such as changes of laws and regulations, lack of labour resources, equipment failures or property damage etc. in the future, which could materially and adversely affect our business, financial condition and results of operations.

The Group's business is susceptible to unexpected and abnormal changes in climate

The Group's business is susceptible to unexpected and abnormal changes in climate. For example, a warm winter may affect the sales of our winter products, while a cool summer may affect the sales of our summer products. These unexpected and abnormal changes in climate may affect the sales of the Group's products that are timed for release during a particular season.

The Group is subject to financial risks

The main financial risks facing the Group are foreign currency risk, credit risk and liquidity risk. Detailed discussion and analysis of the Group's financial risk, along with the management objectives and policies are set out in note 43 to the financial statement.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHANG Yongli (張永力先生), aged 59, is the Chairman, Chief Executive Officer and an executive director of our Company. He also serves as a director in most of the subsidiaries and joint ventures of our Company. Mr. Zhang joined our Group in 1999 and is primarily responsible for our Group's overall strategic planning and the management of our Group's business operations. Mr. Zhang has over 15 years of experience in the PRC menswear industry. Mr. Zhang was selected as one of the "25 Influential Chinese in Global Fashion" in 2011 by Forbes China. He was appointed as our Chief Executive Officer and executive director on 8 June 2011 and was appointed as the Chairman on 22 June 2018. Mr. Zhang was a director of Guangdong Rieys Group Co., Ltd. （廣東雷伊（集團）股份有限公司） until May 2009.

Mr. SUN David Lee (孫如暐先生), aged 53, is an executive director of our Company. He also serves as a director in a number of our subsidiaries in Hong Kong. Mr. Sun is primarily responsible for brands sourcing and transaction management. He has been an independent non-executive director of Dynasty Fine Wines Group Limited since November 2012 and was an executive director of Asia Coal Limited until 3 May 2018, both companies are listed on the Main Board of the Stock Exchange. He was the managing director of Pacific Alliance Group Limited, an Asia-focused alternative investment management firm. Mr. Sun was the director for strategy and business development in Asia at Interbrew (currently known as Anheuser-Busch InBev). He was also a consultant in the corporate finance and strategy practice of McKinsey & Company, Inc. in Hong Kong. Prior to his position at McKinsey, Mr. Sun practised law as an associate in the corporate group at Linklaters. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law. He is a registered attorney in Illinois of the U.S. Mr. Sun was appointed as our executive director on 8 June 2011.

Ms. HUANG Xiaoyun (黃曉雲女士), aged 47, is the Chief Financial Officer and an executive director of our Company. Ms. Huang joined our Group in 2000. Previously, she was a manager in our Group's financial department from 2000 to 2001. She is responsible for the financial reporting and administration of our Group's PRC operations. She has over 15 years of experience in accounting and financial management. Ms. Huang holds a Master of Business Administration Degree from The South China University of Technology. Ms. Huang was appointed as our executive director on 8 June 2011 and appointed as our Chief Financial Officer on 14 May 2012.

NON-EXECUTIVE DIRECTOR

Mr. WANG Wei (王瑋先生), aged 36, is a non-executive director of our Company. Mr. Wang is a director of Kohlberg Kravis Roberts & Co. L.P. ("KKR"), focusing on private equity transactions in the Greater China region. Prior to joining KKR, Mr. Wang worked at Orchid Asia Investment Group and McKinsey & Company. Mr. Wang has been actively involved in advising on investments in Sino Prosperity Real Estate Platform, China Cord Blood Corporation and the Company at KKR and Orchid Asia Investment Group. Mr. Wang graduated from Shanghai Jiaotong University with a Bachelor of Science degree in Economics in 2005. Mr. Wang was appointed as our non-executive director on 14 May 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWONG Wilson Wai Sun (鄺偉信先生), aged 53, is an independent non-executive director of our Company. He has been appointed as an executive director of China Metal Resources Utilization Limited, a manufacturer of recycled copper products in China, a company listed on the Main Board of the Stock Exchange, since 16 August 2013. He is also an independent non-executive director of C. Banner International Holdings Limited and Shunfeng International Clean Energy Limited, companies listed on the Main Board of the Stock Exchange, since 26 August 2011 and 16 July 2014, respectively. Mr. Kwong was appointed as an independent non-executive director of China New Higher Education Group Limited, a company listed on the Main Board of the Stock Exchange on 20 March 2017. On 15 March 2019, he was also appointed as an independent non-executive director of Koolearn Technology Holding Limited, a company to be listed on the Main Board of the Stock Exchange on 28 March 2019. Mr. Kwong acted as the President of Gushan Environment Energy Limited, a copper products manufacturer and biodiesel producer in China, until 16 August 2013. He has 12 years of experience in corporate finance and equity capital markets in Asia, having previously worked at a number of investment banks in Hong Kong. Prior to joining Gushan Environmental Energy Limited in 2006, he was the managing director of investment banking and he held the position as the head of Hong Kong and China equity capital markets at CLSA Equity Capital Markets Limited since March 2004. From 2002 to 2003, Mr. Kwong was a director and the head of equity capital markets for Cazenove Asia Limited. After graduating from the University of Cambridge, England with a Bachelor's degree in 1987, he qualified as a chartered accountant in the United Kingdom with KPMG in 1990 and as a chartered secretary and administrator in the United Kingdom in 1991. Mr. Kwong is currently an associate member of the Institute of Chartered Accountant in England and Wales, the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries. Mr. Kwong was appointed as our independent non-executive director on 8 June 2011.

Mr. CUI Yi (崔義先生), aged 64, is an independent non-executive director of our Company. He is the founder and director of PMC China Trading Company Limited (合力洋行(中國)有限公司), and was responsible for managing the authorised dealership of glass tube products under a German brand in the PRC and Hong Kong. Mr. Cui is also the director of Jescove Company Limited (宏銀有限公司). He has also been acting as the executive director and deputy general manager of Hong Kong Zhanyou Company Limited (香港湛佑有限公司) since 1993 and responsible for the preparation and establishment of ZIP Comayagua, S.A., a textile industrial complex, in Honduras, Central America. From 1995 to 1998, Mr. Cui was the executive director and executive general manager of the companies of ZIP Comayagua S.A., responsible for management of the textile industrial complex. From 1990 to 1991, he was the assistant general manager of Textile Development Company (上海紡織住宅開發總公司) under the Shanghai Textile Industry Council (上海紡織工業局), and he was the deputy general manager of Hainan Shenhai Enterprise Group (海南申海企業集團) under the same council in 1991, responsible for the trading of textile products and the development of overseas markets for textile products. Mr. Cui graduated from The East China University of Political Science and Law majoring in law. Mr. Cui was appointed as our independent non-executive director on 8 June 2011.

Mr. YEUNG Chi Wai (楊志偉先生), aged 58, is an independent non-executive director of our Company. Mr. Yeung is the founder and director of Edwin Yeung & Company (CPA) Limited and has been practising as a certified public accountant with the firm since 1991. He has been an associate of the Chartered Association of Certified Accountants since 1988. Mr. Yeung became an associate member and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1989 and 1996, respectively. He is also a member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung has been a fellow member of the Association of Chartered Certified Accountants since 1993, an associate of the Institute of Chartered Accountants in England and Wales since 2005 and a Fellow Member of CPA Australia since 2010. He was awarded the Medal of Honour by the Government of the Hong Kong Special Administrative Region (the "Government of Hong Kong") in 2010. He was also the president of the Society of Chinese Accountants and Auditors in 2008 and is currently the chairman of its membership and promotion committee. Mr. Yeung was appointed as a vice chairman of Accounting Development Foundation Limited in 2018. He has been a member of the Chinese People's Political Consultative Conference in Shandong Province since January 2013 and a committee member of Home Purchase Allowance Appeals Committee since 14 July 2014. He has also been a member of the Appeal Board Panel (Town Planning), an independent statutory body established by the Government of Hong Kong, since 1 October 2016. He was also appointed as an independent non-executive director of Wah Sun Handbags International Holdings Limited, a company listed on the Main Board of the Stock Exchange, on 2 January 2018. Mr. Yeung was appointed as our independent non-executive director on 8 June 2011.

SENIOR MANAGEMENT

Mr. LU Yi (呂毅先生), aged 40, is the Chief Branding Officer and Regional Sales Controller of our Company. He joined our Group in 2000. Previously, he was Manager of the President's Office from 2003 to 2004 and the assistant to Chief Human Resource Officer of our Group from 2005 to 2013. He is responsible for management of licensed brands of our Group as well as business development planning and management of retail sales activities of Southern PRC.

Mr. YAN Zhong (閆仲先生), aged 49, is our Regional Sales Controller of our Company. Mr. Yan joined our Group in 1999. Previously, he was the Manager for Northern Region in 1999 and Deputy General Manager for Northern Region of our Group in 2000. He is primarily responsible for the Group's business development planning and management of retail sales activities of Northern PRC. He has over 15 years of experience in the apparel retail industry. Mr. Yan is the holder of a Bachelor's Degree from 中國青年政治學院 (China Youth University for Political Sciences).

Mr. WONG Hon Wing (王漢嶸先生), aged 50, is the Chief Procurement Officer of our Company. He joined our Group in 1999. Previously, he was the Procurement Manager of our Group in 1999. He is responsible for the purchase planning and manufacturing functions of the Group. He has over 20 years of experience in the purchase and production of apparels.

Ms. LEUNG Shuk Yi (梁淑儀女士), aged 52, is the Chief Designer of our Company. She joined our group in 2002 and has over 20 years experience in design and garment of apparels. Ms. Leung holds an Honor Diploma in fashion design from the Academie Internationale de Coupe de Paris (Ecole Superieure Internationale des Modelistes du Vetement) and Ecole Bellecour Supdemod (Haute Couture) Lyon in France.

Mr. LIU Dong (劉東先生), aged 55, is the Chief Manufacturing Officer – Fashion of our company. He joined our Group in January 2015 and is responsible for management of our manufacturing plant in Dezhou, Shandong province. Mr. Liu has over 30 years of experience in quality management and business administration.

Mr. YU Wenlong (余文龍先生), aged 55, is the Assistant President of our Company. Mr. Yu joined our Group in 1999. Previously, he was the Deputy General Manager of a subsidiary of the Group from 2007 to 2016 and the Chief Marketing Officer of our Company from 2016 to February 2019. He is primarily responsible for assisting our Chief Executive Officer for our Group's overall strategic planning and the management of our Group's business operations. Mr. Yu has over 15 years of experience in the retail and apparel industry.

Ms. CHEUNG Laura Pui Wah (張佩華女士), aged 51, is the Chief Merchandising Officer of our Company. Ms. Cheung joined our Group on 12 December 2016 and is primarily responsible for developing strategies for purchasing plans and managing the buying activities of our Group. Prior to joining the Group, Ms. Cheung held several senior managerial positions in Dolce & Gabbana, Escada, Salvatore Ferragamo and Dunnu in the Asia-Pacific Region. She has over 20 years of experience in the retail and apparel industry.

Mr. LI Zhuoping (李卓平先生), aged 39, is the Chief Technology Officer of our Company. Mr. Li joined the Group in 2003. Previously, he was the Deputy General Manager of a subsidiary of the Group from 2014 to 2016. Mr. Li is primarily responsible for development and implementation of the information technology systems of the Group. He has over 10 years of experience in the information technology industry as well as the retail and apparel industry.

Mr. YAN Yi (嚴逸先生), aged 35, is the Assistant President of our Company. He is primarily responsible for assisting our Chief Executive Officer for our Group's overall strategic planning and the management of our Group's business operations. Previously, he was the assistant to our Chief Financial Officer from 2012 to 2016. Mr. Yan has over 10 years of experience in auditing and accounting. Prior to joining our Group, he worked in the assurance and advisory services department of Ernst & Young from 2005 to 2011 after receiving a Bachelor degree in Business Administration from the Sun Yat-sen University in 2005.

Mr. HUANG Xiaosheng (黃曉晟先生), aged 34, is the Chief Marketing Officer of our Company. He is primarily responsible for the assessment of the authorisation of third-party retailers of our Group in the PRC and maintaining our business and strategic relationships with them. Mr. Huang joined our Group in 2017. Previously, he was the assistant to our chief sales officer from 2017 to February 2019. Mr. Huang has over 10 years of experience in the retail and apparel industry. Prior to joining our Group. He was the controller responsible for organisation development of the JNBY Group (江南布衣集團) from 2016 to 2017, and was the retail operation controller of the "H+" brand of the IHAPPY Group (海貝集團) from 2013 to 2015. Mr. Huang graduated from Shanghai University of Finance and Economics with a Bachelor of Business Administration degree in 2007.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Directors") of the Company (the "Board") is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value and formulate its business strategies and policies.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the basis of the Company's corporate governance practices.

The Board is of the view that throughout the year ended 31 December 2018, the Company has complied with all the code provisions as set out in the CG Code, except for code provision A.2.1, as disclosed below under the sub-section "Chairman and Chief Executive Officer" of this report.

DIRECTORS' AND EMPLOYEES' SECURITIES TRANSACTIONS

The Company has devised its own code of conduct regarding Directors' dealings in the Company's securities and securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company (the "Code of Conduct") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and Code of Conduct throughout the year ended 31 December 2018.

No incident of non-compliance of the Code of Conduct by the employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises 7 members, consisting of 3 Executive Directors, 1 Non-executive Director, and 3 Independent Non-executive Directors as follows:

Executive Directors:
Mr. ZHANG Yongli *(Chairman and Chief Executive Officer)*
Mr. SUN David Lee
Ms. HUANG Xiaoyun

Non-executive Director:
Mr. WANG Wei

Independent Non-executive Directors:
Mr. KWONG Wilson Wai Sun
Mr. CUI Yi
Mr. YEUNG Chi Wai

During the year ended 31 December 2018, Mr. LO Peter resigned as the Chairman and an Executive Director on 22 June 2018.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 19 to 22 of the annual report for the year ended 31 December 2018.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Following the resignation of Mr. LO Peter, Mr. ZHANG Yongli was appointed as the Chairman of the Company on 22 June 2018. According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company deviates from this code provision because both the Chairman and Chief Executive Officer ("CEO") positions of the Company are held by Mr. ZHANG Yongli. The Board believes that vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for efficient business planning and decisions under the current situation.

Independent Non-executive Directors

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors, representing at least one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

In accordance with the Company's Articles of Association and code provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years and is subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

A summary of training received by Directors according to the records provided by the Directors is as follows:

Director	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Mr. LO Peter*	✓
Mr. ZHANG Yongli	✓
Mr. SUN David Lee	✓
Ms. HUANG Xiaoyun	✓
Non-executive Director	
Mr. WANG Wei	✓
Independent Non-executive Directors	
Mr. KWONG Wilson Wai Sun	✓
Mr. CUI Yi	✓
Mr. YEUNG Chi Wai	✓

* Resigned on 22 June 2018

BOARD COMMITTEES

The Board has established the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All the said Board committees of the Company are established with defined written terms of reference, which are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the said Board committees are Independent Non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of the annual report.

Audit Committee

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board;

- To review the adequacy and effectiveness of the Company's financial controls system, risk management and internal control systems and effectiveness of internal audit function;

- To review the relationship with the external auditors by reference to the scope of audit performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors; and

- To review arrangements by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action.

The Audit Committee oversees the risk management and internal control systems and internal audit function of the Group, reviews the internal audit report submitted by the internal auditor, reports to the Board on any material issues, and makes recommendations to the Board.

The Audit Committee held three meetings during the year to review interim and annual financial results and reports in respect of the year ended 31 December 2018 and significant issues on the financial reporting and compliance procedures, effectiveness of risk management and internal control systems and internal audit function, scope of work and appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice during the year without the presence of the Executive Directors.

Remuneration Committee

The primary functions of the Remuneration Committee include the following:

- To make recommendations on the establishment of procedures for developing the remuneration policy and structure for the Executive Directors and the senior management, which policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;

- To review and approve the remuneration packages of the Executive Directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions;

- To make recommendations on the remuneration packages of the Non-executive Directors and Independent Non-executive Directors by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To review and approve the compensation arrangements for the Executive Directors and the senior management in connection with any loss or termination of their offices or appointments.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

The Remuneration Committee met once during the year to review and make recommendation to the Board on the remuneration policy and structure of the Company, and to determine the remuneration packages of the Executive Directors and senior management and other related matters.

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and the senior management.

The remuneration of Directors and the senior management by band for the year ended 31 December 2018 is set out below:

	Number of persons
Nil to RMB1,000,000	17
RMB1,000,001 to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	—
RMB3,000,001 to RMB4,000,000	1
RMB4,000,001 to RMB5,000,000	—

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment or re-appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character and integrity, qualifications, experience, time commitments and independence (for appointment of Independent Non-executive Directors) and other relevant criteria necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee met once during the year to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural background, religion, ethnicity, nationality and sexual orientation, in addition to educational background, professional experience, skills, knowledge and length of service.

Pursuant to the Board Diversity Policy, the Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

The Nomination Committee will review the Policy annually, which include an assessment of the effectiveness of the Policy and discuss any revisions that may be required and recommend any such revisions to the Board for approval.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Code of Conduct, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committees meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below:

Director	Attendance/Number of Meetings				
	Board	Nomination Committee	Remuneration Committee	Audit Committee	Annual General Meeting
Mr. LO Peter*	3/3	1/1	—	—	1/1
Mr. ZHANG Yongli	5/5	—	1/1	—	1/1
Mr. SUN David Lee	5/5	—	—	—	1/1
Ms. HUANG Xiaoyun	5/5	1/1	1/1	3/3	1/1
Mr. WANG Wei	5/5	—	—	—	1/1
Mr. KWONG Wilson Wai Sun	5/5	1/1	1/1	3/3	1/1
Mr. CUI Yi	5/5	—	1/1	3/3	1/1
Mr. YEUNG Chi Wai	5/5	1/1	—	3/3	1/1

* Resigned on 22 June 2018

Apart from regular Board meetings, the Chairman also held meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

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 2018.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the remuneration paid for services provided by the auditor is roughly as follows:

Service Category	**Fees Paid/Payable** (RMB'000)
Audit and review services	2,753
Non-audit services	—
	2,753

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including sales and marketing, financial reporting, human resources and information technology.

The Company's risk management and internal control systems have been developed with the following principles, features and processes:

Principles of Risk Management and Internal Control Systems

The principal aim of the Company's risk management and internal control systems is to manage and mitigate business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets.

Main Features of Risk Management and Internal Control Systems

The key elements of the Company's risk management and internal control systems include the establishment of a risk register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness.

A risk matrix is also adopted to determine risk rating after evaluation of the risk by the likelihood and the impact of the risk event. The risk ratings reflect the level of management's attention and risk treatment effort required.

Process Used to Identify, Evaluate and Manage Significant Risk

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division/department.

The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

Process Used to Review Effectiveness of the Risk Management and Internal Control Systems and to Resolve Material Internal Control Defects

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

COMPANY SECRETARY

The Company has engaged Tricor Services Limited, external service provider, and Ms. LI Rita Yan Wing has been appointed as the Company's company secretary. Its primary contact person at the Company is Ms. HUANG Xiaoyun, an Executive Director of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Putting Forward Proposals at General Meetings

To put forward proposals at an annual general meeting, or extraordinary general meeting, the shareholders should submit a written notice of those proposals with the detail contact information to the company secretary at the Company's principal place of business in Hong Kong at Room 1303, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The request will be verified with the Company's Share Registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the proposal raised by the shareholders concerned at annual general meeting, or extraordinary general meeting varies according to the nature of the proposal as follows:

- At least 21 clear days' notice (the notice period must include 20 clear business days) in writing if the proposal constitutes an ordinary resolution of the Company in an annual general meeting.

- At least 21 clear days' notice (the notice period must include 10 clear business days) in writing if the proposal constitutes a special resolution of the Company in an extraordinary general meeting.

- At least 14 clear days' notice (the notice period must include 10 clear business days) in writing if the proposal constitutes an ordinary resolution of the Company in an extraordinary general meeting.

Convening an Extraordinary General Meeting by Shareholders

Any two or more shareholders of the Company deposit a written requisition, specifying the objects of the meeting and signed by the requisitionists, at the company secretary at the Company's principal place of business in Hong Kong at Room 1303, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

Any one shareholder of the Company which is a recognised clearing house (or its nominee(s)) deposits a written requisition, specifying the objects of the meeting and signed by the requisitionist, at the company secretary at the Company's principal place of business in Hong Kong at Room 1303, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

The request will be verified with the Company's Share Registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary will ask the Board to include the resolution in the agenda for the extraordinary general meeting.

If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, provided that any meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition.

Putting Forward Enquiries to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the company secretary at the Company's principal place of business in Hong Kong at Room 1303, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all other members of the Board including Non-executive Directors, Independent Non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any significant changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Report of the Directors

The Board has pleasure in presenting the report together with the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a review of the business of the Group, a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position, a description of the risks and uncertainties facing the Group, and an indication of the future development of the business of the Group, is set out under sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 18 of this Annual Report. Those discussions form part of this Report of the Directors.

SUSTAINABILITY

The Group is committed to contributing to the sustainability of the environment and community in which it conducts its business and considers this essential to maintain its long-term competitiveness.

Environmental Policies and Performance

The Group recognises the importance of environmental protection and is committed to environmental-friendly development as a part of social responsibility. The Group achieves this through utilisation resources efficiently and effectively in its operations to reduce impacts on environment and compliance with the relevant environmental laws, standards, policies and practices of environmental protection, seeking to contribute to the improvement of ecological environment and sustainable development. The Group continues to improve the environmental performance as an integral and fundamental part of the business strategy and operating methods.

Relationships with Key Stakeholders

The Company strives to maintain harmonious relationship with its stakeholders including its customers, suppliers and employees. This includes providing quality products and services to customers, developing effective and mutual beneficial working relationships with its suppliers, and offering competitive remuneration package with safety working environments to employees.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The compliance with legislative and regulatory provisions in all jurisdictions in which the Group operates is a key ethical value fundamental to the Group. The Group mainly conducts its business in the PRC while the Company is incorporated in the Cayman Islands and is listed on the Stock Exchange in Hong Kong. Therefore, the Company and the Group shall comply with relevant laws and regulations in the PRC, the Cayman Islands and Hong Kong.

During the year ended 31 December 2018 and up to the date of this report, the Board was unaware of any non-compliance with relevant laws and regulations that had a significant impact on the business and operations of the Group.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 54 to 151 of the annual report.

The Board does not recommend to declare any final dividends for the year ended 31 December 2018.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 152 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Group, and investment properties of the Group during the year ended 31 December 2018 are set out in notes 14 and 16 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2018 are set out in note 32 to the financial statements.

Details of other equity-linked agreements are included in the section "SHARE OPTION SCHEMES" below.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except for the trustee of the Employees' Share Award Scheme adopted by the Board on 4 November 2014 (the "Scheme"). Pursuant to the terms of the rules and trust deed of the Scheme, a total of 1,372,000 shares of the Company at a total consideration of about HK$292,000 (equivalent of RMB250,000) were purchased on the Stock Exchange for the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 35 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves, including contributed surplus less the accumulated loss, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB1,207.2 million. Under the Companies Law, a company may make distribution to its shareholders out of contributed surplus under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB0.6 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the aggregate sales attributable to the Group's five largest customers and the sales attributable to the Group's largest customer were approximately 12.7% and 3.8%, respectively, of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers and the purchases attributable to the Group's largest supplier were approximately 21.0% and 4.4%, respectively, of the Group's total purchases during the year ended 31 December 2018.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the any of the five largest customers or suppliers of the Group.

DIRECTORS

During the year ended 31 December 2018 and up to the date of this report, the Directors were:

Executive Directors:
Mr. LO Peter#
Mr. ZHANG Yongli *(Chairman and Chief Executive Officer)*
Mr. SUN David Lee
Ms. HUANG Xiaoyun

Non-executive Directors:
Mr. WANG Wei
Mr. KWONG Wilson Wai Sun*
Mr. CUI Yi*
Mr. YEUNG Chi Wai*

\# Resigned on 22 June 2018
* Independent Non-executive Directors

In accordance with the Company's articles of association, Mr. WANG Wei, Mr. KWONG Wilson Wai Sun and Mr. CUI Yi will retire from the Board by rotation and will offer themselves for re-election at the annual general meeting ("AGM").

The Company has received annual confirmations of independence from each of the Independent Non-executive Directors, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 19 to 22 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing from 8 June 2011 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective service contracts.

The Non-Executive Director Mr. WANG Wei has entered into a letter of appointment with the Company for an initial fixed term of three years commencing from 14 May 2012 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective letters of appointment.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial fixed term of three years commencing from 8 June 2011 until terminated by not less than three months' notice in writing served by either party on the other or in accordance with the terms set out in the respective letters of appointment.

Apart from the foregoing, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The primary duties of the Remuneration Committee are mainly to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance based remuneration and ensure none of the Directors is involved in determining his/her own remuneration. Details of Directors' remuneration are set out in note 9 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during or at the end of the year ended 31 December 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and chief executives in the shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions in Ordinary Shares and Underlying Shares of the Company:

Name of director	Nature of Interest	Number of Ordinary Shares Owned	Underlying Shares Interested (Note 1)	Total	Percentage of the Company's issued share capital (%)
Mr. ZHANG Yongli	Beneficial owner	9,028,000	3,000,000	12,028,000	0.35
	Corporate interest (Note 2)	839,748,000	–	839,748,000	24.37
Mr. SUN David Lee	Beneficial owner	452,000	10,000,000	10,452,000	0.30
Ms. HUANG Xiaoyun	Beneficial owner	190,600,000	20,000,000	210,600,000	6.11
Mr. WANG Wei	Beneficial owner	–	3,000,000	3,000,000	0.09
Mr. KWONG Wilson Wai Sun	Beneficial owner	–	3,000,000	3,000,000	0.09
Mr. CUI Yi	Beneficial owner	–	3,000,000	3,000,000	0.09
Mr. YEUNG Chi Wai	Beneficial owner	–	3,000,000	3,000,000	0.09

Note:

(1) The number of underlying shares represents the shares in which the Directors are deemed to be interested as a result of holding share options.

(2) CEC Outfitters Limited, holding 839,748,000 shares (long position) of the Company, was wholly owned by Vinglory Holdings Limited ("Vinglory") and Vinglory was wholly owned by Mr. ZHANG Yongli.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEMES

The Company operates a share option scheme ("Share Option Scheme") and it was conditionally approved by the written resolutions of the shareholders passed on 25 November 2011 (the "Resolutions"). The details of the share option scheme are as follows:

1. Summary of Terms

1. The purpose of the scheme — To provide incentive and/or reward to Eligible Persons (as defined below) for their contribution to, and continuing efforts to promote the interests of, the Company.

2. The participants of the scheme — The Board may, at its absolute discretion, offer options to subscribe for such number of shares of the Company in accordance with the terms set out in the Share Option Scheme to:

    a) any proposed executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group;

    b) a director or proposed director (including an independent non-executive director) of any member of the Group;

    c) a direct or indirect shareholder of any member of the Group;

    d) a supplier of goods or services to any member of the Group;

    e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

		f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and g) an associate of any of the foregoing persons. (the persons referred above are the "Eligible Persons").
3.	The total number of securities available for issue under the scheme together with the percentage of the issued shares that it represents as at the date of the annual report	At the annual general meeting held on 14 May 2018, the shareholders approved the refreshment of the scheme mandate limit of the Share Option Scheme after which the maximum number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme is 344,545,000 Shares, representing 10% of the issued shares as at the date of this report.
4.	The maximum entitlement of each participant under the scheme	No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.
5.	The period within which the securities must be taken up under an option	The period shall be determined and notified by the Board to the grantee during which period the option may be exercised and in any event shall not exceed ten years commencing from the date on which the offer in relation to such option is accepted.
6.	The minimum period, if any, for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Board.
7.	The amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	The offer of a grant of share options may be accepted on or not later than 21 days after the date of the offer with a consideration of HK$1 being payable by the grantee.

8.	The basis of determination of the exercise price	The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall be at least the highest of: (a) the closing price of a Share in the Company as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a Business Day; (b) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date; and (c) the nominal value of a Share.
9.	The remaining life of the scheme	The Share Option Scheme will remain in force for a period of 10 years from 25 November 2011, until 24 November 2021, after which period no further Option shall be granted. In respect of Options remaining outstanding on the expiration of the 10-year period, the provisions of the Share Option Scheme shall remain in full force and effect.

A total of 273,000,000 share options under the Share Option Scheme were granted on 10 December 2018 at a consideration of HK$1 paid by each participant.

Each half (1/2) of the 164,800,000 share options shall become vested and exercisable on 10 December 2019 and 2020, respectively.

Each quarter (1/4) of the 108,200,000 share options shall become vested and exercisable on 10 December 2019, 2020, 2021 and 2022, respectively.

All vested options shall be exercisable until 9 December 2023.

Share options under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

2. Outstanding Share Options Granted

A total of 273,000,000 share options were granted to 103 participants by the Company on 10 December 2018 under the Share Option Scheme, including 7 directors.

Details of movements of share options under the Share Option Scheme during the year ended 31 December 2018 are set out below:

Category of grantees	Name of director	Date of grant	Exercise price (HK$)	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2018	Vesting and exercise period
Executive director	Mr. ZHANG Yongli	10 December 2018	0.2114	–	3,000,000	–	–	–	3,000,000	Note 1
Executive director	Mr. SUN David Lee	10 December 2018	0.2114	–	10,000,000	–	–	–	10,000,000	Note 1
Executive director	Ms. HUANG Xiaoyun	10 December 2018	0.2114	–	20,000,000	–	–	–	20,000,000	Note 1
Non-executive director	Mr. WANG Wei	10 December 2018	0.2114	–	3,000,000	–	–	–	3,000,000	Note 1
Independent non-executive director	Mr. KWONG Wilson Wai Sun	10 December 2018	0.2114	–	3,000,000	–	–	–	3,000,000	Note 1
Independent non-executive director	Mr. CUI Yi	10 December 2018	0.2114	–	3,000,000	–	–	–	3,000,000	Note 1
Independent non-executive director	Mr. YEUNG Chi Wai	10 December 2018	0.2114	–	3,000,000	–	–	–	3,000,000	Note 1
Employees in aggregate	–	10 December 2018	0.2114	–	218,000,000	–	–	–	218,000,000	Note 2
Other eligible grantees in aggregate	–	10 December 2018	0.2114	–	10,000,000	–	–	–	10,000,000	Note 1

Note 1: Each half of the outstanding options as at 31 December 2018 shall become vested and exercisable on 10 December 2019 and 2020, respectively. All vested options shall be exercisable until 9 December 2023.

Note 2: 109,800,000 of the outstanding options as at 31 December 2018 shall become vested and exercisable on 10 December 2019 and 2020 in equal portions, whereas 108,200,000 outstanding options shall become vested and exercisable on 10 December 2019, 2021, 2021 and 2022 in equal portions. All vested options shall be exercisable until 9 December 2023.

PRE-IPO SHARE OPTION SCHEME

The Company operates a Pre-IPO Share Option Scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to, and continuing efforts to promote the interests of, the Group. It was conditionally approved by the written resolutions of the shareholders passed on 25 November 2011. A total of 205,552,000 share options under the Pre-IPO Share Option Scheme were granted on 9 December 2011 to 20 participants, including 6 current Directors, at a consideration of HK$1 paid by each participant. No further options would be granted under the Pre-IPO Share Option Scheme.

Details of movements of the Share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2018 are set out below:

Category of grantees	Name of director	Date of grant	Exercise price (HK$)	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding at 31.12.2018
Executive director	Mr. LO Peter (resigned on 22 June 2018)	25 November 2011	1.64	5,082,000	–	–	–	(5,082,000)	–
Executive director	Mr. ZHANG Yongli	25 November 2011	1.64	5,082,000	–	–	–	(5,082,000)	–
Executive director	Mr. SUN David Lee	25 November 2011	1.64	2,082,000	–	–	–	(2,082,000)	–
Executive director	Ms. HUANG Xiaoyun	25 November 2011	1.64	3,600,000	–	–	–	(3,600,000)	–
Independent non-executive director	Mr. KWONG Wilson Wai Sun	25 November 2011	1.64	250,000	–	–	–	(250,000)	–
Independent non-executive director	Mr. CUI Yi	25 November 2011	1.64	250,000	–	–	–	(250,000)	–
Independent non-executive director	Mr. YEUNG Chi Wai	25 November 2011	1.64	250,000	–	–	–	(250,000)	–
Employees in aggregate	–	25 November 2011	1.64	24,328,000	–	–	–	(24,328,000)	–
Other eligible grantees in aggregate	–	25 November 2011	1.64	1,082,000	–	–	–	(1,082,000)	–

A total of 42,006,000 share options under the Pre-IPO Share Option Scheme outstanding as at 1 January 2018 were lapsed in full. 5,082,000 of the share options were lapsed in full on 22 June 2018 as a result of the resignation of Mr. LO Peter. The remaining 36,924,000 share options were lapsed in full on 9 December 2018.

Details of the share options granted by the Company under the Share Option Scheme and the Pre-IPO Share Option Scheme are set out on pages 132 to 136 of the annual report.

Saved as disclosed above, no share option granted under the Share Option Scheme or the Pre-IPO Share Option Scheme was granted, exercised, forfeited, lapsed or cancelled during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2018.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2018.

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

As at 31 December 2018, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	**Nature of Interest**	**Number of Shares**	**Percentage of the Company's Issued Share Capital** (Note 7)
Mr. ZHANG Yongli	(1)	Corporate interest	839,748,000	24.37
	(1)	Beneficial owner	12,028,000	0.35
Vinglory Holdings Limited	(1)	Corporate interest	839,748,000	24.37
CEC Outfitters Limited	(1)	Beneficial owner	839,748,000	24.37
The Li Family (PTC) Limited	(2)	Trustee	463,316,000	13.45
Ms. LAM Lai Ming	(2)	Other	463,316,000	13.45
Mr. LI Gabriel	(2)	Other	463,316,000	13.45
YM Investment Limited	(3)	Corporate interest	463,316,000	13.45
Orchid Asia IV Investment, Limited	(3)	Corporate interest	454,162,000	13.18
Orchid Asia IV Group, Limited	(3)	Corporate interest	454,162,000	13.18
Orchid Asia IV Group Management, Limited	(3)	Corporate interest	454,162,000	13.18
OAIV Holdings, L.P.	(3)	Corporate interest	454,162,000	13.18
Orchid Asia IV, L.P.	(3)	Beneficial owner	454,162,000	13.18
Mr. KRAVIS Henry Roberts	(4)	Corporate interest	285,366,000	8.28
Mr. ROBERTS George R.	(4)	Corporate interest	285,366,000	8.28
KKR Management LLC	(4)	Corporate interest	285,366,000	8.28
KKR & Co. L.P.	(4)	Corporate interest	285,366,000	8.28
KKR Group Limited	(4)	Corporate interest	285,366,000	8.28
KKR Fund Holdings GP Limited	(4)	Corporate interest	285,366,000	8.28
KKR Group Holdings L.P.	(4)	Corporate interest	285,366,000	8.28
KKR Fund Holdings L.P.	(4)	Corporate interest	285,366,000	8.28
KKR China Growth Limited	(4)	Corporate interest	285,366,000	8.28
KKR SP Limited	(4)	Corporate interest	285,366,000	8.28
KKR Associates China Growth L.P.	(4)	Corporate interest	285,366,000	8.28
KKR China Growth Fund L.P.	(4)	Corporate interest	285,366,000	8.28
KKR China Apparel Limited	(4)	Beneficial owner	285,366,000	8.28
Ms. HUANG Xiaoyun	(5)	Beneficial owner	210,600,000	6.11
Mr. SHEN Chengjian	(6)	Beneficial owner	112,150,000	3.25
	(6)	Interest of spouse	168,904,000	4.90
Ms. XIAO Wenqing	(6)	Beneficial owner	168,904,000	4.90
	(6)	Interest of spouse	112,150,000	3.25
Ms. ZHANG Kailun		Beneficial owner	173,000,000	5.02

Notes:

(1.1) CEC Outfitters Limited, holding 839,748,000 shares (long position) of the Company, was wholly owned by Vinglory and Vinglory was wholly owned by Mr. ZHANG Yongli.

(1.2) Mr. ZHANG Yongli held interests in a total of 12,028,000 shares (long position) of the Company, including 3,000,000 underlying shares interested as a result of holding share options.

(2) YM Investment Limited, holding 463,316,000 shares (long position) of the Company, was owned by The Li 2007 Family Trust with Mr. LI Gabriel and Ms. LAM Lai Ming as founders and The Li Family (PTC) Limited as trustee.

(3) YM Investment Limited held interests in a total of 463,316,000 shares (long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) Orchid Asia IV, L.P. held 454,162,000 shares (long position) in the Company. Orchid Asia IV, L.P. was wholly owned by OAIV Holdings, L.P. which was in turn wholly owned by Orchid Asia IV Group Management, Limited. Orchid Asia IV Group Management, Limited was wholly owned by Orchid Asia IV Group, Limited which was in turn wholly owned by Orchid Asia IV Investment, Limited. Orchid Asia IV Investment, Limited was owned as to 92.61% by YM Investment Limited.

(3.2) Orchid Asia IV Co-Investment, Limited held 9,154,000 shares (long position) in the Company. Orchid Asia IV Co-Investment Limited was a wholly owned subsidiary of YM Investment Limited.

(4) KKR China Apparel Limited, holding 285,366,000 shares (long position) of the Company, was owned as to 90% by KKR China Growth Fund L.P. KKR Associates China Growth L.P. ("KKR Associates") is the general partner of KKR China Growth Fund L.P. KKR SP Limited is the voting partner of KKR Associates while KKR China Growth Limited is the general partner of KKR Associates. KKR China Growth Limited was wholly owned by KKR Fund Holdings L.P. KKR Fund Holdings GP Limited is the general partner of KKR Fund Holdings L.P. KKR Group Holdings L.P. is the general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings G.P. Limited. KKR Group Limited is the general partner of KKR Group Holdings L.P. KKR Group Limited was wholly owned by KKR & Co. L.P. while KKR Management LLC is the general partner of KKR & Co. L.P. Each of Mr. KRAVIS Henry Roberts and Mr. ROBERTS George R. is a designated member of KKR Management LLC. Mr. KRAVIS Henry Roberts and Mr. ROBERTS George R. disclaim any beneficial ownership interest in the shares held by KKR China Apparel Limited. The interest in 285,366,000 shares (long position) relates to the same block of shares in the Company.

(5) Ms. HUANG Xiaoyun held interests in a total of 210,600,000 shares (long position) of the Company, including 20,000,000 underlying shares interested as a result of holding share options.

(6) Mr. SHEN Chengjian held interests in 112,150,000 shares (long position) of the Company and his spouse Ms. XIAO Wenqing held 168,904,000 shares (long position) of the Company. Mr. Shen is deemed to be interested in the 168,904,000 shares held by Ms. Xiao and Ms. Xiao is deemed to be interested in the 112,150,000 shares held by Mr. Shen.

(7) The percentage is calculated based on the total number of issued shares of the Company as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RIGHTS TO PURCHASE SHARES OR DEBENTURES OF DIRECTORS

Save as disclosed under the sections headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" and "Share option schemes" above, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE DEED OF NON-COMPETITION

During the year, none of the controlling shareholders of CEC Outfitters Limited, Vinglory, nor any of their respective associates is a director or a shareholder of any business apart from the business of the Group which competes or likely to compete, either directly or indirectly, with the business of the Group.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

The Board is not aware of any circumstances resulting in the responsibility of disclosure under Rules 13.21 and 13.22 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 31 December 2018 and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group.

REMUNERATION POLICY

The Group's remuneration policies are formulated on the performance of individual employee and on the basis of the salary trends in the PRC and Hong Kong, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted the Share Option Scheme for its employees.

PENSION SCHEME

Details of the retirement benefits plans of the Group are set out in note 2.4 under the heading "Other employee benefits" to the financial statements.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event took place subsequent to 31 December 2018 of the Group are set out in note 44 to the financial statements.

CORPORATE GOVERNANCE

A report on the principal governance practices adopted by the Company is set out on pages 23 to 34 of the annual report.

AUDIT COMMITTEE

The Company established the Audit Committee pursuant to the Resolutions in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting and oversee the risk management and internal control systems and internal audit function of the Group. At present, the Audit Committee of the Company consists of three members who are Mr. KWONG Wilson Wai Sun, Mr. CUI Yi and Mr. YEUNG Chi Wai. Mr. KWONG Wilson Wai Sun is the chairman of the Audit Committee. The Company's and the Group's financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

ZHANG Yongli
Chairman
Hong Kong

18 March 2019

Independent Auditor's Report

安永

To the shareholders of China Outfitters Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Outfitters Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
The Group is principally engaged in the business of design, manufacturing and sale of apparel products. As at 31 December 2018, the inventory balance of the Group amounted to RMB220,751,000. The extent of write-down and reversal of write-down of the Group's apparel products to net realisable value is subject to changing customer demands and fashion trends, and this involves significant judgement and increases the level of estimation uncertainty. Related changes in the estimation might have a significant impact on the consolidated financial statements. The disclosure of write-down and reversal of write-down of inventories to net realisable value is included in note 3 to the consolidated financial statements.	Our audit procedures included reviewing the impairment test schedule prepared by management, evaluating management's inventory ageing reports, selecting samples covering each ageing period of the ageing reports and tracing back to the original goods receipts and invoices to evaluate the ageing period in the ageing reports, performing financial analytical review on inventory turnover days and comparing the turnover days with those for other listed entities of the same industry where available, performing subsequent sales review on the inventory consumptions, reviewing the test of inventory's net realisable value performed by management, and performing stock taking procedures at the end of the year.
Impairment of intangible assets with indefinite lives	
The Group classified the trademarks of "London Fog", "Artful Dodger", "Zoo York" and "MCS" as intangible assets with indefinite lives. The Group performs impairment reviews of the carrying values of trademarks as at each year end based on a forecast of operating performance, cash flows and key assumptions such as growth rates and discount rates. The impairment of these trademarks recognised in profit or loss amounted to RMB2,250,000 during the year ended 31 December 2018. Management made assumptions of the long-term growth rate, the discount rate and the assumptions underlying future operating cash flows based on their forecast and estimation on the future development of the menswear business, which involved significant judgement and estimations. Related changes in the estimations might have a significant impact on the consolidated financial statements. The disclosures of impairment of intangible assets with indefinite lives are included in notes 3, 21 and 22 to the consolidated financial statements.	Our audit procedures included obtaining the approved five-year forecast and budget from senior management, discussing with management on significant assumptions, including management's market strategy and related supporting evidence, comparing the assumptions used with the historical figures and growth rates, researching into market and industrial figures from available public external data with regard to customer demand, market development, commodity prices, and growth rates to evaluate the assumptions, performing our own sensitivity analyses to assess the range of acceptable valuations, and employing our internal specialist to assist us with our review of the impairment assessment model.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is *LAW KWOK KEE*.

Ernst & Young
Certified Public Accountants
Hong Kong
18 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**898,295**	918,340
Cost of sales		**(215,983)**	(291,912)
Gross profit		**682,312**	626,428
Other income and gains	5	**47,135**	25,698
Selling and distribution expenses		**(495,697)**	(477,177)
Administrative expenses		**(63,573)**	(59,612)
Impairment losses on financial assets, net	8	**(4,371)**	(796)
Other expenses		**(79,880)**	(46,621)
Operating profit		**85,926**	67,920
Finance income	6	**20,726**	28,664
Finance costs	7	**—**	(4,398)
Share of profits and losses of:			
Joint ventures		**2,563**	1,454
An associate		**(1,242)**	(456)
PROFIT BEFORE TAX	8	**107,973**	93,184
Income tax expense	11	**(47,138)**	(37,405)
PROFIT FOR THE YEAR		**60,835**	55,779
Attributable to:			
Owners of the parent		**60,179**	54,850
Non-controlling interests		**656**	929
		60,835	55,779
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the year	13	**RMB1.76 cents**	RMB1.60 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR		**60,835**	55,779
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		–	(3,716)
Income tax effect		–	929
		–	(2,787)
Exchange differences:			
Exchange differences on translation of financial statements		**13,152**	27,649
		13,152	27,649
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**13,152**	24,862
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(35,398)**	–
Income tax effect		**5,345**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(30,053)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(16,901)**	24,862
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**43,934**	80,641
Attributable to:			
Owners of the parent		**43,276**	79,810
Non-controlling interests		**658**	831
		43,934	80,641

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**255,315**	241,718
Prepaid land lease payments	15	**40,368**	41,417
Investment properties	16	**48,724**	28,865
Investments in joint ventures	17	**37,129**	141,923
Investment in an associate	18	**14,039**	14,606
Equity investments designated at fair value through other comprehensive income	19	**26,172**	—
Available-for-sale investments	19	**—**	60,961
Goodwill	20	**72,123**	70,697
Other intangible assets	21	**124,889**	81,300
Deferred tax assets	23	**188,096**	178,692
Total non-current assets		**806,855**	860,179
CURRENT ASSETS			
Inventories	24	**220,751**	170,828
Properties under development	25	**145,438**	69,153
Trade and bills receivables	26	**113,166**	117,156
Prepayments and other receivables	27	**89,728**	154,935
Dividend receivable		**5,136**	10,095
Financial assets at fair value through profit or loss	28	**225,000**	—
Structured bank deposits	28	**101,958**	494,735
Pledged deposits	29	**4,911**	—
Cash and cash equivalents	29	**427,581**	199,695
Total current assets		**1,333,669**	1,216,597
CURRENT LIABILITIES			
Trade and bills payables	30	**36,548**	25,045
Other payables and accruals	31	**134,038**	130,486
Tax payable		**172,714**	158,509
Total current liabilities		**343,300**	314,040
NET CURRENT ASSETS		**990,369**	902,557
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,797,224**	1,762,736

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**18,894**	26,929
Total non-current liabilities		**18,894**	26,929
Net assets		**1,778,330**	1,735,807
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	**280,661**	280,661
Shares held for share award scheme	34	**(10,031)**	(9,781)
Reserves	35	**1,507,905**	1,464,222
		1,778,535	1,735,102
Non-controlling interests		**(205)**	705
Total equity		**1,778,330**	1,735,807

ZHANG Yongli
Director

HUANG Xiaoyun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to the owners of the parent												
	Share capital RMB'000 (note 32)	Shares held for Share Award Scheme RMB'000 (note 34)	Capital redemption reserve RMB'000	Merger reserve RMB'000 (note 35(a))	Acquisition reserve RMB'000 (note 35(b))	Share option reserve RMB'000 (note 33)	Available-for-sale investment revaluation/ Fair value reserve RMB'000	Statutory surplus reserve RMB'000 (note 35(c))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	280,661	(9,781)	543	389,848	(186,036)	14,014	(2,787)	60,988	8,774	1,178,878	1,735,102	705	1,735,807
Effect of adoption of IFRS 9	–	–	–	–	–	–	(874)	–	–	(1,140)	(2,014)	–	(2,014)
At 1 January 2018 (restated)	280,661	(9,781)	543	389,848	(186,036)	14,014	(3,661)	60,988	8,774	1,177,738	1,733,088	705	1,733,793
Profit for the year	–	–	–	–	–	–	–	–	–	60,179	60,179	656	60,835
Other comprehensive income for the year:													
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	(30,053)	–	–	–	(30,053)	–	(30,053)
Exchange differences on translation of financial statements	–	–	–	–	–	–	–	–	13,150	–	13,150	2	13,152
Total comprehensive income for the year	–	–	–	–	–	–	(30,053)	–	13,150	60,179	43,276	658	43,934
Appropriations to statutory surplus reserve	–	–	–	–	–	–	–	1,548	–	(1,548)	–	–	–
Lapse of share options	–	–	–	–	–	(14,014)	–	–	–	14,014	–	–	–
Share award scheme arrangements	–	(250)	–	–	–	–	–	–	–	–	(250)	–	(250)
Equity-settled share option arrangements	–	–	–	–	–	853	–	–	–	–	853	–	853
Acquisition of non-controlling interests	–	–	–	–	1,568	–	–	–	–	–	1,568	(1,568)	–
At 31 December 2018	280,661	(10,031)	543*	389,848*	(184,468)*	853*	(33,714)*	62,536*	21,924*	1,250,383*	1,778,535	(205)	1,778,330

* These reserve accounts comprise the consolidated reserves of RMB1,507,905,000 (2017: RMB1,464,222,000) in the consolidated statement of financial position.

	Attributable to the owners of the parent												
	Share capital RMB'000 (note 32)	Shares held for Share Award Scheme RMB'000 (note 34)	Capital redemption reserve RMB'000	Merger reserve RMB'000 (note 35(a))	Acquisition reserve RMB'000 (note 35(b))	Share option reserve RMB'000 (note 33)	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note 35(c))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	280,661	(7,591)	543	389,848	(186,036)	27,547	–	48,542	(18,973)	1,122,941	1,657,482	(126)	1,657,356
Profit for the year	–	–	–	–	–	–	–	–	–	54,850	54,850	929	55,779
Other comprehensive income for the year:													
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(2,787)	–	–	–	(2,787)	–	(2,787)
Exchange differences related to financial statements	–	–	–	–	–	–	–	–	27,747	–	27,747	(98)	27,649
Total comprehensive income for the year	–	–	–	–	–	–	(2,787)	–	27,747	54,850	79,810	831	80,641
Appropriations to statutory surplus reserve	–	–	–	–	–	–	–	12,446	–	(12,446)	–	–	–
Lapse of share options	–	–	–	–	–	(13,533)	–	–	–	13,533	–	–	–
Share award scheme arrangements	–	(2,190)	–	–	–	–	–	–	–	–	(2,190)	–	(2,190)
At 31 December 2017	280,661	(9,781)	543	389,848	(186,036)	14,014	(2,787)	60,988	8,774	1,178,878	1,735,102	705	1,735,807

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**107,973**	93,184
Adjustments for:			
Finance income	6	**(20,726)**	(28,664)
Finance costs	7	**—**	4,398
Share of profits and losses of joint ventures and an associate		**(1,321)**	(998)
Dividend income from equity investments at fair value through other comprehensive income	5	**(1,351)**	—
Loss on remeasurement of the previously held interest in a joint venture	8	**62,563**	—
(Gain)/Loss on disposal of items of property, plant and equipment		**(375)**	41
Loss on disposal of:			
Derivative financial instruments — transactions not qualifying as hedges	8	**—**	10,365
Fair value loss, net:			
Financial assets at fair value through profit or loss	8	**458**	—
Depreciation of items of property, plant and equipment	8	**16,277**	14,885
Depreciation of investment properties	8	**1,692**	1,978
Amortisation of prepaid land lease payments	8	**1,048**	924
Amortisation of intangible assets	8	**1,572**	1,572
Impairment of other intangible assets	8	**2,250**	10,776
(Reversal of write-down)/Write-down of inventories to net realisable value	8	**(40,372)**	64,003
Impairment of trade receivables	8	**4,371**	796
Write-off of uncollectible trade receivables	8	**—**	1,699
Write-off of uncollectible other receivables	8	**2,500**	—
Equity-settled share option expense		**853**	—
		137,412	174,959
(Increase)/decrease in inventories		**(43,881)**	26,977
Increase in properties under development		**(30,853)**	(34,547)
(Increase)/decrease in trade and bills receivables		**1,265**	(14,086)
(Increase)/decrease in prepayments and other receivables		**38,691**	(10,584)
Increase/(decrease) in trade and bills payables		**8,314**	(7,444)
Decrease in other payables and accruals		**(18,135)**	(9,968)
Cash generated from operations		**92,813**	125,307
Interest paid		**—**	(4,398)
Withholding tax paid		**(11,277)**	(6,035)
PRC corporate income tax paid		**(29,435)**	(43,569)
Net cash flows from operating activities		**52,101**	71,305

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		**52,101**	71,305
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(50,567)**	(3,448)
Proceeds from disposal of items of property, plant and equipment		**1,091**	598
Dividends received from a joint venture		**4,959**	—
Dividends received from listed investments		**1,351**	—
Increase in short term deposits with original maturity of over three months		**(141,982)**	(69,306)
Interest received from bank deposits		**8,109**	1,202
Interest received from structured bank deposits		**10,778**	21,933
(Increase)/Decrease in structured bank deposits		**167,777**	(20,535)
Decrease in pledged time deposits		**—**	425,700
Loan to a third-party entity		**—**	(31,000)
Repayment of a loan from a third party		**30,000**	—
Loan to a joint venture		**(7,541)**	—
Acquisition of a subsidiary	36	**3,332**	—
Purchase of an equity investment at fair value through other comprehensive income/available-for-sale investment		**—**	(48,795)
Prepayment for shareholding in an associate	36	**—**	(33,436)
Net cash flows from investing activities		**27,307**	242,913
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**—**	(384,639)
Purchases of shares for share award scheme		**(250)**	(2,190)
Net cash flows used in financing activities		**(250)**	(386,829)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**79,158**	(72,611)
Effect of foreign exchange rate changes, net		**11,657**	42,254
Cash and cash equivalents at beginning of year		**127,389**	157,746
CASH AND CASH EQUIVALENTS AT END OF YEAR		**218,204**	127,389

	Notes	2018 RMB'000	2017 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**130,983**	127,389
Time deposits		**296,598**	72,306
Cash and cash equivalents as stated in the consolidated statement of financial position	29	**427,581**	199,695
Time deposits with original maturity of less than three months when acquired, pledged as security for issuing of bank acceptance notes	29	**4,911**	—
Less: Time deposits with original maturity of over three months		**(214,288)**	(72,306)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**218,204**	127,389

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of its principal place of business is Room 1303, 13/F, New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2011 (the "Listing Date").

The principal activity of the Company is investment holding. The Group is principally engaged in the business of design, manufacturing, marketing and sale of apparel products and accessories in the People's Republic of China (the "PRC", or "China" which excludes, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan), with a focus on menswear. There has been no significant change in the Group's principal activities during the year.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Doright Group Limited	BVI	US$1	100	–	Investment holding
CEC Menswear Limited	Hong Kong	HK$100	–	100	Investment holding
Faith Enterprise Limited	Hong Kong	HK$100	–	100	Investment holding
Sky Trend Hong Kong Investment Limited	Hong Kong	HK$10,000	–	100	Investment holding
Zoo York (China) Limited	Hong Kong	HK$10,000	88	–	Investment holding
Lincs (China) Limited	Hong Kong	HK$13,750,000	84	–	Investment holding
London Fog (China) Limited ("London Fog (China)")	Hong Kong	RMB9,000,000	100	–	Holding trademarks and investment holding
Manhattan (China) Limited	Hong Kong	RMB10,000,000	75	–	Investment holding
Shanghai Doright Fashion Co., Ltd. (上海同瑞服飾有限公司) ("Shanghai Doright") # * (1)	PRC	US$8,500,000	–	100	Manufacture and sale of menswear, womenswear and accessories
Dezhou Sino-Union Garment Co., Ltd. (德州中合服飾有限公司) ("DZ Sino-union") # * (1)	PRC	US$600,000	–	100	Manufacture and sale of menswear and accessories
Dezhou Suomanke Fashion Co., Ltd (德州索曼克服飾有限公司) # * (1)	PRC	RMB500,000	–	100	Sale of menswear and accessories
Guangdong Leaderway Garment Co., Ltd. (廣東利威製衣有限公司） # * (2)	PRC	RMB3,000,000	–	100	Manufacture and sale of menswear and accessories

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Shanghai Baowei Fashion Co., Ltd. (上海保威服飾有限公司) # * (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Shanghai Bolderway Fashion Co., Ltd. (上海保德威服飾有限公司) # * (2)	PRC	RMB6,000,000	–	100	Sale of menswear, womenswear and accessories
Beijing Bolderway Fashion Co., Ltd. (北京保德威服飾有限公司) # * (2)	PRC	RMB3,000,000	–	100	Sale of menswear, womenswear and accessories
Sichuan Bolderway Trading Co., Ltd. (四川保德威商貿有限公司) # * (2)	PRC	RMB300,000	–	100	Retail trading of menswear and accessories
Guangzhou Ruitang Trading Co., Ltd. (廣州瑞唐貿易有限公司) # * (2)	PRC	RMB500,000	–	100	Retail trading of menswear and accessories
Shanghai Jiancheng Trading Co., Ltd. (上海簡成商貿有限公司) # * (2)	PRC	RMB3,000,000	–	100	Sale of menswear and accessories
London Fog (Shanghai) Fashion Co., Ltd. (倫頓弗格（上海）服飾有限公司) # (2)	PRC	RMB10,000,000	–	100	Sale of menswear, womenswear and accessories
Shanghai Ruiguo Fashion Co., Ltd. (上海瑞國服飾有限公司) # (1)	PRC	US$1,000,000	100	–	Sale of menswear, womenswear and accessories
Shanghai Ruihe Fashion Co., Ltd. (上海瑞合服飾有限公司) # (2)	PRC	RMB5,000,000	–	100	Sale of menswear, womenswear and accessories
Shanghai Manhattan Fashion Co., Ltd. (上海曼克頓服飾有限公司) # (1)	PRC	US$1,000,000	–	75	Sale of menswear
Shanghai Ruiguo Real Estate Co., Ltd. (上海瑞國置業有限公司) # (2)	PRC	RMB5,000,000	–	100	Property development, operation and management
Shanghai Ruiquan Information Technology Co., Ltd. (上海瑞全信息科技有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of software
Zoo York (Shanghai) Fashion Co., Ltd. (卓約（上海）服飾有限公司) # (1)	PRC	HK$1,200,000	–	100	Sale of menswear and accessories
Lincs (Shanghai) Fashion Co., Ltd. (菱科斯（上海）服飾有限公司) # (1)	PRC	HK$10,000,000	–	84	Sale of menswear and accessories
Shanghai Greg Norman Fashion Co., Ltd. (上海籍恩服飾有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Wuxi Pulande Technology Co., Ltd. (無錫普蘭德科技有限公司) # (2)	PRC	RMB40,000,000	–	100	Purchase and sale of menswear and accessories
Jinan MCS Coffee Co., Ltd. (濟南曼瑟斯咖啡有限公司) # (2)	PRC	RMB100,000	–	100	Sale of coffee
Huangshan Ruikai Trading Co., Ltd. (黃山瑞凱商貿有限公司) # (2)	PRC	RMB5,000,000	–	100	Purchase and Sale of menswear and accessories

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Jiangxi Yunrui Fashion Co., Ltd. (江西雲瑞服飾有限公司) # (2)	PRC	RMB5,000,000	–	100	Sale of menswear and accessories
Tianjin Ruilang Management Consulting Co., Ltd. (天津瑞朗企業管理諮詢有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Chengdu Ruilang Management Consulting Co., Ltd. (成都市瑞琅企業管理諮詢有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Changsha Ruiting Management Consulting Co., Ltd. (長沙瑞霆企業管理諮詢有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Wuhan Ruizhen Management Consulting Co., Ltd. (武漢瑞臻企業管理諮詢有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Jinan Ruiting Management Consulting Co., Ltd. (濟南瑞廷企業管理諮詢有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Suzhou Gerui Fashion Co., Ltd. (宿州格瑞服飾有限公司) # (2)	PRC	RMB1,000,000	–	100	Sale of menswear and accessories
Guangdong Junrui Industrial Co., Ltd. (廣東君瑞實業有限公司) # (2)	PRC	RMB45,000,000	–	100	Holding and leasing of properties
Focus Asia Investment Holdings Limited (3)	Seychelles	US$1	100	–	Investment holding
MCS Apparel Hong Kong Limited (3)	Hong Kong	HK$35,645,730	50	50	Purchase and sale of menswear and accessories
MCS Apparel Macao Company Limited (3)	Macao	MOP$6,511,900	–	100	Retail trading of fashion apparel and complementary accessories
MCS Greater China Brands S.a.r.l. (3)	Luxembourg	€12,500	–	100	Holding trademarks
MCS Trading (Shanghai) Limited (意美勁貿易（上海）有限公司) # (2) (3)	PRC	HK$5,000,000	–	100	Retail trading of fashion apparel and complementary accessories
MCS Outfitters (Shanghai) Limited (上海曼瑟斯服飾有限公司) # (2) (3)	PRC	RMB500,000	–	100	Manufacture and sale of menswear and accessories

\# The English names of the Company's subsidiaries registered in the PRC represent the translated names of these companies as no English names have been registered.

* These companies are hereinafter collectively referred to as the "PRC Doright Group" which was acquired in 2006.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Notes:

(1) Wholly-foreign-owned enterprises under PRC law.

(2) Limited liability companies under PRC law.

(3) During the year, the Group acquired a 100% interest of Focus Asia Investment Holdings Limited ("Focus Asia"), which held the rest of a 50% interest in MCS Apparel Hong Kong Limited, MCS Apparel Macao Company Limited, MCS Greater China Brands S.a.r.l., MCS Trading (Shanghai) Limited and MCS Outfitters (Shanghai) Limited (collectively "MCS Group"). Accordingly, the Group has obtained control of MCS Group during the year. Further details of this acquisition are included in note 36 to the consolidated financial statements.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and a trust (the "Share Award Scheme Trust"), a controlled special purpose entity, are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

The Board of directors (the "Board") has approved a share award scheme (the "Share Award Scheme") to provide incentives to employees of the Group and to retain and encourage employees for the continual operation and development of the Group. Pursuant to the rules of the Share Award Scheme, the Group has set up the Share Award Scheme Trust for the purpose of administering the Share Award Scheme and holding the award shares before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees, who have been awarded the awarded shares through their continued relationship with the Group, the Group is required to consolidate the Share Award Scheme Trust under IAS 27 (Revised) *Separate Financial Statements*.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

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

(b) *(Continued)*

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of consolidated financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement					IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	60,961	–	(874)	60,087	FVOCI[1] (equity)
From: Available-for-sale investments								
– Listed equity investment	(i)			45,079	–	–		
– Unlisted equity investment	(ii)			15,882	–	–		
Available-for-sale investments		AFS[2]	60,961	(60,961)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income								
– Listed equity investment	(i)			(45,079)	–	–		
– Unlisted equity investment	(ii)			(15,882)	–	–		
Trade and bills receivables		L&R[3]	117,156	–	(1,978)	–	115,178	AC[4]
Financial assets included in prepayments and other receivables		L&R	67,212	–	–	–	67,212	AC
Financial assets at fair value through profit or loss		FVPL[5]	–	389,100	–	458	389,558	FVPL (mandatory)
From: Structured bank deposits	(iii)			389,100	–	–		
Structured bank deposits		AC	494,735	(389,100)	–	–	105,635	AC
To: Financial assets at fair value through profit or loss	(iii)			(389,100)	–	–		
Cash and cash equivalents		L&R	199,695	–	–	–	199,695	AC
			939,759	–	(1,978)	(416)	937,365	
Other assets								
Deferred tax assets			178,692	–	494	–	179,186	
Total assets			2,076,776	–	(1,484)	(416)	2,074,876	

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

(b) *(Continued)*

Classification and measurement *(Continued)*

		IAS 39 measurement					IFRS 9 measurement	
	Notes	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial liabilities								
Trade and bills payables		AC	25,045	–	–	–	25,045	AC
Financial liabilities included in other payables and accruals		AC	37,808	–	–	–	37,808	AC
			62,853	–	–	–	62,853	
Other liabilities								
Deferred tax liabilities			26,929	–	–	114	27,043	
Total liabilities			340,969	–	–	114	341,083	

1 FVOCI: Financial assets at fair value through other comprehensive income

2 AFS: Available-for-sale investments

3 L&R: Loans and receivables

4 AC: Financial assets or financial liabilities at amortised cost

5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for sale listed equity investment as equity investments at fair value through other comprehensive income.

(ii) The Group has reclassified its previous available-for-sale unlisted equity investments as equity investment at fair value through other comprehensive income.

(iii) The Group has classified certain of its structured bank deposits with floating interest rates as financial assets at fair value through profit or loss as these structured bank deposits did not pass the contractual cash flow characteristics test in IFRS 9.

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

(b) *(Continued)*

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in note 26 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	ECL allowances under IFRS 9 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	1,958	1,978	3,936

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and Retained profits
	RMB'000
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	2,787
Remeasurement of equity investment designated at fair value through other comprehensive income previously measured at cost under IAS 39	874
Balance as at 1 January 2018 under IFRS 9	3,661
Retained profits	
Balance as at 31 December 2017 under IAS 39	1,178,878
Recognition of expected credit losses for trade and bills receivables under IFRS 9	(1,978)
Reclassification of structured bank deposits to financial assets at fair value through profit or loss	458
Deferred tax in relation to the above	380
Balance as at 1 January 2018 under IFRS 9	1,177,738

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

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Sale of goods

The Group mainly engages in the business of design, manufacturing, marketing and sale of apparel products and accessories. The Group's contracts with customers for the sales of goods generally include one performance obligation. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on the delivery of the goods. Therefore, the adoption of IFRS 15 has not had an impact on the timing of revenue recognition.

(ii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as receipt in advance included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB53,061,000 from receipt in advance included in other payables and accruals to contract liabilities included in other payables and accruals as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB47,336,000 was reclassified from receipt in advance included in other payables and accruals to contract liabilities in relation to the consideration received from customers in advance for the sale of products.

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

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB43,870,000 and lease liabilities of RMB43,870,000 will be recognised at 1 January 2019.

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

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

The Group's share of the post-acquisition results and other comprehensive income of an associate and joint ventures is included in the consolidated statement of profit or loss and the consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint ventures are eliminated to the extent of the Group's investments in the associate or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate or joint ventures is included as part of the Group's investments in the associate or joint ventures.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

Buildings	2%
Plant and machinery	9%
Motor vehicles	11%
Office and other equipment	19%

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

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

Construction in progress represents buildings and plant and machinery under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in lands and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over the estimated useful lives. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the item can be measured reliably. All other repairs and maintenance costs are expensed in profit or loss for the period in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Properties under development are stated at cost, which include all development expenditures, including land costs, interest charges and other costs directly attributable to such properties.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle.

Properties under development are valued at the lower of cost and net realisable value at the end of the reporting period and any excess of cost over net realisable value of an individual item of properties under development is accounted for as a provision. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Licensing agreements

Licensing agreements acquired in a business combination are stated at cost less any impairment losses and are amortised on the straight-line basis over their respective estimated useful lives ranging from two to seven years.

Retail networks

Retail networks acquired in a business combination represent flagship stores and department stores operated by the PRC Doright Group at the acquisition date. The retail networks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of twenty years, being the operation tenure of the group companies engaged in the retail business.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Trademarks

The trademarks of "London Fog", "Artful Dodger", "Zoo York" and "MCS" are classified as intangible assets with indefinite useful lives. The Directors are of the opinion that the trademarks will contribute cash flows for an indefinite period and the legal rights of the trademarks are capable of being renewed at minimal cost. The trademarks are stated at cost less any impairment losses.

Leases

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

Initial recognition and measurement *(Continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- 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 principal amount outstanding.

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

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

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

Financial assets designated at fair value through other comprehensive income (equity instruments) *(Continued)*

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

This category includes structured bank deposits with floating interest rates whose cash flow characteristics fail the SPPI criteria or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivable and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognised in finance costs in the consolidated statement of profit or loss for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments *(Continued)*

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

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

General approach

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

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

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

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

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

Simplified approach

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

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

Financial assets carried at amortised cost *(Continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, and other payables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(Continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) Sale of products

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

Revenue from other sources

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

Other income

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) rental income, on a time proportion basis over the lease terms.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the binomial option pricing model, further details of which are given in note 33 and note 34 to the financial statements.

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

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

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

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

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

The dilutive effect of outstanding options and awarded shares through new issue of shares is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Shares held for the Share Award Scheme

As disclosed in note 34 to the financial statements, the Group has set up the Share Award Scheme Trust for the Share Award Scheme, where the Share Award Scheme Trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from the Group's equity.

Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF scheme.

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

The functional currency of the Company is Hong Kong dollar, these financial statements are presented in RMB. The turnover of the Group is entirely contributed by the business in Mainland China and the presentation currency of RMB could provide users of the financial statements with more comparable information with other companies in similar industries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 23 below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Tax *(Continued)*

The Group's determination as to whether to accrue for deferred tax for withholding taxes from the distribution of dividends from the subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future. No deferred tax for withholding taxes is provided for the year.

Estimation uncertainty

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

Write-down of inventories to net realisable value

A write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/reversal of write-down of inventories in the year in which the estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB72,123,000 (2017: RMB70,697,000). More details are given in notes 20 and 22 below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the assets or cash-generating units and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 22 below.

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the business of the design, manufacturing, marketing and sale of apparel products and accessories in the PRC, with a focus on menswear.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, does not contain profit or loss information of each product line and the Directors reviewed the financial results of the Group as a whole reported under IFRSs. Therefore, the operation of the Group constitutes one single reportable segment. Accordingly, no operating segment is presented.

All of the external revenues of the Group during the financial year presented are attributable to customers established in the PRC, the place of domicile of the Group's operating entities. Since the principal non-current assets held by the Group are all located in the PRC, no geographical information required by IFRS 8 is presented.

No revenue from a single external customer amounted to 10% or more of the Group's revenue during the financial year presented.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers		
Sale of goods	**898,295**	918,340

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	Total
	RMB'000
Type of goods	
Sale of apparel and accessories	**898,295**
Timing of revenue recognition	
Goods transferred at a point in time	**898,295**

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers *(Continued)*

(ii) Performance obligation

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

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery, except for third-party retailers, where payment in advance is normally required.

	2018 RMB'000	2017 RMB'000
Other income		
Government subsidies*	**38,675**	21,887
Rental income, net	**3,832**	514
Sale of software	**1,647**	872
External order processing income	**969**	1,992
Sale of consumables, net	**66**	150
Dividend income from equity investments at fair value through other comprehensive income	**1,351**	—
Others	**595**	283
	47,135	25,698

* These represent incentive subsidies provided by local governments as a measure to attract investments in these localities. The amounts of these subsidies are generally determined by reference to value-added tax, corporate income tax, city maintenance and construction tax and other taxes paid by the Group's operating entities in these localities, but are subject to the government's further discretion.

6. FINANCE INCOME

	2018 RMB'000	2017 RMB'000
Interest income on bank deposits	**8,109**	1,202
Interest income on structured bank deposits	**12,153**	26,516
Others	**464**	946
	20,726	28,664

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**—**	4,398

8. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**238,649**	212,675
Depreciation:			
Property, plant and equipment	14	**16,277**	14,885
Investment properties	16	**1,692**	1,978
		17,969	16,863
Amortisation of prepaid land lease payments*	15	**1,048**	924
Amortisation of other intangible assets*	21	**1,572**	1,572
Lease payments under operating leases in respect of buildings and retail outlets		**187,680**	194,532
Auditor's remuneration		**2,753**	2,418
Employee benefit expenses (including Directors' remuneration (note 9)):			
Wages and salaries		**118,542**	102,229
Equity-settled share option expense		**853**	—
Pension scheme contributions		**16,640**	14,187
		136,035	116,416
Impairment of other intangible assets^	22	**2,250**	10,776
Impairment of financial assets, net:			
Impairment of trade and bills receivables, net		**4,371**	796
		4,371	796
Loss on disposal of:			
Derivative financial instruments — transactions not qualifying as hedges		**—**	10,365
Fair value losses, net:			
Financial assets at fair value through profit or loss — structured bank deposits		**458**	—
Dividend income from equity investments at fair value through other comprehensive income	5	**(1,351)**	—
Loss on remeasurement of the previously held interest in a joint venture	36	**62,563**	—
Write-down and reversal of write-down of inventories to net realisable value#		**(40,372)**	64,003
Write-off of uncollectible trade receivables		**—**	1,699
Write-off of uncollectible other receivables		**2,500**	—

* The amortisation of prepaid land lease payments and the amortisation of other intangible assets for the year are included in "Administrative expenses" and "Selling and distribution expenses" in the consolidated statement of profit or loss.

\# The write-down and reversal of write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss.

^ The impairment of other intangible assets is included in "Other expenses" in the consolidated statement of profit or loss.

9. DIRECTORS' REMUNERATION

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

	2018 **RMB'000**	2017 RMB'000
Fees	**2,440**	2,920
Other emoluments:		
Salaries, allowances and benefits in kind	**3,153**	3,231
Equity-settled share option expense	**161**	—
Pension scheme contributions	**76**	74
	3,390	3,305
	5,830	6,225

During the year and in prior years, certain directors were granted share options, in respect of their services to the Group, under the Share Option Scheme and the Pre-IPO Share Option Scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

(a) Independent non-executive Directors

The remuneration paid to independent non-executive Directors during the year was as follows:

	Fees RMB'000	**Equity-settled share option expense** RMB'000	**Total remuneration** RMB'000
2018			
KWONG Wilson Wai Sun (鄺偉信)	**200**	**11**	**211**
CUI Yi (崔義)	**200**	**11**	**211**
YEUNG Chi Wai (楊志偉)	**200**	**11**	**211**
	600	**33**	**633**
2017			
KWONG Wilson Wai Sun (鄺偉信)	200	—	200
CUI Yi (崔義)	200	—	200
YEUNG Chi Wai (楊志偉)	200	—	200
	600	—	600

There were no other emoluments payable to the independent non-executive Directors during the year (2017: Nil).

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive Directors and non-executive Directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive Directors:					
LO Peter (路嘉星) *	300	–	–	8	308
ZHANG Yongli (張永力)	600	2,460	11	38	3,109
SUN David Lee (孫如暐)	380	–	35	15	430
HUANG Xiaoyun (黃曉雲)	380	693	71	15	1,159
	1,660	3,153	117	76	5,006
Non-executive Director:					
WANG Wei (王瑋)	180	–	11	–	191
	180	–	11	–	191
	1,840	3,153	128	76	5,197

* Mr. LO Peter has tendered his resignation as an executive director of the Company with effect from 22 June 2018.

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive Directors and non-executive Directors *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017				
Executive Directors:				
LO Peter (路嘉星)	600	–	16	616
ZHANG Yongli (張永力)	600	2,520	30	3,150
SUN David Lee (孫如暐)	380	–	15	395
HUANG Xiaoyun (黃曉雲)	380	711	13	1,104
	1,960	3,231	74	5,265
Non-executive Directors:				
WANG Wei (王瑋)	180	–	–	180
LIN Yang (林煬) #	180	–	–	180
	360	–	–	360
	2,320	3,231	74	5,625

Mr. LIN Yang has tendered his resignation as a non-executive director of the Company with effect from 29 December 2017.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2017: three), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2017: two) highest paid employee who is neither a Director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**428**	868
Equity-settled share option expense	**35**	–
Pension scheme contributions	**15**	29
	478	897

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**1**	2

During the year and in prior years, share options were granted to two non-Director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

11. INCOME TAX EXPENSE

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

The Company incorporated in the Cayman Islands and its subsidiary incorporated in the BVI are exempted from taxation.

No provision for Hong Kong profits tax has been made, as the Group had no assessable profits derived from or earned in Hong Kong during the year.

In accordance with the relevant PRC income tax rules and regulations, the Group's subsidiaries registered in the PRC are subject to Corporate Income Tax ("CIT") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2018.

	2018	2017
	RMB'000	RMB'000
Current — PRC		
Charge for the year	**42,491**	65,323
Deferred (note 23)	**4,647**	(27,918)
Total tax charge for the year	**47,138**	37,405

11. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., statutory tax rate) to the effective tax rate, are as follows:

	2018		2017	
	RMB'000	%	RMB'000	%
Profit before tax	107,973		93,184	
Tax charge at the statutory tax rate	26,993	25	23,296	25
Entities subject to lower statutory income tax rates	3,456	5	(490)	(1)
Effect of withholding tax on distributable profits of certain PRC subsidiaries	3,021	3	2,842	3
Effect of withholding tax on service fees	2,439	2	2,575	3
Profits and losses attributable to an associate	311	–	114	–
Profits and losses attributable to joint ventures	(641)	(1)	(363)	–
Adjustments in respect of current tax of previous periods	(7,344)	(7)	(2,448)	(3)
Tax losses and deductible temporary difference not recognised	18,520	17	11,615	13
Others	383	–	264	–
Tax charge at the Group's effective tax rate	47,138	44	37,405	40

12. DIVIDENDS

The Board does not recommend to declare any final dividends for the years ended 31 December 2018 and 31 December 2017.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,425,479,627 (2017: 3,431,537,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 31 December 2017 in respect of a dilution as the impact of the share options under the Share Option Scheme outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculation of basic earnings per share is based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	60,179	54,850

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue	3,445,450,000	3,445,450,000
Weighted average number of shares purchased for the Share Award Scheme	(19,970,373)	(13,913,000)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	3,425,479,627	3,431,537,000

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
At 1 January 2017, net of accumulated depreciation	261,807	4,205	5,314	3,797	275,123
Additions	–	245	2,846	357	3,448
Transferred to investment properties	(18,654)	–	–	–	(18,654)
Disposals	–	–	(614)	(25)	(639)
Depreciation provided during the year	(9,644)	(759)	(2,526)	(1,956)	(14,885)
Exchange realignment	(2,637)	–	–	(38)	(2,675)
At 31 December 2017 and 1 January 2018, net of accumulated depreciation	230,872	3,691	5,020	2,135	241,718
Additions	45,310	1,859	1,380	2,018	50,567
Transferred to investment properties	(21,551)	–	–	–	(21,551)
Acquisition from a subsidiary (note 36)	–	–	–	82	82
Disposals	–	(5)	(679)	(32)	(716)
Depreciation provided during the year	(12,269)	(795)	(1,743)	(1,470)	(16,277)
Exchange realignment	1,401	–	–	91	1,492
At 31 December 2018, net of accumulated depreciation	243,763	4,750	3,978	2,824	255,315
At 31 December 2017:					
Cost	282,060	10,464	19,111	16,575	328,210
Accumulated depreciation	(51,188)	(6,773)	(14,090)	(14,441)	(86,492)
Net carrying amount	230,872	3,691	5,021	2,134	241,718
At 31 December 2018:					
Cost	312,629	12,318	15,456	21,892	362,295
Accumulated depreciation	(68,866)	(7,568)	(11,478)	(19,068)	(106,980)
Net carrying amount	243,763	4,750	3,978	2,824	255,315

As at 31 December 2018, one certificate of ownership in respect of a warehouse in Chengdu with a net carrying amount of approximately RMB4,714,000 (2017: three certificates of ownership in respect of properties in Haikou with a net carrying amount of RMB17,339,000 and one certificate of ownership in respect of a warehouse in Chengdu with a net carrying amount of approximately RMB5,072,000) has not been issued by the relevant PRC authority. The Group is in the process of obtaining the relevant certificates.

15. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**42,465**	85,685
Transfer to properties under development during the year	**–**	(34,606)
Transfer to investment properties during the year	**–**	(7,690)
Amortisation charged during the year	**(1,048)**	(924)
Carrying amount at 31 December	**41,417**	42,465
Current portion included in prepayments and other receivables	**(1,049)**	(1,048)
Non-current portion	**40,368**	41,417

16. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost at 1 January, net of accumulated depreciation	**28,865**	4,499
Transfer from property, plant and equipment and prepaid land lease payments, net	**21,551**	26,344
Depreciation provided during the year	**(1,692)**	(1,978)
At 31 December	**48,724**	28,865
At 31 December:		
Cost	**58,702**	37,151
Accumulated depreciation	**(9,978)**	(8,286)
Net carrying amount	**48,724**	28,865

The Group's investment properties are situated in the PRC and are leased to third parties under operating leases, further summary details of which are included in note 38(a) below.

The Group's investment properties were revalued on 31 December 2018 by Dezhou Tianqu Assets Appraisals Co., Ltd. (德州天衢資產評估有限公司), independent professionally qualified valuers, at RMB89,526,000 (31 December 2017: RMB56,721,000) on an open market, existing use basis.

16. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Commercial properties	**—**	**—**	**89,526**	**89,526**

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Commercial properties	—	—	56,721	56,721

17. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	33,449	85,477
Goodwill on acquisition	–	56,446
	33,449	141,923
Loans to join ventures	3,680	–
	37,129	141,923

The loans to joint ventures are unsecured, interest-free and repayable on demand. In the opinion of the Directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the joint ventures.

Particulars of the Group's material joint ventures are as follows:

		Percentage of			
Name	Place of registration and business	ownership interest	voting power	profit sharing	Principal activity
MCS Apparel Hong Kong Limited*	Hong Kong	–	–	–	Sale of menswear and accessories
Henry Cotton's Greater China Company Limited	Hong Kong	50	50	50	Sale of menswear and accessories
Marina Yachting Hong Kong Limited	Hong Kong	50	50	50	Sale of menswear and accessories

The above investments are directly held by the Company.

* On 12 September 2018, the Group obtained control of MCS Apparel Hong Kong Limited through acquiring a 100% interest of Focus Asia, the joint shareholder of MCS Apparel Hong Kong Limited, MCS Apparel Hong Kong Limited is no longer a joint venture of the Group since then. Further details are included in note 36 to the consolidated financial statements.

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

(i) MCS Apparel Hong Kong Limited

The following table illustrates the summarised financial information of MCS Apparel Hong Kong Limited reconciled to the carrying amount in the financial statements at the acquisition date:

	12 September 2018 RMB'000	31 December 2017 RMB'000
Cash and cash equivalents	**6,376**	27,588
Other current assets	**24,603**	33,332
Current assets	**30,979**	60,920
Non-current assets	**61,799**	64,585
Current financial liabilities (excluding trade and other payables)	**–**	(11,618)
Other current liabilities	**(7,347)**	(10,237)
Current liabilities	**(7,347)**	(21,855)
Other non-current liabilities	**(405)**	(1,137)
Non-current liabilities	**(405)**	(1,137)
Net assets	**85,026**	102,513
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture	**42,513**	51,257
Goodwill on acquisition	**56,446**	56,446
Carrying amount of the investment	**98,959**	107,703
Revenue	**4,851**	19,132
Depreciation and amortisation	**(127)**	(191)
Income tax expense	**(601)**	(1,500)
Other comprehensive income/(loss)	**107**	(382)
Loss and total comprehensive loss for the year	**(3,580)**	(1,484)

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

(ii) Henry Cotton's Greater China Company Limited

Henry Cotton's Greater China Company Limited, which is considered a material joint venture of the Group, acts as the Group's operation centre of an apparel business branded "Henry Cotton's" and is accounted for using the equity method. The financial statements of the joint venture have the same reporting date as the Group.

The following table illustrates the summarised financial information of Henry Cotton's Greater China Company Limited reconciled to the carrying amount in the financial statements:

	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**1,974**	4,438
Other current assets	**14,660**	4,382
Current assets	**16,634**	8,820
Non-current assets	**35,963**	35,682
Current financial liabilities (excluding trade and other payables)	**(8,938)**	(7,860)
Other current liabilities	**(2,027)**	(1,932)
Current liabilities	**(10,965)**	(9,792)
Other non-current liabilities	**–**	–
Non-current liabilities	**–**	–
Net assets	**41,632**	34,710
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture	**20,816**	17,355
Carrying amount of the investment	**20,816**	17,355
Revenue	**103**	225
Income tax expense	**(278)**	(240)
Other comprehensive loss	**(559)**	(686)
Loss and total comprehensive loss for the year	**(1,621)**	(2,218)

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

(iii) Marina Yachting Hong Kong Limited

Marina Yachting Hong Kong Limited, which is considered a material joint venture of the Group, acts as the Group's operation centre of an apparel business branded "Marina Yachting" and is accounted for using the equity method. The financial statements of the joint venture have the same reporting date as the Group.

The following table illustrates the financial information of Marina Yachting Hong Kong Limited reconciled to the carrying amount in the financial statements:

	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**1,461**	3,752
Other current assets	**11,561**	6,923
Current assets	**13,022**	10,675
Non-current assets	**32,152**	32,152
Current financial liabilities (excluding trade and other payables)	**(2,789)**	(2,661)
Other current liabilities	**(9,759)**	(6,435)
Current liabilities	**(12,548)**	(9,096)
Net assets	**32,626**	33,731
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture	**16,313**	16,865
Carrying amount of the investment	**16,313**	16,865
Revenue	**2,195**	1,510
Other comprehensive income/(loss)	**(180)**	934
Loss and total comprehensive loss for the year	**(2,641)**	(1,837)

18. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Share of net assets	13,784	14,616
Goodwill on acquisition	1,065	1,065
Exchange realignment	(810)	(1,075)
	14,039	14,606

Particulars of the Group's material associate are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
China Mingmen Investment Group Limited	Ordinary shares	Hong Kong	40	Development, manufacture and sale of alcohol and drink products

China Mingmen Investment Group Limited, which is considered a material associate of the Group, is accounted for using the equity method.

18. INVESTMENT IN AN ASSOCIATE *(Continued)*

The following table illustrates the summarised financial information of China Mingmen Investment Group Limited reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	518	2,939
Other current assets	9,182	7,972
Current assets	9,700	10,911
Non-current assets	23,784	23,934
Other current liabilities	(1,050)	(992)
Current liabilities	(1,050)	(992)
Net assets	32,434	33,853
Reconciliation to the Group's interest in an associate:		
Proportion of the Group's ownership	40%	40%
Group's share of net assets of an associate	12,974	13,541
Goodwill on acquisition	1,065	1,065
Carrying amount of the investment	14,039	14,606
Revenue	4	—
Other comprehensive loss	(466)	(1,499)
Loss and total comprehensive loss for the year	(3,107)	(1,138)

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 RMB'000	2017 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investment, at fair value		
Guangdong Shaoneng Group Co., Ltd.	24,769	–
Unlisted equity investment, at fair value		
CCF Investment Limited	1,403	–
	26,172	–
Available-for-sale investments		
Listed equity investments, at fair value	–	45,079
Unlisted equity investment, at cost	–	15,882
	–	60,961

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group received dividends in the amounts of RMB1,351,000 from Guangdong Shaoneng Group Co., Ltd.

20. GOODWILL

	RMB'000
Cost and net carrying amount:	
At 1 January 2017 and 31 December 2017	70,697
At 1 January 2018	70,697
Acquisition from a subsidiary (note 36)	1,426
At 31 December 2018	72,123

No impairment loss provision for the carrying value of goodwill has been considered necessary by the Directors as at the end of the financial period. Impairment testing of goodwill is detailed in note 22 below.

21. OTHER INTANGIBLE ASSETS

	Licensing agreements RMB'000	Retail networks RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2017, net of accumulated amortisation and impairment	7,940	2,470	88,683	99,093
Amortisation charged during the year	(1,323)	(249)	–	(1,572)
Impairment during the year	–	–	(10,776)	(10,776)
Exchange realignment	–	–	(5,445)	(5,445)
At 31 December 2017 and 1 January 2018, net of accumulated amortisation and impairment	6,617	2,221	72,462	81,300
Acquisition from a subsidiary (note 36)	–	–	43,994	43,994
Amortisation charged during the year	(1,323)	(249)	–	(1,572)
Impairment during the year	–	–	(2,250)	(2,250)
Exchange realignment	–	–	3,417	3,417
At 31 December 2018, net of accumulated amortisation and impairment	5,294	1,972	117,623	124,889
At 31 December 2017:				
Cost	97,460	4,981	110,292	212,733
Accumulated amortisation and impairment	(90,843)	(2,760)	(37,830)	(131,433)
Net carrying amount	6,617	2,221	72,462	81,300
At 31 December 2018:				
Cost	97,460	4,981	157,703	260,144
Accumulated amortisation and impairment	(92,166)	(3,009)	(40,080)	(135,255)
Net carrying amount	5,294	1,972	117,623	124,889

The Group has classified the trademarks of "London Fog", "Artful Dodger", "Zoo York" and "MCS" as intangible assets with indefinite lives. The Group has performed impairment reviews of the carrying values of trademarks as at 31 December 2018 based on a forecast of operating performance, cash flows and the key assumptions as detailed in note 22 below. Based on the result of the impairment test, the recoverable amounts of the trademarks of "London Fog", "Artful Dodger", "Zoo York" and "MCS" were RMB25,476,000, RMB14,058,000, RMB36,489,000 and RMB46,600,000 as at 31 December 2018, respectively. Accordingly, management determined that there was impairment of the trademark of "London Fog", and recognised an impairment charge of RMB2,250,000 (2017: impairment of the trademarks of "London Fog", "Zoo York" and "Artful Dodger" of RMB7,168,000, RMB1,146,000 and RMB2,462,000, respectively), which was recorded within other expenses in the consolidated statement of profit or loss.

22. IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES

Goodwill acquired through business combinations is allocated to the Group's cash-generating units (the "Menswear cash-generating units") for impairment testing.

The recoverable amount of the Menswear cash-generating units has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period approved by senior management. For the year ended 31 December 2018, the discount rate applied to the cash flow projections is 19.0% (2017: 19.0%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2017: 3%) which does not exceed the projected long term average growth rate for the relevant industry in Mainland China.

The recoverable amount of the trademarks with indefinite lives has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period approved by senior management. For the year ended 31 December 2018, the discount rates applied to the cash flow projection were 20.0% (2017: 20.0%) for London Fog, 27.0% (2017: 27.0%) for Artful Dodger, 24.0% (2017: 24.0%) for Zoo York and 19.2% for MCS and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2017: 3%) which does not exceed the projected long term average growth rate for the relevant industry in Mainland China.

Assumptions were used in the value in use calculation of the Menswear cash-generating units and the trademarks with indefinite lives. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and trademarks:

Budgeted gross profit margins

Budgeted gross profit margins are based on average values achieved historically. These are adjusted over the budget period in accordance with anticipated efficiency improvements and expected market developments.

Discount rates

The discount rates used are before tax and reflect specific risks relating to the Menswear cash-generating units and the trademarks with indefinite lives.

In the opinion of the Directors, any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts of goodwill and trademarks with indefinite lives to exceed their recoverable amounts, respectively.

23. DEFERRED TAX

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

Deferred tax assets

	Impairment of assets RMB'000	Unrealised profits RMB'000	Losses available for offsetting against future taxable profits RMB'000	Fair value adjustments from financial instruments RMB'000	Total RMB'000
At 1 January 2017	134,951	10,209	4,620	–	149,780
Deferred tax credited/(charged) to the consolidated statement of profit or loss and the consolidated statement of comprehensive income during the year (note 11)	16,589	(291)	11,685	929	28,912
At 31 December 2017 and 1 January 2018	151,540	9,918	16,305	929	178,692
Effect of adoption of IFRS 9	494	–	–	–	494
At 1 January 2018 (restated)	152,034	9,918	16,305	929	179,186
Acquisition from a subsidiary (note 36)	2,174	–	3,315	–	5,489
Deferred tax credited/(charged) to the consolidated statement of profit or loss and the consolidated statement of comprehensive income during the year (note 11)	(8,974)	(1,375)	8,425	5,345	3,421
At 31 December 2018	145,234	8,543	28,045	6,274	188,096

The Group had tax losses arising in the PRC of approximately RMB123,741,000 and RMB164,057,000 as at 31 December 2017 and 2018, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of the losses amounting to RMB51,877,000 as at 31 December 2018 (31 December 2017: RMB58,523,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

The Group has recognised deferred tax assets in respect of the losses arising in the PRC of approximately RMB112,180,000 as at 31 December 2018 (31 December 2017: RMB65,218,000), the utilisation of which is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The amount of deferred tax assets is based on the profit forecast approved by the management of the Group.

23. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Fair value adjustments arising from acquisitions RMB'000	Fair value adjustments from financial instruments RMB'000	Withholding tax on distributable profits of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2017	5,008	2,593	19,263	26,864
Deferred tax charged/(credited) to the consolidated statement of profit or loss and the consolidated statement of comprehensive income during the year (note 11)	(184)	(2,593)	2,842	65
At 31 December 2017 and 1 January 2018	4,824	–	22,105	26,929
Effect of adoption of IFRS 9	–	114	–	114
At 1 January 2018 (restated)	4,824	114	22,105	27,043
Acquisition from a subsidiary (note 36)	–	–	405	405
Deferred tax transferred out in respect of withholding tax paid by a PRC subsidiary	–	–	(11,277)	(11,277)
Deferred tax charged/(credited) to the consolidated statement of profit or loss and the consolidated statement of comprehensive income during the year (note 11)	(184)	(114)	3,021	2,723
At 31 December 2018	4,640	–	14,254	18,894

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

At 31 December 2018, the Group has not recognised deferred tax liabilities of RMB24,053,000 (2017: RMB22,039,000) in respect of temporary differences relating to the unremitted profits of the Group's subsidiaries established in the PRC amounting to RMB481,056,000 (2017: RMB440,786,000), that would be payable on the distribution of these profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

24. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	16,587	13,358
Work in progress	8,805	8,526
Finished goods	195,359	148,944
	220,751	170,828

25. PROPERTIES UNDER DEVELOPMENT

	2018 RMB'000	2017 RMB'000
Properties under development expected to be recovered:		
Within one year	145,438	69,153
Carrying amount at end of year	145,438	69,153

The Group's properties under development are located in the PRC and situated on leasehold land with long term leases.

26. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	121,475	118,564
Bills receivable	123	550
Impairment	(8,432)	(1,958)
	113,166	117,156

The Group's trading terms with its customers are mainly on credit, except for third-party retailers, where payment in advance is normally required. The credit period normally ranges from 30 to 90 days. The Group grants a longer credit period to those long-standing customers with good payment history.

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

26. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, and the balances of bills receivables, are as follows:

	2018 RMB'000	2017 RMB'000
Trade receivables		
Within 60 days	103,588	115,390
61 to 90 days	3,738	500
91 to 180 days	2,042	207
181 to 360 days	3,675	100
Over 360 days	—	409
	113,043	116,606
Bills receivable	123	550
	113,166	117,156

The bills receivable are due to mature within three months.

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

	2018 RMB'000	2017 RMB'000
At beginning of year	1,958	1,162
Effect of adoption of IFRS 9	1,978	—
At beginning of year (restated)	3,936	1,162
Acquisition from a subsidiary (note 36)	125	—
Impairment losses, net	4,371	796
At end of year	8,432	1,958

26. TRADE AND BILLS RECEIVABLES *(Continued)*

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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

As at 31 December 2018

	Less than 1 year	Over 1 year	Total
Expected credit loss rate	**4.82%**	**100.00%**	**6.94%**
Gross carrying amount (RMB'000)	**118,768**	**2,707**	**121,475**
Expected credit losses (RMB'000)	**5,725**	**2,707**	**8,432**

The Group's bills receivable have been accepted by notable banks with high credit ratings. As at 31 December 2018, the probability of default and the loss given default were estimated to be minimal.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade and bills receivables of RMB1,958,000 with a carrying amount before provision of RMB5,454,000.

The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

26. TRADE AND BILLS RECEIVABLES *(Continued)*

Impairment under IAS 39 for the year ended 31 December 2017 *(Continued)*

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were neither individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	112,444
1 to 180 days past due	707
181 to 360 days past due	509
	113,660

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

27. PREPAYMENTS AND OTHER RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Prepayments	**46,040**	87,723
Deposits and other receivables	**43,688**	67,212
	89,728	154,935

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. As at 31 December 2018, the probability of default and the loss given default of prepayments and other receivables were estimated to be minimal.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/STRUCTURED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss		
Structured bank deposits, at fair value	**225,000**	—
Structured bank deposits		
Structured bank deposits, in licensed banks in the PRC, at amortised cost	**101,958**	494,735

The above structured bank deposits at fair value at 31 December 2018 were wealth management products issued by banks in the PRC. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

29. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**130,983**	127,389
Time deposits	**301,509**	72,306
	432,492	199,695
Less: Pledged deposits	**(4,911)**	—
Cash and cash equivalents	**427,581**	199,695

* Bank deposits pledged for issuing of bank acceptance notes amounted to RMB4,911,000(2017:Nil).

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Hong Kong Dollar ("HK$"), US Dollar ("US$") and EUR ("€") amounted to RMB310,400,000, RMB3,603,000 and RMB89,000, respectively (2017: RMB57,460,000, RMB3,239,000 and RMB22,000, respectively). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and short term deposits are deposited with creditworthy banks with no recent history of default.

30. TRADE AND BILLS PAYABLES

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

	2018	2017
	RMB'000	RMB'000
Trade payables		
Within 30 days	**26,873**	20,305
31 to 90 days	**3,639**	2,350
91 to 180 days	**1,136**	1,043
181 to 360 days	**1,600**	1,347
	33,248	25,045
Bills payables	**3,300**	—
	36,548	25,045

The trade and bills payables are non-interest-bearing and are normally settled on terms of 30 to 45 days.

31. OTHER PAYABLES AND ACCRUALS

		2018	2017
	Notes	**RMB'000**	RMB'000
Receipt in advance		**—**	53,061
Contract liabilities	(a)	**47,336**	—
Other payables	(b)	**36,821**	37,808
Accruals		**37,164**	15,767
Other taxes payable		**12,717**	23,850
		134,038	130,486

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of goods	**47,336**	53,061

(b) Other payables are non-interest-bearing and are due within one year.

32. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
3,445,450,000 (2017: 3,445,450,000) ordinary shares	**344,545**	344,545
Equivalent to RMB'000	**280,661**	280,661

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

33. SHARE OPTION SCHEMES

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme"), approved by the written resolutions of the shareholders passed on 25 November 2011 (the "Resolutions").

Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to provide incentives and/or rewards to the Directors, senior management and employees for their contribution to, and continuing efforts to promote the interests of, the Company. The principal terms of the Pre-IPO Share Option Scheme, approved by the Resolutions, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per share under the Pre-IPO Share Option Scheme is HK$1.64;

(b) the total number of shares which may be issued upon the exercise of all share options granted under the Pre-IPO Share Option Scheme is 205,552,000 shares, representing approximately 6.00% of the enlarged issued share capital of the Company immediately after the completion of IPO and the capitalisation issue (assuming that the Over-allotment Option is not exercised);

(c) save for the share options which have been granted, no further share options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and

(d) each share option granted under the Pre-IPO Share Option Scheme has a three-year exercise period after the vesting of the relevant option.

All share options under the Pre-IPO Share Option Scheme were granted on 9 December 2011 for a consideration of HK$1 paid by each participant.

33. SHARE OPTION SCHEMES *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

Each of the above share options is subject to a vesting schedule of four years pursuant to which one-fourth (1/4) of the share options shall become vested and exercisable on 9 December 2012, 2013, 2014 and 2015, respectively.

Share options under the Pre-IPO Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The movement in share options during the year is presented below:

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of share options '000**	Weighted average exercise price HK$ per share	Number of share options '000
At beginning of year	**1.64**	**42,006**	1.64	84,012
Lapsed during the year	**1.64**	**(42,006)**	1.64	(42,006)
At the end of year	**1.64**	**–**	1.64	42,006

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated at approximately RMB65,108,000, of which the Group recognised a share option expense of nil during the year ended 31 December 2018 (2017: Nil).

The fair value of the share options under the Pre-IPO Share Option Scheme granted was estimated as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

	First batch	**Second batch**	**Third batch**	**Fourth batch**
Dividend yield (%)	4.87	4.87	4.87	4.87
Expected volatility (%)	46.63	46.17	44.17	42.92
Risk-free interest rate (%)	0.58	0.75	0.90	1.03
Expected life of options (year)	3.94	4.94	5.94	6.94
Weighted average share price (HK$ per share)	1.49	1.49	1.49	1.49

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

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

No share option was exercised during the year. As at 31 December 2018, the Company had no share options outstanding under the Pre-IPO Share Option Scheme.

33. SHARE OPTION SCHEMES *(Continued)*

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and/or rewards to eligible participants for their contribution to and continuing efforts to promote the interest of the Company. Eligible participants of the Share Option Scheme include a) any proposed executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; b) a Director or proposed Director (including an independent non-executive Director) of any member of the Group; c) a direct or indirect shareholder of any member of the Group; d) a supplier of goods or services to any member of the Group; e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and g) an associate of any of the foregoing persons. The Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share options granted and yet to be exercised under any other scheme of the Company shall not, in aggregate, exceed 6% of the total number of shares in issue on the Listing Date (assuming that the Over-allotment Option is not exercised) until the expiration of the period from the Listing Date to the fourth anniversary of the Listing Date and 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive Directors, excluding the independent non-executive Director who or whose associates are the grantee. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of directors (the "Board"), and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the exercise price shall be at least the highest of: (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day; (b) the average of the closing prices of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (c) the nominal value of a share.

33. SHARE OPTION SCHEMES *(Continued)*

Share Option Scheme *(Continued)*

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2018	
	Weighted average exercise price HK$ per share	**Number of options '000**
At 1 January	–	–
Granted during the year	**0.2114**	**273,000**
At 31 December	**0.2114**	**273,000**

The exercise price and exercise period of the share options outstanding at the end of 2018 are as follows:

Date of grant	**Number of options** '000	**Exercise price** HK$ per share	**Exercise Period**
10 December 2018	109,450	0.2114	10 December 2019 to 9 December 2023
10 December 2018	109,450	0.2114	10 December 2020 to 9 December 2023
10 December 2018	27,050	0.2114	10 December 2021 to 9 December 2023
10 December 2018	27,050	0.2114	10 December 2022 to 9 December 2023

The fair value of the share options under the Share Option Scheme granted during the year was RMB22,720,000 (2017: Nil), of which the Group recognised a share option expense of RMB853,000 during the year ended 31 December 2018 (2017: Nil).

The fair value of the share options under the Share Option Scheme granted was estimated as at the date of grant, using the binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	0.00
Expected volatility (%)	58.41
Risk-free interest rate (%)	2.77
Weighted average share price (HK$ per share)	0.21

33. SHARE OPTION SCHEMES *(Continued)*

Share Option Scheme *(Continued)*

The expected volatility may not necessarily reflect the actual outcome.

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

No share option was exercised during the year. As at 31 December 2018, the Company had 273,000,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 273,000,000 additional ordinary shares of the Company and additional share capital of HK$27,300,000 (equivalent to RMB23,920,000) and share premium of HK$30,412,200 (equivalent to RMB26,647,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 273,000,000 share options outstanding under the Share Option Scheme, which represented approximately 7.9% of the Company's shares in issue as at that date.

34. SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme"), approved by the resolutions of the Board passed on 4 November 2014.

The specific purposes and objectives of the Share Award Scheme are to:

(a) recognise the contributions by certain employees and to give incentives to them in order to retain them for the continual operation and development of the Group; and

(b) attract suitable personnel for further development of the Group.

To facilitate the implementation of the Share Award Scheme, a trust deed is entered into by the Group and South Zone Holding Limited (the "Trustee") pursuant to which the Trustee shall purchase and hold shares for the benefit of certain employees of the Group and any subsidiary and in such manner as the Board may determine from time to time.

The Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date being 4 November 2014 unless being early terminated by a resolution of the Board.

The Board may from time to time at its absolute discretion, select any employee (excluding any excluded employee) for participation in the Share Award Scheme as a selected employee and grant to such selected employee the award shares for free or at a price/consideration per award share determined by the Board at its sole discretion.

The Trustee will hold the shares and any income derived from them in accordance with the terms of the trust deed.

34. SHARE AWARD SCHEME *(Continued)*

The Trustee purchased 1,372,000 shares of the Company at a total cost (including related transaction costs) of HK$292,000 (equivalent to RMB250,000) during the year ended 31 December 2018 (2017: The Trustee purchased 9,360,000 shares of the Company at a total cost (including related transaction costs) of HK$2,642,000 (equivalent to RMB2,190,000).

The Board has not yet granted any shares to any employees from 4 November 2014 to 31 December 2018.

35. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity on page 58 of the financial statements.

(a) The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the corporate reorganisation (the "Reorganisation") and the nominal value of the Company's shares issued in exchange therefor.

(b) The acquisition reserve represents the differences between considerations paid and the book value of the share of net assets acquired in respect of the acquisition of non-controlling interests.

(c) In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with generally accepted accounting principles in the PRC, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase the registered capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after these usages.

36. BUSINESS COMBINATION

On 12 September 2018, the Group acquired a 100% interest of Focus Asia Investment Holdings Limited. Focus Asia Investment Holdings Limited held the rest of a 50% interest in MCS Apparel Hong Kong Limited, a previous joint venture of the Group which is engaged in the sale of apparel products with the brand "MCS". Upon completion of the share purchase, the Company held 100% of the equity interest in Focus Asia Investment Holdings Limited and MCS Apparel Hong Kong Limited. The consideration for the acquisition consists of: (i) cash of HK$43,500,000 (equivalent to RMB37,822,000); and (ii) the fair value of the equity interest in MCS Apparel Hong Kong Limited previously held by the Company immediately before the acquisition of RMB36,396,000. As a result of the remeasurement of equity interest in MCS Apparel Hong Kong Limited from its carrying amount immediately before the acquisition of RMB98,959,000 to its fair value of RMB36,396,000, a loss of RMB62,563,000 (note 8) was recognised in the consolidated statement of profit or loss during the year ended 31 December 2018.

36. BUSINESS COMBINATION *(Continued)*

The fair values of the identifiable assets and liabilities of MCS Apparel Hong Kong Limited as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	82
Other intangible assets	21	43,994
Deferred tax assets	23	5,489
Cash and cash equivalents		6,376
Trade and bills receivables	26	3,624
Prepayments and other receivables		7,092
Inventories		13,887
Trade and bills payables		(3,189)
Other payables and accruals		(4,158)
Deferred tax liabilities	23	(405)
Total identifiable net assets at fair value		72,792
Goodwill on acquisition	20	1,426
		74,218
Satisfied by:		
Cash		37,822
Fair value of previously held equity interest remeasured as at the date of acquisition		36,396
		74,218

36. BUSINESS COMBINATION *(Continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(37,822)
Offset with a deposit#	33,436
Exchange alignment#	1,342
Cash and cash equivalents acquired	6,376
Net inflow of cash and cash equivalents included in cash flows from investing activities	3,332

As agreed by relevant parties, part of the cash consideration was offset with a refundable investment deposit made by the Group in 2017.

Since the acquisition, MCS Apparel Hong Kong Limited contributed RMB7,505,000 to the Group's revenue and loss of RMB3,972,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB913,305,000 and RMB52,235,000, respectively.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities:

	2018 Interest-bearing bank borrowings RMB'000
At 1 January 2018 and 31 December 2018	–

	2017 Interest-bearing bank borrowings RMB'000
At 1 January 2017	384,639
Changes from financing cash flows	(384,639)
At 31 December 2017	–

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**5,236**	2,984
In the second to fifth years, inclusive	**12,515**	9,075
	17,751	12,059

(b) As lessee

The Group leases certain of its retail outlets and office premises under non-cancellable operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

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

	2018	2017
	RMB'000	RMB'000
Within one year	**38,275**	30,569
In the second to fifth years, inclusive	**11,132**	9,022
	49,407	39,591

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b), the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Lands and buildings	**47,725**	69,928
	47,725	69,928

40. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group, including Directors' remuneration as detailed in note 9 above, is as follows:

	2018 HK$'000	2017 HK$'000
Fees	**2,440**	2,920
Salaries, allowances and benefits in kind	**4,674**	5,002
Equity-settled share option expenses	**461**	—
Pension scheme contributions	**224**	230
Total compensation paid to key management personnel	**7,799**	8,152

None of the transactions with related parties as described above falls under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules.

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Held for trading RMB'000	Equity instruments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	26,172	–	26,172
Trade and bills receivables	–	–	113,166	113,166
Financial assets included in prepayments and other receivables (note 27)	–	–	43,688	43,688
Financial assets at fair value through profit or loss	225,000	–	–	225,000
Structured bank deposits	–	–	101,958	101,958
Pledged bank deposits	–	–	4,911	4,911
Cash and cash equivalents	–	–	427,581	427,581
	225,000	26,172	691,304	942,476

2017

Financial assets	Held for trading RMB'000	Equity instruments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Available-for-sale investments	–	–	60,961	60,961
Trade and bills receivables	–	117,156	–	117,156
Financial assets included in prepayments, deposits and other receivables (note 27)	–	67,212	–	67,212
Structured bank deposits	494,735	–	–	494,735
Cash and cash equivalents	–	199,695	–	199,695
	494,735	384,063	60,961	939,759

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities	Financial liabilities at amortised cost	
	2018	2017
	HK$'000	HK$'000
Trade and bills payables	**36,548**	25,045
Financial liabilities included in other payables and accruals (note 31)	**36,821**	37,808
Interest-bearing bank borrowings	**—**	—
	73,369	62,853

42. FAIR VALUES AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**26,172**	—	**26,172**	—
Available-for-sale investments	**—**	45,079	**—**	45,079
Financial assets at fair value through profit or loss	**225,000**	—	**225,000**	—
	251,172	45,079	**251,172**	45,079

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, structured bank deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments and other receivables, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

42. FAIR VALUES AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

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

The fair values of listed equity investments are based on quoted market prices.

The Group invests in unlisted investments, which represent wealth management products issued by banks in the PRC. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Fair value hierarchy

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

Assets measured at fair value

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	**Significant observable inputs Level 2 RMB'000**	**Significant unobservable inputs Level 3 RMB'000**	**Total RMB'000**
Equity investments designated at fair value through other comprehensive income-listed	**24,769**	**–**	**–**	**24,769**
Equity investments designated at fair value through other comprehensive income-unlisted	**–**	**–**	**1,403**	**1,403**
Financial assets at fair value through profit or loss	**–**	**225,000**	**–**	**225,000**
	24,769	**226,403**	**–**	**251,172**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Available-for-sale investments	45,079	–	–	45,079

42. FAIR VALUES AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Assets measured at fair value *(Continued)*

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 **HK$'000**	2017 HK$'000
Equity investments at fair value through other comprehensive income-unlisted/available-for-sale investments — unlisted		
At 1 January	**—**	—
Effect of adoption of IFRS 9	**15,008**	—
At 1 January (restated)	**15,008**	—
Total losses recognised in other comprehensive loss	**(13,605)**	—
At 31 December	**1,403**	—

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 (2017: Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, the current portion of pledged bank deposits and structured bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below:

Foreign currency risk

All of the Group's turnover and substantially all of the Group's cost of sales and operating expenses are denominated in RMB. Accordingly, the transactional currency exposures of the Group are not significant. However, the Group's financial assets and liabilities including certain cash and cash equivalents denominated in Hong Kong dollars ("HK$") and United States dollars ("US$") are subject to foreign currency risk. Therefore, the fluctuations in the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ against RMB exchange rate, with all other variables held constant, of the Group's equity (due to changes in the fair values of monetary assets and liabilities):

	Increase/ (decrease) in HK$ exchange rate	**Increase/ (decrease) in equity***
	%	RMB'000
31 December 2018		
If RMB weakens against HK$	**5**	**(15,903)**
If RMB strengthens against HK$	**(5)**	**15,903**
31 December 2017		
If RMB weakens against HK$	5	(5,014)
If RMB strengthens against HK$	(5)	5,014

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	113,043	113,043
Bills receivables					
– Not yet past due	123	–	–	–	123
Financial assets included in prepayments and other receivables					
– Normal**	43,688	–	–	–	43,688
Pledged deposits					
– Not yet past due	4,911	–	–	–	4,911
Cash and cash equivalents					
– Not yet past due	427,581	–	–	–	427,581
	476,180	–	–	113,166	589,346

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 26 to the financial statements.

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

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's policy is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

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

	31 December 2018		
	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	**36,548**	**36,548**
Financial liabilities included in other payables and accruals	—	**36,821**	**36,821**
	—	**73,369**	**73,369**

	31 December 2017		
	On demand RMB'000	Less than 1 year RMB'000	Total RMB'000
Trade and bills payables	—	25,045	25,045
Financial liabilities included in other payables and accruals	—	37,808	37,808
	—	62,853	62,853

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade and bills payables and financial liabilities included in other payables and accruals less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Trade and bills payables	**36,548**	25,045
Financial liabilities included in other payables and accruals	**36,821**	37,808
Less: Cash and cash equivalents	**(427,581)**	(199,695)
Net debt	**(354,212)**	(136,842)
Capital — equity attributable to owners of the parent	**1,778,535**	1,735,102
Capital and net debt	**1,424,323**	1,598,260
Gearing ratio	**—**	—

44. EVENTS AFTER THE REPORTING PERIOD

There have been no events subsequent to the year end which require adjustment of or disclosure in the financial statements or notes thereto.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property	30,219	29,555
Other intangible assets	48,176	45,961
Investments in subsidiaries	1,567,602	1,493,383
Investments in joint ventures	18,931	109,880
Total non-current assets	1,664,928	1,678,779
CURRENT ASSETS		
Prepayments and other receivables	4,723	565
Amounts due from joint ventures	11,075	135,209
Amounts due from subsidiaries	100,467	78,082
Cash and cash equivalents	275,246	15,753
Total current assets	391,511	229,609
CURRENT LIABILITIES		
Amounts due to subsidiaries	389,836	336,367
Other payables and accruals	735	1,248
Total current liabilities	390,571	337,615
NET CURRENT ASSET/(LIABILITIES)	940	(108,006)
Net assets	1,665,868	1,570,773
EQUITY		
Issued capital	280,661	280,661
Shares held for share award scheme (note)	(10,031)	(9,781)
Reserves (note)	1,395,238	1,299,893
Total equity	1,665,868	1,570,773

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Capital redemption reserve RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Shares held for Share Award Scheme RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2017	543	2,646,255	27,547	(7,591)	152,577	(2,034,912)	784,419
Total comprehensive income for the year	–	–	–	–	28,813	479,070	507,883
Lapse of share options	–	–	(13,533)	–	–	13,533	–
Share Award Scheme	–	–	–	(2,190)	–	–	(2,190)
As at 31 December 2017 and 1 January 2018	543	2,646,255	14,014	(9,781)	181,390	(1,542,309)	1,290,112
Total comprehensive income for the year	–	–	–	–	5,248	89,244	94,492
Lapse of share options	–	–	(14,014)	–	–	14,014	–
Equity-settled share option arrangements	–	–	853	–	–	–	853
Share Award Scheme	–	–	–	(250)	–	–	(250)
As at 31 December 2018	543	2,646,255	853	(10,031)	186,638	(1,439,051)	1,385,207

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation detailed in the prospectus of the Company dated 29 November 2011, over the nominal value of the Company's shares issued in exchange therefor.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 18 March 2019.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	2018 **RMB'000**	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Results					
REVENUE	**898,295**	918,340	902,005	1,012,764	1,094,327
Cost of sales	**(215,983)**	(291,912)	(334,588)	(347,307)	(328,789)
Gross profit	**682,312**	626,428	567,417	665,457	765,538
Other income and gains	**47,135**	25,698	36,127	30,041	30,424
Selling and distribution expenses	**(495,697)**	(477,177)	(456,764)	(497,309)	(454,304)
Administrative expenses	**(63,573)**	(59,612)	(60,344)	(61,486)	(53,410)
Impairment losses on financial assets, net	**(4,371)**	(796)	—	—	—
Other expenses	**(79,880)**	(46,621)	(19,162)	(9,063)	(12,726)
Finance income	**20,726**	28,664	34,629	44,619	55,137
Finance costs	**—**	(4,398)	(6,681)	(12,003)	(7,512)
Share of profits and losses of:					
Joint ventures	**2,563**	1,454	484	(4,112)	(3,590)
An associate	**(1,242)**	(456)	—	—	—
PROFIT BEFORE TAX	**107,973**	93,184	95,706	156,144	319,557
Income tax expense	**(47,138)**	(37,405)	(52,351)	(53,434)	(116,646)
PROFIT FOR THE YEAR	**60,835**	55,779	43,355	102,710	202,911
Attributable to:					
Owners of the parent	**60,179**	54,850	45,403	104,837	203,607
Non-controlling interests	**656**	929	(2,048)	(2,127)	(696)

	2018 **RMB'000**	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets, Liabilities and Non-controlling interests					
TOTAL ASSETS	**2,140,524**	2,076,776	2,383,663	2,352,610	2,643,258
TOTAL LIABILITIES	**362,194**	340,969	726,307	729,819	1,006,206
Non-controlling interests	**(205)**	705	(126)	1,825	3,876