LILANZ 利郎

CHINA LILANG LIMITED
中國利郎有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1234)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "Board") of China Lilang Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018. This announcement, containing the full text of the 2018 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

BOARD COMMITTEES

Audit Committee

Mr. Nie Xing *(Chairman)*
Dr. Lu Hong Te
Mr. Lai Shixian

Remuneration Committee

Mr. Lai Shixian *(Chairman)*
Mr. Wang Cong Xing
Mr. Nie Xing

Nomination Committee

Mr. Wang Dong Xing *(Chairman)*
Dr. Lu Hong Te
Mr. Nie Xing

Risk Management Committee

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Cong Xing
Mr. Pan Rong Bin

COMPANY SECRETARY

Ms. Ko Yuk Lan

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Xing
Ms. Ko Yuk Lan

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3402
34th Floor, Lippo Centre
Tower One
No. 89 Queensway
Hong Kong

HEAD OFFICE IN THE PRC

Lilang Industrial Park
200 Chang Xing Road
Jinjiang City
Fujian Province
The PRC

SHARE REGISTRARS AND TRANSFER OFFICES

SMP Partners (Cayman) Limited

Royal Bank House
3rd Floor, 24 Shedden Road
P.O. BOX 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Share Registrar

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

AUDITOR

KPMG, *Certified Public Accountants*

PRINCIPAL BANKERS

Industrial Bank Co. Ltd.
China Minsheng Bank Corp., Ltd.
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018 (RMB million)	2017 (RMB million)	Changes (%)
Revenue	**3,167.9**	2,441.1	+29.8
Gross profit	**1,298.1**	1,013.8	+28.0
Profit from operations	**881.9**	668.9	+31.8
Profit for the year	**751.2**	611.0	+22.9
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	**62.74**	50.71	+23.7
— Diluted	**62.74**	50.71	+23.7
Shareholders' equity per share	**283.9**	262.5	+8.2
Interim dividend per share	**HK16 cents**	HK13 cents	+23.1
Special interim dividend per share	**HK7 cents**	HK5 cents	+40.0
Final dividend per share	**HK21 cents**	HK18 cents	+16.7
Special final dividend per share	**HK10 cents**	HK8 cents	+25.0
	(%)	(%)	(% points)
Gross profit margin	**41.0**	41.5	-0.5
Operating profit margin	**27.8**	27.4	+0.4
Net profit margin	**23.7**	25.0	-1.3
Return on average shareholders' equity[1]	**23.0**	19.9	+3.1
Effective tax rate	**20.5**	15.3	+5.2
Advertising and promotional expenses and renovation subsidies (as a percentage of revenue)	**10.4**	10.4	—

	Year ended 31 December		Six months ended
	2018	2017	30 June 2018
Average inventory turnover days[2]	**98**	79	78
Average trade receivables turnover days[3]	**72**	83	85
Average trade payables turnover days[4]	**92**	87	81

Notes:

(1) Return on average shareholders' equity is equal to the profit for the year divided by the average of the beginning and closing balance of total shareholders' equity.

(2) Average inventory turnover days is equal to the average of the beginning and closing inventory balance divided by cost of sales and multiplied by the number of days in the year.

(3) Average trade receivables turnover days is equal to the average of the beginning and closing trade and bills receivables balance divided by revenue (including value-added tax) and multiplied by the number of days in the year.

(4) Average trade payables turnover days is equal to the average of the beginning and closing trade and bills payables balance divided by cost of sales and multiplied by the number of days in the year.

CHAIRMAN'S STATEMENT

China Lilang Limited achieved initial success in 2018 following efforts to create all-round improvements over the past few years. Improved operating conditions and more distinct business advantages resulted in both revenue and profit hitting record highs, and the Group saw our fastest growth in seven years. Efforts made by the Group since 2014 to upgrade our products, emphasizing value-for-money in response to the changing consumer preferences, and to improve our channel management are yielding promising results.

To all shareholders,

China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries known as the "Group") achieved initial success in 2018 following efforts to create all-round improvements over the past few years. Improved operating conditions and more distinct business advantages resulted in both revenue and profit hitting record highs, and the Group saw our fastest growth in seven years.

For the year ended 31 December 2018, revenue increased by 29.8% year on year to RMB3.17 billion and net profit increased by 22.9% to RMB751 million.

During the year, the Group remained financially robust with healthy cash flows. The Board of Directors has recommended the payment of a final dividend of HK21 cents per share and a special final dividend of HK10 cents per share, maintaining a relatively high payout ratio.

In the second half of 2018, global economic activities declined in face of various uncertainties including the US-China trade war. Overall consumption growth in China also slowed down in the latter half of the year. Nevertheless, efforts made by the Group since 2014 to upgrade our products, emphasizing value-for-money in response to the changing consumer preferences, and to improve our channel management are yielding promising results.

CHAIRMAN'S STATEMENT (CONTINUED)

After continuous efforts to improve products and channel management, 2018 saw the first year the Group start to realize a market expansion. 260 retail stores were added, exceeding the target set earlier in the year. The average floor area of retail stores also increased. Geographically, the Group tapped into new markets during the year, as scheduled. Our core collection was launched through distributors in new markets in Jiaodong Peninsula and Southern Jiangsu while our smart casual collection was gradually introduced on a consignment basis in provinces including Henan, Anhui, Shaanxi, Jiangxi, Fujian and Jiangsu. Meanwhile, the operating efficiency of the Group's retail stores kept improving, with retail stores in operation for more than 18 months recording high single-digit or better average same-store sales growth for four consecutive quarters.

The Group continued to advance the development of our new retail business, with online stores for the smart casual collection officially commencing business in the fourth quarter, and the design and operation center in Shanghai for the smart casual collection also commencing operation in the same quarter.

As we move into 2019, the global economy remains exposed to a number of uncertainties. Research institutions have downgraded their forecast for economic growth a number of times, which is affecting consumer confidence. As a result, the menswear industry in China may see an acceleration in the current market consolidation, meaning that the strengths of stronger industry players, like the Group, will become more apparent. As a menswear enterprise with strengths and competitive edges, China Lilang expects to go further, become stronger and continue to increase its market share. The Group remains prudently optimistic about our prospects in 2019.

This year, following our satisfactory achievements in 2018, the Group will continue to push forward market expansion. The Group targets to add about 200 retail stores during the year. Our core collection, which holds a distinct competitive advantage in the third- and fourth-tier cities, is poised to benefit from the growth in consumption driven by the relatively quick growth of residents' income in these cities. In the meantime, the Group will continue to upgrade our sales channel and will increase the number stores in shopping malls.

To support the long-term development of the new retail business, we will continue to increase the number of stores selling our smart casual collection - the flagship collection for our new retail business. The Group will continue to adopt the consignment model for our smart casual collection, focusing on expanding in the Beijing and Shanghai markets, while continuing to develop first- and second-tier markets in Qingdao, Tianjin, Zhengzhou, Xi'an, Hefei and Zhejiang area. Building on the opening of our online smart casual collection stores in the fourth quarter of 2018 and the launch of our design and operation center for smart casual collection in Shanghai, the Group will concurrently increase our brand promotion activities, particularly to improve the online brand awareness of LILANZ, and invest more in increasing traffic to our online stores to further drive sales.

The outstanding results in 2018 are proof that our strategy of investing in original designs and improving value-for-money of our products is working. This success has enabled the Group to outperform in the current economic environment and is supporting the expansion of our business in a sustainable and healthy manner. The opening of Lilang Creative Park (利郎創意園) new headquarters in the second half of this year, will usher in a new era for all our operations - from product research and development, to design, production and sales and establish a robust footing for a sustainable and speedy growth of China Lilang.

CHAIRMAN'S STATEMENT (CONTINUED)

In a positive indication of things to come, our 2019 autumn trade fair was concluded in early March 2019 and recorded 21% increase in total orders. The management is confident to achieving at least high single-digit same-store sales growth while expanding our retail channels.

In the medium- to long-term, the Group will continue to "focus on our core collection, cultivate our smart casual collection, advance our new retail business, develop multiple brands and broaden our collection portfolio". By doing so, the Group will proactively enhance competitiveness and value-for-money of our products and expand into new markets to make China Lilang a century-old menswear brand, and sustain our long-term growth to reward our shareholders, employees and customers for their support.

Wang Dong Xing
Chairman

13 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the second half of 2018, the escalating trade friction between China and the United States precipitated uncertainties regarding economic development and sparked a decline in global economic activity. China also saw a slowdown in economic growth, with the GDP growth rate for the fourth quarter dropping to 6.4% and China's annual economic growth rate was 6.6% year on year. Employment remained stable, and consumer prices increased modestly. Urban and rural residents continued to experience income growth. In light of the stable economic development, the consumer goods market generally maintained a steady growth. Total retail sales of consumer goods rose 9.0% year on year. Total retail sales of apparel, footwear, headwear and knitwear increased by 8.0% year on year.

China Lilang sustained a relatively rapid growth in our full-year performances against a backdrop of continuous income growth of residents in China and steady development of the consumer market. For the year ended 31 December 2018, revenue was up by 29.8% year on year to RMB3,167.9 million, while net profit was up by 22.9% to RMB751.2 million. The improvements primarily reflected that the retail sales of LILANZ core collection continued to outperform the industry peers, and channel inventory remained at a healthy level. This boosted confidence among distributors, resulting in satisfactory growth in trade fair orders and sales for the Group. Net profit margin was 23.7%. Earnings per share were RMB62.74 cents, up by 23.7%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Overall Group operations for the year continued to improve, despite the fact that the apparel retail industry generally offered fourth-quarter discounts earlier than usual due to the unfavorable economic and climate conditions. The retail channel was further upgraded, store count increased and store efficiency enhanced. Over the year, 260 retail stores were added, exceeding the target set earlier in the year. This was also the first year that the Group realized a market expansion after continuous efforts to improve products and channel management over the past few years. The average retail store space kept increasing, and store efficiency was improving. Retail stores in operation for more than 18 months recorded high single-digit or better average same-store sales growth for four consecutive quarters. Geographically, the Group tapped into new markets during the year as scheduled. Our core collection was launched through distributors in new markets in Jiaodong Peninsula and Southern Jiangsu while our smart casual collection was gradually introduced on a consignment basis in provinces including Henan, Anhui, Shaanxi, Jiangxi, Fujian and Jiangsu. The Group also continued to advance our development of new retail business, with online stores for the smart casual collection officially commencing business in the fourth quarter, and more online promotional campaigns were planned.

During the year, the Group remained financially robust with healthy cash flows, although there was a rise in working capital as business expanded, in particular, there were more inventories for the smart casual collection as it was converted to consignment model in 2018. The Board of Directors recommended the payment of a final dividend of HK21 cents per share and a special final dividend of HK10 cents per share, thereby maintaining a relatively high payout.

FINANCIAL REVIEW

Revenue

Revenue for the year increased by 29.8% to RMB3,167.9 million. Revenue of LILANZ increased by 30.7% to RMB3,154.7 million, primarily driven by the strong order growth at all trade fairs for 2018. Some product categories such as footwear and pants also saw additional orders. Retail sales of the stores operated by distributors continued to perform well. For all four quarters of the year, stores in operation for more than 18 months recorded high single-digit or better average same-store sales growth. In addition, the new stores and the added retail floor space contributed to the strong sales growth.

By product category, tops remained the major contributor to sales, accounting for 61.8% of LILANZ revenue, with a 23.5% growth in sales. Sales of suits comprised 7.5% of LILANZ revenue. The fabric of our range of suits was upgraded during the year. This was well received by consumers, contributing to a 33.5% growth in the average selling price and a 47.5% growth in sales of suits.

Sales of accessories experienced significant growth of almost 90% and comprised 13.1% of the revenue of LILANZ. Notably, sales of footwear products increased by more than 1.4 times, reflecting how the Group's increasing footwear research and development efforts over the past few years have contributed to the continuous growth in sales.

Revenue by Region

Sales in all regions maintained rapid growth. Specifically, sales from the Eastern China region breached the RMB1.0 billion mark for the first time, experiencing a rapid growth of 28.5% as our core collection recorded satisfactory growth in Fujian, Anhui, Zhejiang and Shandong, and the expansion of the smart casual collection in the region continued. For the Central and Southern China region, sales growth accelerated in the second half of the year, mainly reflecting the strong performance of the core collection in Henan, Guangxi and Hunan. The Eastern China and the Central and Southern China regions remained the top contributors to LILANZ revenue, accounting for 59.1% (2017: 59.1%) of the total. The retail stores in these two regions accounted for 54.0% (2017: 51.4%) of the total number of stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Northern China region continued the positive trend in the first half of the year, leading all regions in terms of the rate of sales growth, at 42.1%. This was driven by strong growth of our core collection in Hebei, Inner Mongolia and Beijing and by the expansion of the smart casual collection in the region.

Sales from the North-Western China region increased by 34.6% as the sales of our core collection continued to outperform industry peers in Shaanxi.

Revenue by region for the year is set out below:

Sales from the North-Eastern China region increased by 19.2%. Growth slowed down in the second half of the year as distributors in the Heilongjiang area closed down some underperforming stores in a cautious move in view of a potential slowdown in the market.

	Year ended 31 December				
	2018		2017		Changes
Region	**RMB million**	**% of revenue**	RMB million	% of revenue	%
Northern China[1]	**243.3**	**7.7%**	171.2	7.1%	42.1%
North-Eastern China[2]	**168.2**	**5.3%**	141.1	5.8%	19.2%
Eastern China[3]	**1,045.7**	**33.2%**	813.7	33.7%	28.5%
Central and Southern China[4]	**816.5**	**25.9%**	613.4	25.4%	33.1%
South-Western China[5]	**615.1**	**19.5%**	476.9	19.8%	29.0%
North-Western China[6]	**265.9**	**8.4%**	197.6	8.2%	34.6%
Sub-total of LILANZ	**3,154.7**	**100.0%**	2,413.9	100.0%	30.7%
Others	**13.2**		27.2		
Total of the Group	**3,167.9**		2,441.1		29.8%

(1) Northern China includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia.
(2) North-Eastern China includes Heilongjiang, Jilin and Liaoning.
(3) Eastern China includes Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Shandong and Jiangxi.
(4) Central and Southern China includes Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan.
(5) South-Western China includes Chongqing, Sichuan, Guizhou, Yunnan and Tibet.
(6) North-Western China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Cost of Sales and Gross Profit Margin

Gross profit margin stood at 41.0%, down by 0.5 percentage point, which was in line with the Group's strategy of offering consumers products of excellent value-for-money so as to gain market, and met the management's expectation. Cost of sales increased by 31.0% to RMB1,869.8 million. As the Group increased process outsourcing to cope with the increased sales, subcontracting charges rose by over 50% to RMB310.4 million for the year.

Other Net Income

Other net income amounted to RMB87.0 million, which comprised mainly government grants of RMB74.4 million (2017: RMB55.1 million) and adjustments of amounts payable to suppliers due to quality or other issues. The Group's entitlement to the government grants was unconditional and under the discretion of relevant authorities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and Distribution Expenses

Selling and distribution expenses increased by 27.4% to RMB396.3 million, and accounted for 12.5% of the total revenue, down by 0.2 percentage point. Advertising expenses and renovation subsidies, the major component of selling and distribution expenses, increased by RMB76.9 million to RMB330.7 million for the year, and accounted for 10.4% of the total revenue. This reflected higher advertising expenses and increased renovation expenditure, as 590 stores with larger average floor areas were opened during the year. Other selling and distribution expenses also increased as business expanded.

Administrative Expenses

Administrative expenses amounted to RMB92.2 million, slightly up by RMB2.2 million year on year, and accounting for 2.9% of the total revenue, down by 0.8 percentage point.

Other Operating Expenses

Other operating expenses mainly comprised charitable donations of RMB12.7 million (2017: RMB8.4 million).

Profit from Operations

Profit from operations increased by 31.8% to RMB881.9 million, which was mainly driven by the increase in sales. Operating margin was up by 0.4 percentage point to 27.8%.

Income Tax

The effective income tax rate was 20.5% for 2018, up by 5.2 percentage points. The concessionary income tax rates enjoyed by two of the Group's PRC subsidiaries in their local domiciles were raised in 2018. In addition, one of the Group's PRC subsidiaries was granted the "Advanced and New Technology Enterprise" status and continued to enjoy a lower income tax rate for 2018.

Net Profit

Net profit was RMB751.2 million for the year, up by 22.9%. Net profit margin declined by 1.3 percentage points to 23.7%.

Earnings per Share

Earnings per share were RMB62.74 cents, up by 23.7%.

Final Dividend

The Board recommended the payment of a final dividend of HK21 cents (2017: HK18 cents) per ordinary share and a special final dividend of HK10 cents (2017: HK8 cents) per ordinary share in respect of this financial year, making the total dividend payment of approximately HK$371.2 million (equivalent to approximately RMB326.0 million). The final dividend and special final dividend will be paid in cash on or around 17 May 2019 to shareholders whose names appear on the register of members of the Company on 30 April 2019.

BUSINESS REVIEW

Sales Channel Management

Through LILANZ retail stores operated by distributors, the Group establishes a distinctive brand image and provides professional retail services, so as to raise consumers' purchasing desire. At present, the Group adopts a wholesale model to sell the LILANZ core collection to distributors, and the Group has migrated to a consignment model for the smart casual collection during the year.

The Group continued to promote upgrading of our sales channel. Good progress has been made through persistent efforts to encourage distributors to increase their direct retail presence over the past few years. During the year, the percentage of stores operated by distributors increased further to over 50%, while selected sub-distributors with sub-optimal management standards were phased out. Meanwhile, the Group worked with our distributors to plan store distribution, locations and numbers, and pragmatically supported distributors in the optimization of their retail networks. Wherever necessary, stores were relocated to better locations to improve store efficiency. The Group also continued to encourage distributors to open stores in shopping malls in provincial capitals and prefectural level cities in response to new consumption patterns. The number of stores in shopping malls increased to more than 600 by the end of 2018, accounting for more than one-fifth of the total store count, with their sales performance being in line with expectations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 31 December 2018, there were a total of 2,670 LILANZ retail stores nationwide. Although fewer stores were opened than expected for our smart casual collection as the expansion pace was affected by delays in certain shopping mall openings, the total number of added stores of the Group still reached 260 during the year, and the aggregate retail floor area increased by 22.7% year on year to about 379,900 square meters (31 December 2017: 309,600 square meters). Of the total, 212 were specialty stores for the smart casual collection, an increase of 123 stores.

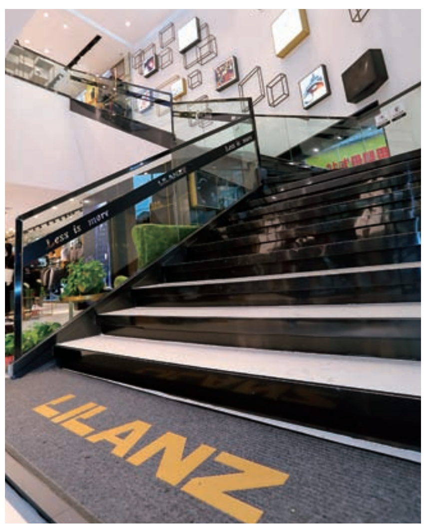
Changes in the number of LILANZ stores in different regions were as follows:

	Number of stores			
Region	**As at 1 January 2018**	**Opened during the year**	**Closed during the year**	**As at 31 December 2018**
Northern China	245	81	48	278
North-Eastern China	221	29	43	207
Eastern China	639	205	80	764
Central and Southern China	600	140	63	677
South-Western China	470	72	60	482
North-Western China	235	63	36	262
Total	**2,410**	**590**	**330**	**2,670**

To ensure the best quality of management and services at the retail stores, the Group continues to provide training to management teams of the distributors. In July 2018, in view of the shift of customer base to a younger age group, the Group organized training sessions in Wuzhen, Zhejiang Province for store managers of distributors, enabling them to make better use of the WeChat platform to connect with VIP customers, and use various marketing tools for sales promotion.

The Group has established stable and long-standing relationships with our distributors. All LILANZ distributors have maintained business relationships with the Group for over a decade. As at 31 December 2018, LILANZ had 77 distributors and 808 sub-distributors. The number of stores operated by distributors increased to 1,470, reflecting growing distributor confidence and helping the Group grow our foothold in the first- and second-tier cities.

Currently, all LILANZ stores have adopted the sixth-generation store image, and renovation of all stores, including designs and decoration materials, is provided by the Group so as to maintain a unified brand image in the distribution network. The Group plans to launch a pilot of our seventh-generation store image in the second half of 2019 to further upgrade our brand image.



In addition, the Group has set up various operational standards for the stores and is committed to assisting distributors upgrade in-store product displays and retail services to further improve consumer shopping experiences. The Group continually monitors channel sales and inventory through the ERP system which connects to all standalone stores. Though the retail discount level increased in the fourth quarter, the average discount rate was still at a reasonable level. The channel inventory of the core collection remains healthy.

	31 December 2018		31 December 2017	
	Number of distributors	**Number of stores**	Number of distributors	Number of stores
Self-operated store	**—**	**1**	—	1
Distributors	**77**	**1,470**	72	1,109
Sub-distributors	**808**	**1,199**	898	1,300
Total number of stores		**2,670**		2,410
Street stores and stores in shopping malls		**2,354**		2,071
Shop-in-shops in department stores		**316**		339
		2,670		2,410

New Retail Development

The online shopping market in China is developing rapidly; at the same time, consumers still attach great importance to offline retail services and the experience of shopping in physical stores. Leveraging the brand competitiveness of LILANZ, the positioning of the smart casual collection and the encouraging growth momentum which bodes well for development of our online platform, the Group is continuing to develop our new retail business, making it a top priority for future business development. Online stores for the LILANZ smart casual collection were opened in the fourth quarter of 2018, and a design and operation center in Shanghai for the smart casual collection also began operating in the same quarter. The Group plans to intensify online promotional activity to boost the traffic and sales of these online stores.

"New retail" refers to a retail business model which integrates online services with offline shopping experiences and logistics. The Group will continue to develop our new retail model, featuring the smart casual collection and selling the same products online and offline for the same prices, products purchased online will be available for home delivery or pick-up in physical stores. This is expected to produce continuing sales growth in the coming three to five years.

As for the online sales of the core collection, the Group will continue to sell our products in the flagship stores in T-MALL and JD Mall, and also via the WeChat platform. Except for off-season products, the products and prices offered online are the same as those in the bricks-and-mortar stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Product Design, Development and Supply Chain Management

The Group continues to enhance the personality-themed designs and increase the proportion of originally-designed products in the total product mix, fulfilling our aims of offering better value-for-money and differentiating ourselves from our peers, thereby improving our competitiveness. Originally-designed products accounted for close to the 70% target of the total product mix available for sale in 2018. Of these, the proportion utilizing fabrics proprietarily developed by the Group rose further to about 45%, close to the 50% target level.

In the meantime, the Group continues to enrich our product range, in particular by adding more young and fashionable products to cater to consumer demand in first- and second-tier markets and shopping malls. This enrichment also supports the Group's strategy to extend the core collection to a younger demographic. In addition, the Group is working to increase the proportion of season-neutral products to reduce seasonal impacts in retail stores and drive sales growth.

After several years of investments in research and development, the Group's footwear and innerwear products are making a good impression on the market, enjoying remarkable sales growth during the year. This year, the Group added two production lines for leisure footwear at the Wuli Plant. These new production lines will facilitate the Group's application of patents for self-developed footwear products, create effective cost control, and enhance product competitiveness, while also growing the flexibility of our supply chain and allowing rapid turnaround of production orders for the smart casual collection in the future.

In addition, the Group's international and domestic research and development teams continued to use their talents to offer products that are minimalist and fashionable in style, of excellent value-for-money and that target the different markets of the core and smart casual collections. There are currently about 390 staff members in the Group's research and development department of the Group, working in such areas as product design, material development and sample creation, hence seeking to increase the Group's product development capability as a whole.

As at 31 December 2018, the Group's production facilities at our Wuli Plant had about 900 workers, a year-on-year increase of about 100 workers. While the production of products for small orders, products with special designs or products demanding a high level of assembly skills are generally kept in house; the Group has also used more process outsourcing to cope with our increasing sales.

Construction of the Group's new headquarters in Jinjiang, Fujian is complete. The headquarters is expected to commence operations upon completion of refurbishment works in the second half of 2019. The design and operation center for the smart casual collection, located in Shanghai, commenced operation in the fourth quarter of 2018.

Brand Management and Promotion

China Lilang owns and operates the LILANZ brand and currently sells menswear products in two collections — the core collection and the smart casual collection. The core collection, principally targeting consumers between the ages of 25 and 45, has been well received in traditional third- and fourth-tier markets and is gradually expanding into first- and second-tier markets. The smart casual collection, targeting consumers between the ages of 20 and 30 in first- and second-tier markets, has more classic-style products and features products with more minimalist designs than the core collection.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group manages our brand mainly through focusing on our products and store image, and continues to enhance brand awareness by opening large-scale stores alongside targeted brand advertising and promotion campaigns. In the second half of 2018, to coincide with the launch of our new retail business, the Group increased our advertising and soft article promotion on online platforms such as Wechat and Microblog. In late 2018, the Group has also began collaboration with www.baidu.com (百度), directing customer traffic to our online stores.

The Group also continued to place soft advertisements in traditional print media outlets. More advertisements were placed using various types of media on high-speed rail channels during the year, in particular, a special broadcast of a video clip of our LILANZ trade fairs was shown on televisions in all "Fuxinghao" high-speed electric multiple unit trains ("EMU"). Furthermore, lucky draws for VIP shoppers were held during the FIFA World Cup in June to July 2018, with 20 winners awarded for free trips to Russia to watch the World Cup. In May, LILANZ was listed on the CCTV series "The Making of a Great Brand (大國品牌養成記)", exploring LILANZ's over three decades of history. The Group also launched advertising campaigns at the same time highlighting LILANZ's long history.

Trade Fairs

As retail sales performance of LILANZ continues to outperform industry peers, distributors have high confidence in the Group's products and the store count has returned to a growth trajectory. During the three trade fairs held in 2018, LILANZ achieved strong order growth.

Trade fairs	Total order value growth (based on wholesale prices)
2018 fall	+31%
2018 winter	+33%
2019 spring and summer	+23%

The 2019 fall trade fair just concluded in early March, with sales orders recording a 21% growth year on year.

The Group has reduced the percentage of pre-orders for the smart casual collocation starting from the 2019 fall trade fair to better control the inventory level of the smart casual collection.

Awards

The Group received various awards during the year. In March 2018, the Group was named a "Top 10 PRC Menswear Most Popular Brand in 2017" (2017年度中國男裝熱門品牌十強) by the Organizing Committee of the China Garment Network Festival (中國服裝網絡盛典組委會) and www.efu.com.cn (中國服裝網). In April, the Group was accredited as the "Excellent Enterprise in Retail Industry" (零售業卓越企業) in the "Golden Coordinate" (金座標) award organized by winshang.com (贏商網) and the mainstream commercial real estate media in China. In May, the Group was named one of the "Top 500 Brands in China" (中國品牌500強) by www.asiabrand.cn (亞洲品牌網), and the LILANZ brand was also listed on the CCTV series "The Making of a Great Brand" (大國品牌養成記) as a menswear brand with 30 years of history. At the 13th Asiabrand Ceremony held in September, the Group was named the brand with the highest brand value among the "2018 Top 100 Innovative Clothing Brand Value in China" (2018年中國服裝創新品牌價值100強), and a "2018 Top 100 Brand Value of Hong Kong Stock" (2018年港股品牌價值100強). In November, the Group was named as one of the "Top 10 Enterprises with Craftsmanship Spirit in Quanzhou" (泉州市十大匠心名企) by the Strait News. In December, "LILANZ (LESS IS MORE)" ranked sixteenth among the "2018 Top 100 Innovative Brands of Interest in Shopping Malls" (2018年度購物中心關注創新品牌榜TOP 100) selected by winshang.com.

PROSPECTS

The International Monetary Fund (IMF) has revised down the 2019 global economic growth forecast twice from original 3.9% to 3.5%, the lowest in three years, and the expected economic growth in China is 6.2%. According to IMF, the global economy is exposed to downside risks amid a highly uncertain policy environment. Though the economic growth in China is expected to slow down, a sustained rise in residents' income and stable employment will continue to support the strengthening of consumption power. Furthermore, policies which will see cuts to government taxes and levies in 2019 will also stimulate the expansion of consumption.

The Group is cautiously optimistic about the prospects of the menswear industry in 2019 and believes that the fluctuating economic environment will accelerate industry consolidation, meaning that the competitive advantages of enterprises with good products and quality channel management will stand out. As a menswear enterprise with strengths and competitive edges, China Lilang will continue to grow from strength to strength and gain a larger share in the market.

Looking into 2019, China Lilang will steadily continue with our market expansion, targeting to add about 200 stores during the year. New stores for the core collection will primarily be added in third- and fourth-tier markets. We will continue to adopt the consignment model for the smart casual collection, focusing on expanding in the Beijing and Shanghai markets, while continuing to develop first- and second-tier markets in Qingdao, Tianjin, Zhengzhou, Xi'an, Hefei and Zhejiang area. Meanwhile, the Group will continue to upgrade our sales channel and add more stores in shopping malls.

New retail is a long-term development focus area for the Group. Following the opening of our online smart casual collection stores in the fourth quarter of 2018 and the launch of our design and operation center for the smart casual collection in Shanghai, the Group will increase brand promotion activities, particularly to improve the online brand awareness of LILANZ, and invest more in increasing traffic to our online stores to further drive sales.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The distinctive competitive edges of our products — in original designs and the fact that we provide high quality, value-for-money products — enable the Group to stand out in the current economic environment and allow us to expand in a sustainable and healthy manner. In the coming year, China Lilang will continue our mission of offering our consumers products of excellent value-for-money, and spare no effect to continuously improve our product design, craftsmanship and materials. The Group will also continue to enrich our product range and increase the proportion of season-neutral products to drive sales growth.

The Group is committed to improving our retail store efficiency and targets achieving at least high single-digit same-store sales growth for 2019. In a positive indication of things to come, our 2019 autumn trade fair concluded in early March 2019, and recorded 21% growth in total orders.

Lilang Creative Park (利郎創意園), the Group's new headquarters, is expected to officially launch in the second half of the year. The new headquarters will usher new era for all Group operations — from product research and development, to design, production and sales — and establish a robust footing for a sustainable and faster growth.

In the long run, China Lilang will adhere to our multi-brand strategy, continue to enhance product competitiveness and value-for-money in a proactive manner, further consolidate our leading position in the menswear industry to sustain long-term growth and reward our shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balances and Cash Flows

	As at 31 December	
	2018 **RMB million**	2017 RMB million
Amounts pledged as security for bills payable	**15.2**	6.8
Fixed deposits held at banks with maturity over three months	**—**	188.0
Cash and cash equivalents	**1,842.9**	1,823.3
Total cash and bank balance	**1,858.1**	2,018.1

As at 31 December 2018, the Group's total cash and bank balance was mainly denominated in Renminbi (97.7%) and Hong Kong Dollars (1.6%). There were no bank loans outstanding as at 31 December 2018 and 2017.

Cash and cash equivalents balance increased by RMB19.6 million during the year, which was mainly attributable to:

— Net cash generated from operating activities amounting to RMB445.6 million. The major reconciling items between the amount of operating cash inflow and the net profit for the year of RMB751.2 million were the increases in trade working capital as business expanded. Trade and bills receivables went up as revenue increased; inventories as well as trade and bills payables increased as trade fair orders for the 2019 spring and summer collections rose and also due to the inventories for the smart casual collection. There were more inventories for the smart casual collection as it was converted to consignment model in 2018 and also due to delays in the opening of stores and the rollout of the online stores.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

— Net cash generated from investing activities amounting to RMB68.5 million, comprising mainly the decrease in fixed deposits with maturity over 3 months of RMB188.0 million and interest income received of RMB71.6 million, netting off capital expenditure totalling RMB192.1 million during the year.

— Net cash outflows from financing activities amounting to RMB497.4 million, comprising mainly the payments of final dividends in respect of the financial year 2017 and the interim dividends in respect of the financial year 2018 totalling RMB494.6 million.

Trade Working Capital Turnover Days

	Year ended 31 December	
	2018	2017
Average inventory turnover days	**98**	79
Average trade receivables turnover days	**72**	83
Average trade payables turnover days	**92**	87

Inventory turnover days

The Group's average inventory turnover days was 98 days.

Inventory balance increased by RMB353.1 million to RMB676.4 million. In addition to the inventories for the increased trade fair orders for the 2019 spring and summer collection, there were more inventories for the smart casual collection as it was converted to consignment model in 2018 and also due to delays in the opening of stores and the rollout of the online stores. Also, raw materials increased by RMB77.9 million as more raw materials were placed with subcontractors ahead of production schedule when more process outsourcing was used to cope with our increasing sales.

To better control the inventory balance of the smart casual collection, the Group has reduced the percentage of pre-orders for the smart casual collection starting from the 2019 fall trade fair.

Trade receivables turnover days

The Group's average trade and bills receivables turnover days was 72 days. This compared to 83 days for the year 2017.

Total trade and bills receivables balance went up by 29.1% to RMB822.5 million as revenue increased by over 30% in the second half of the year. Channel inventories and liquidity of the distributors were at healthy level.

Trade payables turnover days

The Group's average trade and bills payables turnover days was 92 days.

Total trade and bills payables balance was up by RMB270.6 million to RMB607.1 million as inventory balance increased.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DIVIDEND POLICY

The Group adopts a dividend policy of providing shareholders with regular dividends with a normal target payout ratio of about 45% to 55% of the Group's profit for the year. The Board may also recommend the payment of additional special dividends depending on the following conditions: (i) the overall profitability of the Group; (ii) the cash flows of the Group; and (iii) the capital requirement for expansions.

PLEDGE OF ASSETS

As at 31 December 2018, deposits with certain banks totalling RMB15.2 million were pledged as securities for bills payable (2017: RMB6.8 million). The pledged bank deposits will be released upon the settlement of relevant bills payable.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2018, the Group had total capital commitments of RMB401.3 million, primarily related to the construction of the new headquarters which is expected to be completed in 2019, and the proposed construction of a logistic centre.

These capital commitments are expected to be financed by internal resources of the Group.

As at 31 December 2018, the Group had no material contingent liabilities.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company conducted an exercise based on the ERM Framework, as set out in the paragraph headed "Risk Management and Internal Controls" in the Corporate Governance Report on pages 32 to 42 of this Annual Report, to review, assess and control the identified risks facing the Group. The Group's key risk exposures are summarized as follows:

Strategic Risks	(i)	Slow-down of the economy and consumer spending
	(ii)	Deterioration of market competition
Operational Risks	(i)	Ineffective management of the retail operations of distributors
	(ii)	Misjudgement of fashion trends or changes in consumers' demand or failure to respond to such changes in a timely manner
	(iii)	Ineffective brand promotion activities or failure to maintain and promote the brand, particularly in the first-and second-tier cities where the Group targets to expand
Financial Risks	(i)	Distributors' credit risks
	(ii)	Inventory risks arising from the expansion of the smart casual collection on consignment basis
Hazard Risks	(i)	Business susceptible to extreme or unseasonable weather conditions

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability and incorporating it in daily operations. Details of the Group's environmental policies and performance are summarized in the Environmental, Social and Governance Report on pages 22 to 31 of the Annual Report.

FINANCIAL MANAGEMENT POLICIES

The Group continues to control financial risks in a prudent manner. The functional currency of the Company is the Hong Kong Dollars and the Company's financial statements are translated into Renminbi for reporting and consolidation purposes. Foreign exchange differences arising from the translation of financial statements are directly recognized in equity as a separate reserve. As the Group conducts business transactions principally in Renminbi, the exchange rate risk at the Group's operational level is not significant.

HUMAN RESOURCES

As at 31 December 2018, the Group had 2,380 staff. Total staff costs for the year amounted to approximately RMB193.7 million (2017: RMB159.8 million). Details of the Group's policies on human resources are summarised in the Environmental, Social and Governance Report on pages 22 to 31 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 16 April 2019 to Tuesday, 23 April 2019 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2019 annual general meeting ("2019 AGM"). In order to qualify for attending and voting at the 2019 AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 15 April 2019.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2019 AGM, the register of members will be closed from Monday, 29 April 2019 to Tuesday, 30 April 2019 (both days inclusive) for the purpose of determining shareholders who qualify for the proposed final dividend and special final dividend. In order to qualify for the proposed final dividend and special final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 26 April 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(A) ENVIRONMENT

The Group is committed to achieving environmental sustainability and incorporating it in daily operations, in strict compliance with the Environmental Protection Law of the People's Republic of China (the "PRC"), the Energy Conservation Law of the PRC and other related regulations. As the Group is principally engaged in the design, manufacturing and sales of apparel products, its operating activities do not generate any emissions or wastes that would severely pollute the environment.

This report covers the Group's headquarters in Jinjiang City, Fujian Province (the "Headquarters") and its production facilities in Wuli Industrial Park, Fujian Province (the "Wuli Plant"). The Headquarters comprises office premises, fabric research and development and testing centres, a workshop for samples and small production orders, flagship stores, staff dormitories (including canteens, a coffee shop and a gym) and also the venue for the three trade fairs held every year.

Aspect A1: Emissions

The Group has formulated a production-plant management manual, setting out measures such as lawful discharge of sewage, reduction of air emissions by using clean energy for the boiler and reduction of non-hazardous wastes generated during the production process.

Air and greenhouse gas emissions generated by the Group's operating activities are limited. The Group does not own vehicle fleets, the transportation of raw materials and products are all outsourced to third-party transportation service providers. In addition, electricity consumed by both the Headquarters and the Wuli Plant are supplied by a hydropower plant. Hydropower transforms the potential energy of water without consuming any fossil fuels, it is therefore widely considered as a clean energy that does not emit any greenhouse gases such as carbon dioxide ($CO2$) and methane ($Ch4$). Starting from September 2017, natural gas is used instead of coal for the boiler in the Wuli Plant to boil water to steam-iron apparels. This has significantly reduced air emissions. Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. Every year the Group commissions a third-party professional organization to audit air emissions from the boiler to ensure compliance with relevant laws and regulations.

The operating activities of the Group do not produce any hazardous wastes. The Wuli Plant has adopted the following measures to maximize the utilization rate of fabrics, thereby controlling costs and reducing scraps, non-hazardous wastes, generated during the production process:

1) Strictly adhere to the minimal usage of fabrics and optimize cutting layouts with a computer program, based on product designs and respective fabric-waste allowances;

2) Reduce fabric wastes by providing training to workers to enhance their skills and by introducing templates to improve sewing accuracy; and

3) Optimize production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added in the past few years, replacing manual labour to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out.

Scraps are regularly collected by recyclers to be converted into or reused in other products (such as gloves).

The operating activities of the Group generates limited amount of industrial sewage which is discharged through the municipal sewage system equipped with filters, ensuring no significant impact on the surrounding environment.

According to the key performance indicators ("KPIs") as set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of air and greenhouse gas emissions and waste generation is summarised as follows:

KPIs		**For the year ended 31 December 2018**
A1.1	Type of emissions and respective emissions data	Total air emissions (particulates, NOx and SO_2) of the boiler (note 1) were 0.32 tonnes (2017: 0.27 tonnes) for the year. The intensity (based on the total annual production cost of the Wuli Plant (note 2)) is negligible for the years ended 31 December 2017 and 2018. Total air emissions reduced significantly after using natural gas instead of coal for the boiler since September 2017.
A1.2	Total greenhouse gas emissions and intensity	As noted above, greenhouse gas emissions generated by the Group's operating activities are limited.
A1.3	Total hazardous wastes produced and intensity	The operating activities of the Group have not produced any hazardous wastes.
A1.4	Total non-hazardous wastes produced and intensity (based on the total annual production cost of the Wuli Plant (note 2))	Scraps of 345.56 tonnes (2017: 288.96 tonnes); intensity of 0.90 Kg/RMB'000 (2017: 0.81 Kg/RMB'000). Intensity increased as production volume increased by about 40%.
A1.5	Measures to mitigate emissions and results achieved	Natural gas is used instead of coal for the boiler since September 2017 and air emissions have been significantly reduced as a result. Regular repairs and maintenance work for the boiler is carried out by the Group to ensure it functions normally. The air emissions of the boiler conformed to the requirements of relevant laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs		For the year ended 31 December 2018
A1.6	How hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	The operating activities of the Group have not produced any hazardous wastes. In respect of non-hazardous wastes, the Group strictly controls the usage of fabrics and reduces scraps through production equipment upgrades, using a computer program to optimize cutting layouts and training workers. Scraps produced are collected by recyclers to be reused in other products.

Note 1: This assumes an average annual total working hours of the boiler is 2,200 hours.

Note 2: Total annual production cost of the Wuli Plant equals to total cost of sales less OEM procurement costs, subcontracting costs and sales tax surcharges.

Aspect A2: Use of Resources

The Group adheres to the "5S management system" and requires all employees to conserve water and electricity. Posters are put up in the office area and across the plants to enhance employees' awareness of energy saving and emission reduction. In respect of the use of electricity, both the Headquarters and the Wuli Plant have switched to LED lighting since late 2015. Security guards in the Wuli Plant check and make sure all production equipment and the lights in production workshops are powered off during lunch hour and after work. In respect of the use of natural gas for the boiler (or coal prior to September 2017), the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. In respect of water usage in production, water used in the boiler in the Wuli Plant is recycled through reflux line to improve water efficiency.

In respect of raw materials of products, the Group strictly controls the usage of raw materials based on the requirements of individual orders and reduces wastes through production equipment upgrades, training workers and using a computer program to optimize cutting layouts. As for the use of packaging materials, the Group avoids excessive packaging and maintains an appropriate balance between cost control, product protection and consumer expectation. More environmental-friendly paper bags are used as shopping bags. Certain products are also individually packaged in plastic bags, non-woven bags or paper boxes for the protection against dirt, dust or damp.

The resources used in the Wuli Plant during the past two years are summarised as follows:

		For the year ended 31 December	
		2018	2017
Electricity	Consumption quantity	**3,204,000 units**	2,493,000 units
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**8.37 units/RMB'000**	6.97 units/RMB'000
Natural gas	Consumption quantity	**377,000 m^3**	124,000 m^3
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**0.99 m^3/RMB'000**	0.35 m^3/RMB'000
Water	Consumption quantity	**66,000 m^3**	61,000 m^3
	Intensity (based on the total annual production cost of the Wuli Plant (note 1))	**0.17 m^3/RMB'000**	0.17 m^3/RMB'000
Packaging materials (note 2)	Purchases (weight)	**2,158.82 tonnes**	1,410.56 tonnes
	Intensity (based on annual sales)	**0.68 Kg/RMB'000**	0.58 Kg/RMB'000

Note 1: Total annual production cost of the Wuli Plant equals to total cost of sales less OEM procurement costs, subcontracting costs and sales tax surcharges.

Note 2: This includes paper shopping bags, and plastic bags and non-woven bags used for the individual packaging of certain products produced in the Wuli Plant. Packaging materials of individual products purchased from OEM suppliers are excluded.

The consumption of electricity, natural gas, and water in the Wuli Plant varies, depending on the types of products, nature of fabrics, production processes as well as weather and temperature. The intensity of electricity consumption in Wuli Plant increased by 20.1% during the year as more electronic production equipments have been added, including an embroidery machine, two automated production lines for leisure footwear and an automated apparel ironing equipment. Natural gas consumption increased in 2018 as it is used to replace coal starting September 2017. As for packaging materials, the increase in intensity based on annual sales mainly reflected the increase in sales of footwear and also the higher percentage increase in retail sales volume year-on-year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The resources used by the Headquarters during the past two years are summarised as follows:

		For the year ended 31 December	
		2018	2017
Electricity	Consumption quantity	**5,330,000 units**	5,439,000 units
	Intensity (based on annual sales)	**1.69 units/RMB'000**	2.25 units/RMB'000
Water	Consumption quantity	**58,000 m^3**	55,000 m^3
	Intensity (based on annual sales)	**0.02 m^3/RMB'000**	0.02 m^3/RMB'000

The Headquarters comprises office premises, fabric research and development and testing centres, a workshop for samples and small production orders, flagship stores, staff dormitories (including canteens, a coffee shop and a gym) and also the venue for the three trade fairs held every year. The electricity and water consumption varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery in the sample workshop.

According to the KPIs set out in Appendix 27 to the Listing Rules, the Group's performance on sustainable development in terms of resource utilization is summarized as follows:

KPIs		**For the year ended 31 December 2018**
A2.1	Electricity consumption and intensity (based on the total annual production cost of the Wuli Plant or annual sales)	8,534,000 units (2017: 7,932,000 units); intensity of 10.06 units/RMB'000 (2017: 9.22 units/RMB'000). Intensity increased as more production machineries and equipment were added in Wuli Plant.
	Natural gas consumption and intensity (based on the total annual production cost of the Wuli Plant)	377,000 m^3 (2017: 124,000 m^3); intensity of 0.99 m^3/RMB'000 (2017: 0.35 m^3/RMB'000). The Group started using natural gas to replace coal for the boiler since September 2017 to reduce air emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs		For the year ended 31 December 2018
A2.2	Water consumption and intensity (based on the total annual production cost of the Wuli Plant or annual sales)	124,000 m^3 (2017: 116,000 m^3); intensity of 0.19 m^3/RMB'000 (2017: 0.19 m^3/RMB'000).
A2.3	Energy use efficiency initiatives and results achieved	The Group adheres to the "5S management system" and requires all employees to conserve water and electricity. Both the Headquarters and the Wuli Plant have switched to LED lighting since late 2015. Security guards in the Wuli Plant check and make sure all production equipment and lights in the production workshops are powered off during lunch hour and after work. In respect of the use of natural gas, the Group conducts regular repairs and maintenance for the boiler to reduce any potential waste of resources due to equipment ageing or failure. The consumption of natural gas and electricity in the Wuli Plant varies depending on the types of products, nature of fabrics, production processes as well as weather and temperature. The electricity consumption of the Headquarters varies depending on the weather, testing applications of different fabrics and the frequency of utilization of different production machinery.
A2.4	Water efficiency enhancement initiatives and results achieved	Water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency.
A2.5	Total packaging materials used for finished products and intensity (based on annual sales)	2,158.82 tonnes (2017: 1,410.56 tonnes); intensity of 0.68 KG/RMB'000 (2017: 0.58 KG/RMB'000). The intensity of the weight of packaging materials purchased has increased mainly due to the increase in sales of footwear and also the higher percentage increase in retail sales volume year-on-year.

Aspect A3: The Environment and Natural Resources

The Group's operating activities have no direct or significant impact on the environment and natural resources.

In respect of the control over the use of natural resources, water used in the boiler in the Wuli Plant is recycled through reflux line for better water efficiency. In addition, the Group promotes a paperless office and reduces the use of paper by using ERP system, OA system and mobile phone applications.

In respect of the control over the materials used in products, the Wuli Plant has adopted the following measures to maximize the utilization rate of fabrics and reduce wastes:

1) Strictly adhere to the minimal usage of fabrics and optimize cutting layouts with a computer program, based on product designs and respective fabric-waste allowances;

2) Reduce fabric wastes by providing training to workers to enhance their skills and by introducing templates to improve sewing accuracy; and

3) Optimize production equipment to avoid fabric wastes due to equipment ageing or failure. Several automatic fabric-cutting machines have been added over the past few years to improve the accuracy in cutting fabrics, while regular repairs and maintenance for production machinery and equipment are carried out.

In addition, the Group has started using more environmental-friendly fabrics made from bamboo fiber for some of its products since 2015; however, this accounted for a relatively small proportion of the total sales volume, as the current market demand for this kind of product is low.

(B) SOCIAL

Aspect B1: Employment

As at 31 December 2018, the Group had 2,380 staff in total.

All human resources decisions of the Group are based on merits. The Group recruits talents from universities and technical schools to become management trainees every year, and ensures that all of its employees are assigned to appropriate roles, are treated fairly and are provided with development opportunities regardless of age or gender.

The Group also attaches great importance to employees' rights and benefits, and offers competitive remuneration packages to its employees based on factors such as market wage rates, responsibilities, job complexity as well as the Group's performance. Meanwhile, the Group is committed to paying all employees in full on a timely manner, while the contributions to social security funds for its employees are made according to local regulations. The Group has also adopted a share option scheme to recognize and reward the contribution of its employees to the growth and development of the Group. In addition, employees are entitled to maternity leave, marriage leave and other leaves, as well as the rights to apply for other casual leaves in accordance with the Labour Law of the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect B2: Health and Safety

The Group cares about the health, working environment and safety of its employees. The beautiful green areas at the Headquarters and the Wuli Plant offer a cosy working environment to the employees. The Wuli Plant has a basketball field and the Headquarters has a gym for its staff.

Except for sewing machines, protective features are installed for all other electric or heat-generating manufacturing equipment in the Wuli Plant as well as those in the fabric research and development and testing centres and sample workshop at the Headquarters, in order to ensure the safe operation by the employees. For the year ended 31 December 2018, there were no severe injuries or fatalities of the employees of the Group.

Aspect B3: Staff Development and Training

The Group places great emphasis on staff training and provides its employees with pre-employment and on-the-job training and career development opportunities. The training programs cover areas such as production craftsmanship, research and development, customer services, quality control, trade fair planning, workplace ethics and other areas relevant to the industry. Since late 2015, in order to further enhance its design capabilities and craftsmanship, the Group has collaborated with Jiangnan University (江南大學), the Online and Continuing Education College of Fujian Normal University (福建師範大學網絡與繼續教育學院) and two professional education and training companies to provide a state-approved online distance education diploma program to over 100 staff members from its design department and craftsmanship department. The program would last for 2.5 to 5 years and all expenses would be covered by the Group.

The Group also provides annual training to the management team of its distributors, covering areas relevant to retail management, such as retail services, retail data management, market development and trade fair order-placing skills.

Aspect B4: Labour Standards

No one under the age of 16 is employed by the Group for any position.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect B5: Supply Chain Management

As at 31 December 2018, the Group had over 300 OEM product suppliers, raw material suppliers and process sub-contracting suppliers, about 30 of which are located outside the PRC.

In selecting suppliers, the Group puts much emphasis on the legal compliance of their operations in addition to cost consideration. On-site visits are conducted before the commencement of business with suppliers, and followed by one or two such visits annually afterwards, so as to ensure that they have a stable workforce and there are no child labour issues. All major raw material suppliers are required to comply with the Environmental Protection Law of the PRC and those with ISO14000 environmental management accreditation will be given the priority in the selection process. For the year ended 31 December 2018, suppliers with ISO14000 accreditation accounted for about 50% of the Group's total purchases of raw materials.

Aspect B6: Product Responsibility

Over the past few years, the Group adhered to the strategy of "improving product quality without raising the price" and spared no effort in improving product design, craftsmanship and materials, with the aim of raising the proportion of original designs, enhancing the value-for-money of its products and increasing the competitiveness of its products and brand.

For product materials, the Group operates a state-approved fabric testing centre equipped with advanced machines to run various tests on fabrics, including their chemical composition (such as methanol and azo), colour fastness to light and perspiration, pilling and abrasion resistance, degree of shrinkage, etc., in order to ensure the fabrics are in compliance with the Group's and also the national standards. All fabrics used in products, whether self-manufactured or OEM purchased or outsourced for processing, are required to pass those tests. In addition, the Group imposes stringent requirements on product quality control. All products must pass the quality control inspection of the Group before packaging for delivery, whether they are produced by the Wuli Plant, OEM suppliers or process sub-contractors.

In accordance with the requirements of the Trademark Law of the PRC, all products bear labels specifying details such as fiber content of the fabrics and its washing method, as well as the national and enterprise product execution standards being adopted. Advertising campaigns in relation to the brand and products are conducted in accordance with the requirements of the new Advertising Law of the PRC.

For the year ended 31 December 2018, the Group had not received any complaints from the regulatory body or consumers regarding product safety, nor had it recalled any product due to product safety or health issues.

Occasionally, the Group may find counterfeit products with LILANZ trademark available in the wholesale market or online. In the event that any such products are found, the Group will report it to relevant authorities.

The Group pays great attention to customer privacy. The information of its VIP customers in the database of retail distributors will only be used towards sales and promotion of the Group's products, and only relevant personnel of the Group and the relevant stores can access such information.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect B7: Anti-corruption

The Group is committed to good corporate governance practices and strictly prohibits its employees from engaging in acts of corruption. A policy has been set up to deal with anti-corruption complaints in a view to prevent corruption, reduce operational risks and protect the legitimate interests of the Group. All complaints regarding alleged corruption cases can be reported through specific channels (including email, telephone or mail) either on a named basis or anonymously, which will then be investigated and handled by the legal department and internal audit department under the guidance of the vice chairman of the Group.

For the year ended 31 December 2018, the Group had not been involved in any litigation related to corruption, and there had been no complaints about the involvement of its employees in corruption cases.

Aspect B8: Community Investment

The Group cares about the need of the community and makes donations to educational associations or charitable organizations to the best of its ability every year. For the year ended 31 December 2018, donations totaling RMB12.7 million were made by the Group to charitable associations approved by the local government to support services for the elderly, schools and hospitals.

The Group also encourages its staff to participate in charitable activities to help the poor and the needy in the society. During the year, the Group organized its staff to visit some under-privileged elderly, giving out basic foods and Lilanz products to keep them warm.

CORPORATE GOVERNANCE REPORT

The Board is firmly committed to compliance of statutory and regulatory corporate governance standards and adherence to the principles of corporate governance emphasizing transparency, accountability and integrity. Policies and practices on corporate governance are reviewed on a regular basis and as required to ensure that they remain appropriate and compliance with legal and regulatory requirements.

The Company complied with all code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2018.

(A) BOARD OF DIRECTORS

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The Directors recognize their collective and individual responsibility to the shareholders and perform their duties diligently to achieve positive results for the Company and to maximize returns for shareholders.

The Board currently comprises six Executive Directors and three Independent Non-executive Directors:

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 43 to 48 of the Annual Report. A list of the Directors identifying their role and function and whether they are Independent Non-executive Directors are available on the Company's website.

The principal responsibilities of the Board include the formulation of the Group's business strategies and management objectives, supervision of the management and evaluation of the effectiveness of management strategies. Day-to-day management of the Group's businesses is delegated to the Executive Directors or senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

Matters reserved for the Board include those affecting the Group's overall strategies, budget and plans, publication of financial statements, dividend policy, appointment of members to the various Board Committees and major investments. The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties.

Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request. No such advice was sought during 2018.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers. In 2018, no claims under the insurance policy were made.

Directors' Continuous Training and Professional Development

All Directors are provided with monthly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2018 is as follows:

Directors	Types of continuous professional development programmes
Executive Directors	
Mr. Wang Dong Xing	A
Mr. Wang Liang Xing	A
Mr. Wang Cong Xing	A
Mr. Cai Rong Hua	A
Mr. Hu Cheng Chu	A
Mr. Pan Rong Bin	A
Independent Non-executive Directors	
Dr. Lu Hong Te	A
Mr. Nie Xing	A
Mr. Lai Shixian	B

Notes:

A: Attending courses/seminars on business management, risk management and/or tax compliance.

B: Viewing director training webcasts on role and function of directors and company secretaries, and environmental, social and governance report.

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Wang Dong Xing, is responsible for the overall management of and leadership for the Board and ensuring that good corporate governance practices and procedures are established. He is also responsible to ensure all Directors receive adequate information in a timely manner and are properly briefed on issues arising on board meetings.

The Chief Executive Officer, Mr. Wang Liang Xing, is responsible for managing the day-to-day operations of the Group's business.

The Company has kept these roles separated and distinctive as this ensures better checks and balances and hence better corporate governance.

Independence of Independent Non-executive Directors

The three Independent Non-executive Directors bring with them expertise in different areas. The role of the Independent Non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. The Independent Non-executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors.

Each Independent Non-executive Director has submitted annual confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the Independent Non-executive Directors are independent.

Board Committees

To cover particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. Each of the Committees is delegated by the Board with specific roles and responsibilities and reports to the Board on matters discussed and their findings. Their terms of reference are available on the Company's website.

All Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Nie Xing, Dr. Lu Hong Te and Mr. Lai Shixian. The Chairman of the Audit Committee is Mr. Nie Xing, whose expertise in financial planning and analysis, management, investment and corporate financing enables him to provide leadership for the Committee.

The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. These include reviewing the Group's interim and annual reports.

The Audit Committee had two meetings during the year ended 31 December 2018. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2017 and the interim report of the Group for the six months ended 30 June 2018, as well as the reports prepared by the external auditor covering major findings in the course of its audit/review.

(ii) Remuneration Committee

The Remuneration Committee currently comprises two Independent Non-executive Directors and one Executive Director, namely Mr. Lai Shixian, Mr. Nie Xing and Mr. Wang Cong Xing. Mr. Lai Shixian is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy as well as the specific remuneration packages for the Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director will take part in any discussion on his own remuneration.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board of Directors, market rates and factors such as each director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

During the year ended 31 December 2018, the Remuneration Committee held one meeting to discuss and approve for recommendation to the Board the bonus (if any) for the year ended 31 December 2017 and salary adjustments (if any) for the year ended 31 December 2018 of Executive Directors and senior management.

Details of Directors' and senior management's remuneration are set out in notes 8 to 10 to the financial statements.

(iii) Nomination Committee

The Nomination Committee currently comprises one Executive Director and two Independent Non-executive Directors, namely Mr. Wang Dong Xing, Dr. Lu Hong Te and Mr. Nie Xing. Mr. Wang Dong Xing is the Chairman of the Nomination Committee.

The Company recognizes the benefits of having a Board that has a balance of experience, skills and diversity of perspectives appropriate to the requirements of the Company's businesses. The Board has adopted a Board Diversity Policy that appointment to the Board should be based on merit that compliments and expands the skills and experience of the Board as a whole, and after due regard to factors which include but not limited to gender, age, educational background, professional experience, skills and knowledge, and any other factors that the Board may consider relevant and applicable from time to time towards achieving a diverse Board. The Board shall review the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate to the requirements of the Company's business, with due regard to the benefits of diversity of the Board.

The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and will at the appropriate time set measurable objectives for achieving diversity of the Board. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of Independent Non-executive Directors. No candidate had been nominated for appointment as additional Director during the year.

During the year ended 31 December 2018, the Nomination Committee held one meeting. In the meeting, the Nomination Committee had assessed the independence of Independent Non-executive Directors, considered and recommended to the Board on the retirement by rotation and re-election of Directors at the 2018 annual general meeting. The Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs and that the Directors bring with them complimenting skills and experience appropriate to the requirements of the Company's business.

(iv) Risk Management Committee

The Risk Management Committee currently comprises three Executive Directors, namely Mr. Wang Dong Xing, Mr. Wang Cong Xing and Mr. Pan Rong Bin. Mr. Wang Dong Xing is the Chairman of the Risk Management Committee.

The principal responsibilities of the Risk Management Committee are to review the risks facing the Group and to oversee management in the design, implementation and monitoring of the risk management system.

During the year ended 31 December 2018, the Risk Management Committee held one meeting to discuss and assess the principal risks facing the Group and the related control measures being taken. Key risk exposures of the Group identified are set out in the Management Discussion and Analysis on pages 8 to 21 of the Annual Report.

Board Proceedings

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

CORPORATE GOVERNANCE REPORT (CONTINUED)

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

Meetings

The attendance of individual Directors at Board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting, Risk Management Committee meeting and Annual General Meeting held during the year ended 31 December 2018 are set out below:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Risk Management Committee Meeting	2018 Annual General Meeting
No. of meetings held during the year ended 31 December 2018	9	2	1	1	1	1
Executive Directors						
Mr. Wang Dong Xing	9	N/A	N/A	1	1	1
Mr. Wang Liang Xing	6	N/A	N/A	N/A	N/A	—
Mr. Wang Cong Xing	9	N/A	1	N/A	1	—
Mr. Cai Rong Hua	7	N/A	N/A	N/A	N/A	—
Mr. Hu Cheng Chu	7	N/A	N/A	N/A	N/A	1
Mr. Pan Rong Bin	5	N/A	N/A	N/A	1	—
Independent Non-executive Directors						
Dr. Lu Hong Te	4	2	N/A	1	N/A	—
Mr. Nie Xing	4	2	1	1	N/A	1
Mr. Lai Shixian	2	—	—	N/A	N/A	1

To supplement the formal Board meetings, the Chairman held regular gatherings with Directors to consider issues in an informal setting.

During the year, the Chairman had one meeting with the Independent Non-executive Directors without other Executive Directors present.

Appointment and Re-election of Directors

Each of the Executive Directors and Independent Non-executive Directors of the Company has entered into a service contract with the Company for a specific term subject to his retirement and re-election at annual general meeting in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the shareholders.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Securities Dealing Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Securities Dealing Code throughout the year.

Senior management who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have also been requested to comply with the provisions of the Securities Dealing Code.

Company Secretary

Ms. Ko Yuk Lan, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the financial year, Ms. Ko has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of Ms. Ko is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 43 to 48 of the Annual Report.

(B) FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

Financial Reporting

The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Companies Ordinance and applicable disclosure provisions of the Listing Rules. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

Risk Management and Internal Controls

The Board recognizes its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and to ensure that the Group establishes and maintains effective risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

(i) Enterprise Risk Management ("ERM") Framework

The Company's ERM processes are summarized as follows:

The risk management systems are reviewed annually to ensure appropriateness and effectiveness.

Key risks exposures of the Group are summarized in the paragraph headed "Principal Risks and Uncertainties" in the Management Discussion and Analysis set out on pages 8 to 21 of this Annual Report.

(ii) Internal Controls

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage risks. A designated staff has been appointed to carry out internal control review on a day to day basis. The Group also continues to engage KPMG Advisory (China) Limited as internal control review advisor to assist in the review of the effectiveness of the internal control system. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic rotational basis based on the risk assessments of the operations and controls. The scope of review for the year had been determined and approved by the Audit Committee. No major issues but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited and has adopted an Inside Information Policy to ensure compliance of the Listing Rules. Prior to the announcement of any inside information, all Directors and senior management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Stock Exchange for a trading suspension of its shares.

External Auditor

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year, the fees payable to KPMG in respect of its statutory audit services (including interim review) provided to the Group was RMB2,700,000. Fees payable to KPMG for non-audit services in respect of internal control review and tax advisory services for the year amounted to RMB600,000.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

(C) NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International Limited and Ming Lang Investments Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company ("Controlling Shareholders"). Each of the Controlling Shareholders has confirmed to the Company that none of them is engaged in, or interested in any business (other than the Group) to compete directly or indirectly with the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking in the Group's favour on 4 September 2009.

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking, the Company has adopted the following corporate governance measures:

(i) the Independent Non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the non-compete undertaking by the Controlling Shareholders;

(ii) the Company will disclose any decisions on matters reviewed by the Independent Non-executive Directors relating to compliance and enforcement of the non-compete undertaking either through the annual report or by way of announcement;

(iii) the Company will disclose in the corporate governance report on how the terms of the non-compete undertaking have been complied with and enforced; and

(iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the non-compete undertaking, he may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Company's articles of association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders.

Each of the Controlling Shareholders has confirmed to the Company that he/it has complied with the non-compete undertaking during the year. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with.

(D) COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

Investors Relations

The Company believes that effective communication with its shareholders and the investment community in a fair and timely basis is essential. Continuous dialogue is held with research analysts and institutional investors by means of roadshows, one on one meetings, conference calls and investors conferences to keep them abreast of the Group's business and development.

Shareholders' Rights

The Company encourages shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board committees at the general meetings or providing written notice of such proposals for the attention of the Company Secretary at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong or via email to ir@lilanz.com.hk.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at 3402, 34 Floor, Lippo Centre, Tower One, No. 89 Queensway, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as Director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

The attendance record of the Directors at the annual general meeting held during the year is set out under the paragraph headed "Meetings" above.

The dividend policy of the Company is set out under the paragraph headed "Dividend Policy" in the Management Discussion and Analysis set out on pages 8 to 21 of the Annual Report.

During the financial year, there were no changes in any of the Company's constitutional documents.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wang Dong Xing (王冬星先生), aged 58, is the chairman and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for formulating operation direction, devising annual plan and financial budget and making recommendations on significant investments of the Group to the Board for approval. He completed a diploma programme for chief executive officers of enterprises (企業總裁高級研修班) from the Economics College of Peking University (北京大學經濟學院), an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a CEO to Lead the Future Programme (引領未來CEO課程) organized by the Shanghai Advanced Institute of Finance at Shanghai Jiao Tong University (上海交通大學上海高級金融學院). Mr. Wang has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is a member of the Fujian Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會), a representative of the Quanzhou Municipal People's Congress (泉州市人民代表大會) and standing vice chairman of the Jinjiang City Sewing and Apparel Association (晉江市紡織服裝協會). He is also vice chairman of the Jinjiang Committee of China Democratic National Construction Association (民主建國會晉江委員會), standing committee member of the Jinjiang Chamber of Commerce (晉江市工商聯(總商會)) and chairman of the Quanzhou APEC Business Travel Card Association (泉州市APEC(亞太經合組織)商務旅行卡協會).

Mr. Wang is the elder brother of Mr. Wang Liang Xing and Mr. Wang Cong Xing, who are also executive Directors of the Company. He is the brother-in-law of Mr. Chen Wei Jin, a member of the senior management of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company.

Mr. Wang Liang Xing (王良星先生), aged 56, is the vice chairman, the chief executive officer and an executive Director of the Company. He was appointed as an executive Director on 13 June 2008. He has been with the Group since its establishment in April 1995 and is one of the founders of the Group. Mr. Wang is responsible for the Group's overall business development, strategic planning and corporate management. He is also responsible for the corporate development of the Group and recommending the appointment of senior management to the Board. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), an EMBA programme organised by Xiamen University (廈門大學), a China CEO Programme (中國企業CEO課程) organized by Cheung Kong Graduate School of Business (長江商學院) and a global CEO Programme (全球CEO課程) organized by China Europe International Business School (中歐國際工商學院). Mr. Wang has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang is the vice-chairman and standing supervisor of the Enterprises Credit Management Association of Quanzhou City (泉州市企業合同信用管理協會第一屆理事會) and a supervisor of the Garment Association of the PRC (中國服裝協會). He was one of 50 persons honoured with a 2005 PRC Enterprises Trademark Award (2005中國企業商標50人) and was accredited as the "Brand China People of the Year 2010" (2010品牌中國年度人物).

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Cong Xing, and the brother-in-law of Mr. Cai Rong Hua, who are also executive Directors of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Wang Cong Xing (王聰星先生), aged 50, is the vice chairman and an executive Director of the Company. He was appointed as an executive Director on 2 January 2008. Mr. Wang has been with the Group since its establishment in April 1995 and is one of the founders of the Group. He is responsible for finance and information technology management for the Group. He is also responsible for the internal management system of the Group and supervising the implementation of the annual, quarterly and monthly financial plans of the Group. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. Mr. Wang has over 25 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Wang is the brother of Mr. Wang Dong Xing and Mr. Wang Liang Xing, who are also executive Directors of the Company. He is also a director and one of the shareholders of Ming Lang Investments Limited and Xiao Sheng International Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Cai Rong Hua (蔡榮華先生), aged 50, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for product research and development for the Group. He is also responsible for negotiating with the major suppliers of the Group. Mr. Cai completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) and an EMBA programme organised by Lingnan College, Sun Yat-sen University (中山大學嶺南學院). He has over 20 years of manufacturing and management experience in the menswear industry in the PRC.

Mr. Cai is the brother-in-law of Mr. Wang Liang Xing, who is also an executive Director of the Company. He is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Hu Cheng Chu (胡誠初先生), aged 74, is an executive Director of the Company. He joined the Group in April 1998 and was appointed as an executive Director on 13 June 2008. He is responsible for brand management and public relation for the Group. Mr. Hu completed part-time professional political engineering course and professional administrative management course from Fudan University in 1988 and 1989, respectively, and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院). He is currently the vice chairman of the Quanzhou Association of Professional Managers (泉州職業經理人協會) and a supervisor of the Association of China Brand Managers of the Brand China Industry Union (品牌中國產業聯盟之中國品牌經理人協會). He was appointed as a lecturer on entrepreneurship (創業導師) by SUFE School of Entrepreneurship and Innovation (上海財經大學創業學院) for a 3-year period ended 15 July 2018. He was also accredited as:

— one of the top 10 planners for corporate sales and marketing in the PRC for the year 2007 to 2008, and for the year 2009 to 2010 (2007-2008年及2009-2010年中國10大企業營銷策劃人);
— one of the top 10 brand managers in China for the year 2010 (2010中國十大品牌經理人);
— the China Great Wall outstanding advertising personage award for the year 2011 (2011年中國廣告主長城獎—人物獎之功勛獎);
— the excellent chief brand officer in China for the year 2013 (2013中國卓越首席品牌官);
— one of the top 10 planners for brand marketing of China's enterprises for the year 2015 (2015中國企業十大品牌營銷策劃人);
— the excellent brand officer in China for the year 2016 (2016中國卓越品牌官); and
— one of the top 10 planners for brand marketing in China for the year 2016 (2016中國十大品牌營銷策劃人)

Mr. Hu is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

Mr. Pan Rong Bin (潘榮彬先生), aged 45, is an executive Director of the Company. He joined the Group in February 2003 and was appointed as an executive Director on 13 June 2008. Prior to acting as the general manager of the Group's LILANZ brand since March 2011, Mr. Pan was responsible for the marketing and distribution operations of LILANZ.

Mr. Pan completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 2001 to 2005, Mr. Pan was a representative in the Nanping Municipal People's Congress, Fujian Province (福建省南平市人民代表大會). From 1995 to 2007, he was a member of the Chinese People's Political Consultative Conference of Jianyang City, Fujian Province (中國人民政治協商會議福建省建陽市委員會). He was honoured with the award for the Model of Labour in Quanzhou City, Fujian Province (福建省泉州市勞動模範) in May 2006. He was also accredited as the outstanding personage in the development of retail industry (零售業卓越推動人物) in the "Golden Coordinate" (金座標) award organised by winshang.com (《贏商網》) together with mainstream commercial real estate media in China in April 2018. He has over 15 years of management experience in the menswear industry in the PRC.

Mr. Pan is also one of the shareholders of Xiao Sheng International Limited and Ming Lang Investments Limited, which are the controlling shareholders (within the meaning of the Listing Rules) of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Independent Non-executive Directors

Dr. Lu Hong Te (呂鴻德博士), aged 58, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Dr. Lu obtained a bachelor's degree in management from National Cheng Kung University in 1983 and a master's degree and a doctoral degree in business from the Graduate Institute of Business Administration of the College of Management of National Taiwan University in 1985 and 1992, respectively. Dr. Lu is a professor at the department of business administration at Chung Yuan Christian University in Taiwan, specialising in marketing and sales management and corporate competitive strategies. He also serves as a visiting professor at several institutions, including SGP International Management Academy, Nanyang Technological University's EMBA Centre and Xiamen University's EMBA Centre.

Dr. Lu is an independent non-executive director of three companies in Taiwan, namely Firich Enterprises Co., Ltd. (台灣伍豐科技股份有限公司) (stock code: 8076), Lanner Electronics Inc. (台灣立端科技股份有限公司) (stock code: 6245) and Uni-President Enterprises Corporation (統一企業股份有限公司) (stock code: 1216), the shares of which are traded in the Gre Tai Securities Market (證券櫃檯買賣中心) in Taiwan. He is also an independent non-executive director of three other companies, namely Capxon International Electronic Company Limited (凱普松國際電子有限公司) (stock code: 469), China SCE Property Holdings Limited (中駿置業控股有限公司) (stock code: 1966) and Cosmo Lady (China) Holdings Company Limited (都市麗人(中國)控股有限公司) (stock code: 2298), the shares of which are listed on the Stock Exchange. During the last three years, Dr. Lu was also an independent non-executive director of ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), the shares of which are listed on the Stock Exchange. He resigned as independent non-executive director of that company on 1 March 2019.

Mr. Nie Xing (聶星先生), aged 54, is an independent non-executive Director of the Company. He joined the Board on 13 June 2008. Mr. Nie is a graduate from Jiangxi University of Finance and Economics (江西財經學院) with a bachelor's degree in economics in 1986 and further obtained a master's degree in business administration from the Open University of Hong Kong (香港公開大學) in December 2000. During the last three years, Mr. Nie was also an independent non-executive director of Time2U International Holding Limited (時間由你國際控股有限公司) (stock code: 1327), the shares of which are listed on the Stock Exchange. He retired as independent non-executive director of that company on 7 June 2017. Mr. Nie has substantial experience in financial planning and analysis, management, investment and corporate financing. He is currently the chairman of the Audit Committee.

Mr. Lai Shixian (賴世賢先生), aged 44, is an independent non-executive Director of the Company. He joined the Board on 13 December 2012. Mr. Lai is an executive director and chief financial officer of ANTA Sports Products Limited (安踏體育用品有限公司) (stock code: 2020), the shares of which are listed on the Stock Exchange, and is primarily responsible for the administrative and financial management of that group of companies. Mr. Lai holds an EMBA degree from China Europe International Business School.

SENIOR MANAGEMENT

Ms. Ko Yuk Lan (高玉蘭女士), aged 57, is the chief financial officer and company secretary of the Company. She first joined the Group in January 2008 and worked with the Group until September 2008. She rejoined the Group in May 2010. Ms. Ko graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a Professional Diploma in Management Accountancy. She has over 25 years of experience in financial management and corporate finance. Prior to joining the Group, she had worked in an international accounting firm and other companies listed on the Main Board of the Stock Exchange. Ms. Ko is a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Cost and Management Accountants. During the last three years, she was also an independent non-executive director of Hosa International Limited (浩沙國際有限公司) (stock code 2200), the shares of which are listed on the Stock Exchange. She retired as independent non-executive director of that company on 30 April 2018.

Ms. Shi Mei Ya (施美芽女士), aged 42, is the head of the production management department of the Group. She completed a programme in fine chemical engineering at Fujian Radio and TV University (福建省廣播電視大學) in 1998 and an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. She also completed a programme in project management and a master programme in business administration for senior managers (高級經理工商管理碩士課程) at Xiamen University (廈門大學). Ms. Shi joined the Group on 1 August 1998 and has been the head of production management department of the Group since November 2008.

Mr. Zhang Yu Feng (章宇峰先生), aged 48, is the head of group strategy development department of the Group. He graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in professional trade and economics in 1992 and completed an EMBA core course from Cheung Kong Graduate School of Business (長江商學院) in 2006. From 1992 to 2007, he had worked in S. C. Johnson & Son, Inc. (美國莊臣父子公司) as sales representative and branch office manager, worked in Coty Inc. (法國科蒂化妝品集團) as regional manager and sales manager in China region, worked in Henkel AG (德國漢高公司) as national trade marketing manager and national sales director, worked in Li Ning Company Limited (李寧有限公司) as department head targeting key clients and worked in Puma China (彪馬中國) as regional sales and marketing manager for the eastern, central and western China regions. He joined the Group on 27 August 2007 and was the head of marketing in the sales and marketing department of the Group's LILANZ brand prior to acting as the head of group strategy development department since January 2016.

Mr. Zhuang Zhi Han (莊志函先生), aged 49, is the deputy financial controller of the Group. He graduated from Faculty of Accountancy from East China Technology University (華東工業大學) with a bachelor's degree in economics major in accounting in 1994. He obtained an EMBA degree from Xiamen University (廈門大學) in December 2012. Prior to joining the Group, he worked in Xiaxin Electronic Stock Company Limited (夏新電子股份有限公司), responsible for the overall financial affairs. He joined the Group on 1 September 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chen Wei Jin (陳維進先生), aged 49, is the head of the group ordering department of the Group. He graduated from Zhangzhou Normal University (漳州師範學院) with a professional diploma in administration in July 2000 and completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院) in 2006. From 1989 to 2004, he served as the general manager of Jinjiang Weixin Knitters Factory (晉江維信針織廠). From 1996 to 2004, he also worked in the Jinjiang branch office of the China Life Insurance Company Limited (中國人壽保險有限公司晉江支公司) as the general manager of the sales department, where he was recognised as pioneer of sales and marketing (營銷標兵) from 1998 to 2000 and outstanding supervisor (優秀理事) for the year 2002. He joined the Group on 1 March 2004 as the manager of the group ordering department of the Group. Mr. Chen is the brother-in-law of Mr. Wang Dong Xing, an executive Director of the Company.

Mr. Huang Ming Hai (黃明海先生), aged 43, is the financial controller of the Group's brand LILANZ. He completed an advanced programme of excellent corporate operation and management (卓越企業經營管理高級課程研修班) from the School of Continuing Education of Tsinghua University (清華大學繼續教育學院), a programme in financial management at the Adult Education College of Huaqiao University (華僑大學成人教育學院), an advanced programme in financial leadership development (財務領袖高級研修班課程) at Commerce College of Huaqiao University (華僑大學商學院), and a distance-learning professional programme in accounting (成人高等教育會計學專業函授課程) at the Fujian Agriculture and Forestry University Continuing Education School (福建農林大學成人教育學院). He joined the Group on 24 April 1995.

REPORT OF THE DIRECTORS

The Directors are pleased to present the Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands and is domiciled in Hong Kong and has its registered office at Suite 3402, 34/F., Lippo Centre, Tower One, 89 Queensway, Hong Kong. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 33 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 21 of this Annual Report. This discussion forms part of this directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	2018		2017	
	Percentage of the Group's Total		Percentage of the Group's Total	
	Sales	**Purchases**	Sales	Purchases
The largest customer	**4.0%**		4.4%	
Five largest customers in aggregate	**16.0%**		14.6%	
The largest supplier		**3.0%**		4.9%
Five largest suppliers in aggregate		**13.4%**		17.7%

At no time during the year have the Directors, their associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 118 of the Annual Report.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 64 to 117 of the Annual Report.

REPORT OF THE DIRECTORS (CONTINUED)

TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB751,194,000 (2017: RMB611,039,000) has been transferred to reserves. Other movements in reserves of the Group are set out in the consolidated statement of changes in equity.

An interim dividend of HK16 cents (2017: HK13 cents) per ordinary share and a special interim dividend of HK7 cents (2017: HK5 cents) per ordinary share were paid on 14 September 2018. The Directors now recommend the payment of a final dividend of HK21 cents (2017: HK18 cents) per ordinary share and a special final dividend of HK10 cents (2017: HK8 cents) per ordinary share in respect of the year ended 31 December 2018.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB12,700,000 (2017: RMB8,408,000).

NON-CURRENT ASSETS

Details of acquisitions and other movements of non-current assets (including property, plant and equipment, investment properties, lease prepayments, intangible assets and deposits for purchases of property, plant and equipment) are set out in notes 12 to 16 to the consolidated financial statements.

BANK FACILITIES

Particulars of bank facilities of the Group as at 31 December 2018 are set out in note 21 to the consolidated financial statements. All bank loans were fully repaid as at 31 December 2017 and 2018.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25(a) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2018 and at any time up to the date of this Annual Report.

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 is incorporated.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors

Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

Details of the Directors' biographies are set out on pages 43 to 48 of the Annual Report.

In accordance with article 105(a) of the Company's articles of association, Mr. Wang Cong Xing, Mr. Hu Cheng Chu and Mr. Lai Shixian will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under 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 ("Model Code") contained in Appendix 10 to the Listing Rules:

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang Dong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.917%
	Xiao Sheng International Limited ("Xiao Sheng International") (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%
Mr. Wang Liang Xing	The Company	Beneficial owner	26,031,000 shares (L)	2.174%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%
Mr. Wang Cong Xing	The Company	Beneficial owner	22,950,000 shares (L)	1.917%
	Xiao Sheng International (Note 2)	Beneficial owner	2,550 shares of US$1.00 each (L)	26.289%

Name of shareholder	Name of Group company/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Cai Rong Hua	The Company	Beneficial owner	1,810,000 shares (L)	0.151%
	The Company	Settlor of a discretionary trust (Note 3)	7,200,000 shares (L)	0.601%
	Xiao Sheng International (Note 2)	Settlor of a discretionary trust (Note 3)	800 shares of US$1.00 each (L)	8.247%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.376%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US$1.00 each (L)	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,051,000 shares (L)	0.255%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US$1.00 each (L)	3.093%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.

2. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 3), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

3. The interests of Mr. Cai Rong Hua in 7,200,000 shares of the Company and 800 shares of Xiao Sheng International is held through Jia Fa International Limited ("JFIL"). The entire issued share capital of JFIL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai as the settlor on 31 December 2018. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

Save in connection with any share options to subscribe for the shares of the Company which may be granted to any of the Directors or chief executives under the Company's share option scheme as detailed in the paragraph headed "Equity-settled Share Based Payments" in this report, at no time during the year was the Company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of shareholder	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Xiao Sheng International	Beneficial owner	661,500,000 shares (L) (Note 2)	55.24%
Ming Lang Investments Limited ("Ming Lang Investments")	Beneficial owner	74,905,000 shares (L) (Note 3)	6.26%
Value Partners Group Limited	Interest in controlled corporation	71,108,000 shares (L) (Note 4)	5.94%
Value Partners High-Dividend Stocks Fund	Beneficial owner	60,133,000 shares (L) (Note 4)	5.02%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company.

(2) These shares were held by Xiao Sheng International. Xiao Sheng International is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 5), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

(3) These shares were held by Ming Lang Investments. Ming Lang Investments is owned as to 26.289% by each of Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, 8.247% by Jia Fa International Limited (note 5), 5.155% by Mr. Hu Cheng Chu, 3.093% by Mr. Pan Rong Bin, 2.062% by Mr. Chen Wei Jin, 1.031% by Mr. Wang Qiao Xing and 0.515% by each of Mr. Xu Tian Min, Ms. Wang Cui Rong and Ms. Wang Hui Rong.

(4) Value Partners High-Dividend Stocks Fund is controlled by Value Partners Group Limited, Interest of Value Partners High-Dividend Stocks Fund were included in the interest of Value Partners Group Limited.

(5) The entire issued share capital of Jia Fa International Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Cai Rong Hua as the settlor on 31 December 2018. The beneficiaries under the trust are Mr. Cai and his family members. Mr. Cai is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The related party transaction for the year as disclosed in note 30 to the consolidated financial statements also constituted continuing connected transaction under the Listing Rules, which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transaction (as defined under the Listing Rules) are set out below in accordance with the requirements of the Listing Rules:

Tenancy Agreement with Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")

Jinlang Fujian is wholly owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, three of the Executive Directors and controlling shareholders (within the meaning of the Listing Rules) of the Company. Jinlang Fujian is therefore a connected person of the Company under the Listing Rules.

The Group, as lessee, entered into a tenancy agreement with Jinlang Fujian, as landlord, on 19 December 2016 (the "Tenancy Agreement") in respect of the premises of the Company's headquarters at Lilang Industrial Park, 200 Chang Xing Road, Jinjiang City, Fujian Province (the "Premises") with aggregate gross floor area of approximately 27,757 sq.m. for a term commencing from 1 January 2017 to 31 December 2019. The monthly rent payable by the Group to Jinlang Fujian under the Tenancy Agreement was RMB270,000 (exclusive of water and electricity charges, gas and steam fees, telephone charges, property maintenance fees and other fees in relation to the use of the Premises).

During the year ended 31 December 2018, total rental paid or payable by the Group under the Tenancy Agreement amounted to RMB3,240,000 which did not exceed the annual caps for this transaction.

Opinion from the Independent Non-executive Directors and auditor on the continuing connected transaction

The Directors (including all Independent Non-executive Directors) have reviewed the continuing connected transaction and confirmed that this transaction was entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transaction disclosed by the Group in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS (CONTINUED)

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the paragraph headed "Continuing Connected Transaction" above and in note 30 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE

During the year, save as disclosed in note 30 to the consolidated financial statements and in the paragraph headed "Continuing Connected Transaction" in this report, there had been no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

COMPETING BUSINESS

Each of Mr. Wang Dong Xing, Mr. Wang Liang Xing, Mr. Wang Cong Xing, Xiao Sheng International and Ming Lang Investments (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 4 September 2009. The Independent Non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2018.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Company adopted a share option scheme on 4 September 2009 (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Eligible participants of the Share Option Scheme include (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other Group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above.

Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 4 September 2009.

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee 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 substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their 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 the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

As at the end of reporting period and the date of the approval of this report, the total number of shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which have been or may be granted under the Share Option Scheme and any share option scheme of the Group must not in aggregate exceed 120,000,000 shares, representing 10% of the shares of the Company in issue as at 25 September 2009 (the Listing date) and 10.02% of the shares of the Company in issue as at the end of reporting period and the date of approval of this report. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The offer of a grant of share options may be accepted within 21 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 Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

On 29 November 2011 (the "Date of Offer"), the Company offered to grant options to subscribe for an aggregate of 1,130,000 shares of the Company to employees of the group under the Share Option Scheme at an exercise price of HK$6.63 per share. The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK$6.01 and HK$6.63 respectively. The offers were accepted by the grantees within 21 days from the Date of Offer.

REPORT OF THE DIRECTORS (CONTINUED)

Details of movements of the options during the year are set out below:

Name or category of participants	Options granted by the Company Number of underlying shares As at 1 January 2018	Exercised	As at 31 December 2018
Employee	530,000	(530,000)	—

The weighted average closing price immediately before the date on which share options were exercised during the year was HK$10.66.

There were no outstanding options under the Share Option Scheme as at 31 December 2018.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 26 to the consolidated financial statements.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Wang Dong Xing
Chairman

Hong Kong, 13 March 2019

INDEPENDENT AUDITOR'S REPORT

to the shareholders of China Lilang Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Lilang Limited ("the Company") and its subsidiaries ("the Group") set out on pages 64 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
Revenue principally comprises sales of menswear goods, including tops, pants and accessories to distributors and through consignees. Every year, the Group enters into a framework distribution agreement with each distributor and a consignment agreement with each consignee and manufactures or sources its products in accordance with the terms of separate purchase orders. For sales to distributors, once the products are delivered to the location designated by the distributor which is the point at which the control of the menswear goods is considered to have been transferred to the distributor and the point at which revenue is recognised. For sales through consignees, once the products are sold to end users by the consignee, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point. The Group receives confirmations of the transaction amounts from the consignees on a monthly basis. We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of misstatement of revenue by management to meet specific targets.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over revenue recognition; • inspecting agreements with distributors and consignees, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether specific revenue transactions around the financial year end had been recognised in the appropriate financial period by comparing the transactions selected with relevant supporting documents, including goods delivery notes or monthly confirmations from consignees and the terms of sale as set out in the distribution or consignment agreements; • identifying significant credit notes issued and sales returns from the sales ledger after the year end and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate financial period in accordance with the requirements of the prevailing accounting standards; • obtaining external confirmations of the value of sales transactions for the year ended 31 December 2018 and outstanding trade receivable balances as at that date directly from distributors and consignees, on a sample basis; • selecting a sample of sales journals during the financial year that met certain risk-based criteria and comparing details of these journals with the relevant supporting documents; • inspecting a sample of manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 Wong Chun Pong.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Revenue	3	**3,167,872**	2,441,057
Cost of sales		**(1,869,820)**	(1,427,240)
Gross profit		**1,298,052**	1,013,817
Other net income	4	**87,027**	64,104
Selling and distribution expenses		**(396,348)**	(311,149)
Administrative expenses		**(92,150)**	(89,999)
Other operating expenses		**(14,718)**	(7,827)
Profit from operations		**881,863**	668,946
Net finance income	5	**63,376**	52,543
Profit before taxation	6	**945,239**	721,489
Income tax	7(a)	**(194,045)**	(110,450)
Profit for the year		**751,194**	611,039
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company and subsidiaries outside the mainland of the People's Republic of China (the "PRC")		**(1,587)**	(250)
Total comprehensive income for the year		**749,607**	610,789
Earnings per share	11		
Basic (cents)		**62.74**	50.71
Diluted (cents)		**62.74**	50.71

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 2).

The notes on pages 68 to 117 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	12	**699,124**	429,945
Investment properties	13	**98,811**	101,549
Lease prepayments	14	**102,766**	105,149
Intangible assets	15	**6,752**	5,615
Deposits for purchases of property, plant and equipment	16	**11,860**	97,586
Deferred tax assets	23(b)	**6,016**	6,005
		925,329	745,849
Current assets			
Inventories	17	**676,411**	323,333
Trade and other receivables	18	**952,620**	708,267
Pledged bank deposits	19	**15,201**	6,831
Fixed deposits held at banks with maturity over three months	20(a)	**—**	188,000
Cash and cash equivalents	20(a)	**1,842,850**	1,823,281
		3,487,082	3,049,712
Current liabilities			
Trade and other payables	22	**817,417**	534,735
Contract liabilities		**40,728**	—
Current tax payable	23(a)	**134,485**	83,981
		992,630	618,716
Net current assets		**2,494,452**	2,430,996
Total assets less current liabilities		**3,419,781**	3,176,845
Non-current liabilities			
Deferred tax liabilities	23(b)	**19,922**	32,714
Retention payables		**—**	2,400
		19,922	35,114
Net assets		**3,399,859**	3,141,731
Capital and reserves			
Share capital	25(a)	**105,517**	105,492
Reserves		**3,294,342**	3,036,239
Total equity		**3,399,859**	3,141,731

Approved and authorised for issue by the board of directors on 13 March 2019

Mr. Wang Dong Xing	**Mr. Wang Liang Xing**	**Mr. Wang Cong Xing**
Chairman	*Chief Executive Officer*	*Executive Director*

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 2).

The notes on pages 68 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	Share capital (note 25(a)) RMB'000	Share premium (note 25(d)(i)) RMB'000	Statutory reserve (note 25(d)(ii)) RMB'000	Capital reserve (note 25(d)(iii)) RMB'000	Exchange reserve (note 25(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2017		106,467	27,096	220,171	23,455	(41,324)	2,675,697	3,011,562
Changes in equity for 2017:								
Profit for the year		–	–	–	–	–	611,039	611,039
Other comprehensive income for the year		–	–	–	–	(250)	–	(250)
Total comprehensive income for the year		–	–	–	–	(250)	611,039	610,789
Buy-back and cancellation of issued shares	25(a)(i)	(975)	–	–	975	–	(60,224)	(60,224)
Dividends approved in respect of the previous year	25(c)	–	–	–	–	–	(232,974)	(232,974)
Dividends declared in respect of the current year	25(c)	–	–	–	–	–	(187,422)	(187,422)
Appropriation to statutory reserve		–	–	31,825	–	–	(31,825)	–
At 31 December 2017 and 1 January 2018		**105,492**	**27,096**	**251,996**	**24,430**	**(41,574)**	**2,774,291**	**3,141,731**
Changes in equity for 2018:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**751,194**	**751,194**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(1,587)**	**–**	**(1,587)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1,587)**	**751,194**	**749,607**
Cancellation of shares bought back	25(a)(i)	**(21)**	**–**	**–**	**21**	**–**	**–**	**–**
Shares issued under share option scheme	25(a)(ii)	**46**	**4,315**	**–**	**(1,275)**	**–**	**–**	**3,086**
Dividends approved in respect of the previous year	25(c)	**–**	**–**	**–**	**–**	**–**	**(252,712)**	**(252,712)**
Dividends declared in respect of the current year	25(c)	**–**	**–**	**–**	**–**	**–**	**(241,853)**	**(241,853)**
Appropriation to statutory reserve		**–**	**–**	**5,042**	**–**	**–**	**(5,042)**	**–**
At 31 December 2018		**105,517**	**31,411**	**257,038**	**23,176**	**(43,161)**	**3,025,878**	**3,399,859**

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 2).

The notes on pages 68 to 117 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations	20(b)	**601,992**	677,672
Tax paid	23(a)	**(156,344)**	(191,458)
Net cash generated from operating activities		**445,648**	486,214
Investing activities			
Payments for purchases of property, plant and equipment		**(188,264)**	(222,210)
Payments for purchases of intangible assets		**(3,851)**	(2,726)
Proceeds from disposal of property, plant and equipment		**1,050**	643
Interest income received		**71,563**	71,477
Decrease in fixed deposits held at banks with maturity over three months		**188,000**	380,943
Decrease in pledged bank deposits		**—**	480,000
Net cash generated from investing activities		**68,498**	708,127
Financing activities			
Proceeds from bank loans	20(c)	**578,285**	345,740
Repayment of bank loans	20(c)	**(578,285)**	(839,268)
Proceeds from issue of shares under share option scheme	25(a)(ii)	**3,086**	—
Shares buy-back	25(a)(i)	**—**	(60,224)
Interest expense paid		**(5,930)**	(6,166)
Dividends paid	25(c)	**(494,565)**	(420,396)
Net cash used in financing activities		**(497,409)**	(980,314)
Net increase in cash and cash equivalents		**16,737**	214,027
Cash and cash equivalents at 1 January		**1,823,281**	1,613,658
Effect of foreign exchange rate changes		**2,832**	(4,404)
Cash and cash equivalents at 31 December	20(a)	**1,842,850**	1,823,281

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 2).

The notes on pages 68 to 117 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi ("RMB") rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments are stated at fair value as explained in note 1(w).

The preparation of these financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 31.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

No depreciation is provided in respect of construction in progress.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 40 years after the date of completion.

— Leasehold improvements	shorter of 5 years or remaining term of the lease
— Plant and machinery	10 years
— Motor vehicles	5 years
— Office equipment	5 years
— Furniture and fixtures	5 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (Continued)

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Investment properties

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the shorter of the unexpired term of the lease and its estimated useful life, being no more than 40 years after the date of completion.

(f) Lease prepayments

Lease prepayments represent cost of acquiring land use rights paid to the PRC's governmental authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (see note 1(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights which are 50 years.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Computer software 5 years

Both the useful life and method of amortisation are reviewed annually.

(h) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets

(i) Credit losses from financial assets

(a) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for fixed-rate financial assets and trade and other receivables where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade and other receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

(a) Policy applicable from 1 January 2018 (Continued)

For all other financial instruments (including cash and cash equivalents, pledged bank deposits and fixed deposits held at banks with maturity over three months), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial asset's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

(a) Policy applicable from 1 January 2018 (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial assets's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(s)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

(b) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets (Continued)

(b) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- investment properties;
- lease prepayments;
- intangible assets; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(l)).

(l) Trade and other receivables

Trade and other receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade and other receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(u)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(i)(i).

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees of the Group is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using applicable option-pricing models, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax and is after deduction of any trade discounts and goods returns.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

For sales to distributors, once the products are delivered to the location designated by the distributor which is the point at which the control of the menswear goods is considered to have been transferred to the distributor and the point at which revenue is recognised.

For sales through consignees, once the products are sold to end users by the consignee, the control of the goods is considered to have been transferred in accordance with the terms of consignment agreements and revenue is recognised at that point.

In the comparative period, menswear goods manufactured or sourced by the Group are delivered to the location designated by the distributor which is the point at which the risks and rewards of ownership of the menswear goods are considered to have been transferred to the distributor and the point at which revenue is recognised.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note1(i)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised in profit or loss upon on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The functional currency of the Company and its subsidiaries outside mainland China is Hong Kong dollars and the functional currency of the subsidiaries in mainland China is Renminbi.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Translation of foreign currencies (Continued)

The results of operations outside mainland China are translated into Renminbi at the average exchange rates for the year which approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates ruling at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside mainland China, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the year in which they are incurred.

(v) Research and development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(w) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Related parties (Continued)

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) a person identified in (i)(a) 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).

(h) 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 Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business segment, manufacturing and sale of menswear and accessories in the PRC. Accordingly, no segmental analysis is presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Under the transition methods chosen, there is no significant cumulative effect of the initial application of IFRS 9 and IFRS 15 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. Details of the changes in accounting polices are discussed in note 2(i) for IFRS 9 and note 2(ii) for IFRS 15.

(i) IFRS 9, *Financial instruments*

The Group has initially adopted IFRS 9, *Financial instruments* from 1 January 2018. IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Based on the assessment by the Group, there is no retrospective item that existed and no significant cumulative effect of the initial application of IFRS 9 at 1 January 2018 in accordance with the transition requirement.

a. *Classification of financial assets and financial liabilities*

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalent, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables, for the adoption of IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 1(i)(i), (l), (o) and (w).

The measurement categories for all financial liabilities remain the same.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(i) IFRS 9, *Financial instruments (Continued)*

a. *Classification of financial assets and financial liabilities (Continued)*

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises credit losses earlier than under the "incurred loss" model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(i)(i).

The Group has concluded that there is no material impact for the initial application of the new impairment requirements.

c. *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated.

— The assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group) for the determination of the business model within which a financial asset is held.

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a five-step model comprehensive framework for recognising revenue from contracts with customer: (i) identify the contract; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. IFRS 15 replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group's business model is straight forward and its contracts with customers for the sale of branded menswear goods include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point in time when a customer obtains control of goods. The Group has concluded that the initial application of IFRS 15 does not have a significant impact on the Group's revenue recognition.

The Group has been impacted by IFRS 15 in relation to the presentation of contract liabilities. The initial application of IFRS 15 recognised the opening balance of contract liabilities of RMB20,562,000 at 1 January 2018. Comparative information is not restated.

Revenue that was included in the contract liability balance at the beginning of the reporting period was fully recognised in the reporting period. The balance of contract liabilities at 31 December 2018 is expected to recognised as revenue within one year.

3 REVENUE

The principal activities of the Group are manufacturing and sale of branded menswear and related accessories in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes ("VAT").

During the years ended 31 December 2018 and 2017, there was no customer with whom transactions exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from customers are set out in note 28(a).

4 OTHER NET INCOME

	2018 **RMB'000**	2017 RMB'000
Government grants	**74,387**	55,071
Others	**12,640**	9,033
	87,027	64,104

Government grants of RMB74,387,000 (2017: RMB55,071,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

5 NET FINANCE INCOME

	2018 RMB'000	2017 RMB'000
Interest income on financial assets measured at amortised cost	**69,360**	65,940
Net foreign exchange loss	**(54)**	(7,369)
Interest on bank borrowings	**(5,930)**	(6,028)
	63,376	52,543

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	**189,494**	156,410
Contributions to defined contribution retirement plans (note 26)	**4,196**	3,418
	193,690	159,828
(b) Other items:		
Amortisation of lease prepayments	**2,383**	2,384
Amortisation of intangible assets	**2,714**	2,456
Depreciation	**26,268**	23,390
Auditor's remuneration	**2,700**	2,700
Cost of inventories (note (i))	**1,869,820**	1,427,240
(Gain)/loss on disposal of property, plant and equipment	**(103)**	745
Operating lease charges in respect of properties	**4,620**	6,235
Research and development costs	**106,853**	76,184
Subcontracting charges (note (ii))	**310,420**	202,303

Notes:

(i) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and operating lease rental in respect of properties totalling RMB491,905,000 (2017: RMB340,073,000) included in items disclosed above.

(ii) Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 **RMB'000**	2017 RMB'000
Current tax — PRC Corporate Income Tax (note 23(a))	**206,848**	110,186
Deferred tax	**(12,803)**	264
	194,045	110,450

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax for the years ended 31 December 2018 and 2017.

(iii) Taxation for the Group's PRC subsidiaries is calculated using the income tax rates applicable to the subsidiaries. In accordance with the relevant PRC Corporate Income Tax Law, regulations and implementation guidance notes, one of the subsidiaries has been granted Advanced and New Technology Enterprise status which entitles the subsidiary to a reduced income tax rate at 15% for 2018. In addition, two of the Group's subsidiaries incorporated in the Tibet Autonomous Region of the PRC are entitled to a reduced income tax rate at 15% in 2018.

(iv) According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

Deferred tax included PRC dividend withholding tax of RMB26,180,000 provided for the year (2017: RMB21,210,000).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**945,239**	721,489
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**233,410**	181,434
Tax effect of non-deductible expenses	**2,389**	12,490
Tax effect of non-taxable income	**(1,094)**	(2,181)
Tax effect of tax concessions (note 7(a) (iii))	**(63,990)**	(105,178)
Effect on deferred tax balances at the beginning of the year resulting from a change in tax rate (note 23(b))	**—**	3,458
Over-provision in prior year	**(2,850)**	(783)
Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 23(b))	**26,180**	21,210
Actual tax expense	**194,045**	110,450

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2018 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	1,040	13	—	1,053
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	600	5,330	65	—	5,995

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

8 DIRECTORS' EMOLUMENTS (CONTINUED)

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	2017 Total RMB'000
Executive Directors					
Wang Dong Xing	—	1,040	13	—	1,053
Wang Liang Xing	—	1,300	13	—	1,313
Wang Cong Xing	—	780	13	—	793
Cai Rong Hua	—	585	13	—	598
Hu Cheng Chu	—	585	—	—	585
Pan Rong Bin	—	830	13	—	843
Independent Non-executive Directors					
Lu Hong Te	200	—	—	—	200
Nie Xing	200	—	—	—	200
Lai Shixian	200	—	—	—	200
Total	600	5,120	65	—	5,785

During the year, no amount was paid or payable by the Group to the Directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2017: four) are Directors whose emoluments are disclosed in note 8. The emoluments in respect of the remaining one (2017: one) individual are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**1,370**	1,400
Discretionary bonuses	**483**	418
Contributions to retirement benefit schemes	**15**	16
	1,868	1,834

10 REMUNERATION OF SENIOR MANAGEMENT

Remuneration of senior management of the Group, including amounts paid to the highest paid employee other than Directors as disclosed in note 9 is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**2,853**	2,821
Discretionary bonuses	**1,057**	953
Contributions to retirement benefit schemes	**45**	44
	3,955	3,818

Remunerations of the senior management of the Group are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000 (Nil to RMB878,000)	**5**	5
HK$2,000,001 to HK$2,500,000 (RMB1,757,001 to RMB2,196,000)	**1**	1

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of RMB751,194,000 (2017: RMB611,039,000) and the weighted average number of ordinary shares in issue of 1,197,247,000 (2017: 1,204,870,000).

Weighted average number of ordinary shares

	2018 '000	2017 '000
Issued ordinary shares at 1 January	**1,197,214**	1,208,874
Cancellation of shares bought back	**(259)**	(4,004)
Effect of share options exercised	**292**	—
Weighted average number of ordinary shares	**1,197,247**	1,204,870

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

11 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of RMB751,194,000 (2017: RMB611,039,000) and the weighted average number of ordinary shares in issue adjusted for the potential dilutive effect caused by the share options granted by the Company.

Weighted average number of ordinary shares (diluted)

	2018 '000	2017 '000
Weighted average number of ordinary shares	**1,197,247**	1,204,870
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**48**	—
Weighted average number of ordinary shares (diluted)	**1,197,295**	1,204,870

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

12 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2017	214,920	49,216	57,653	8,836	31,498	8,813	160,808	531,744
Additions	408	1,883	4,736	2,682	2,495	48	124,462	136,714
Transfer from construction in progress	–	938	5,721	–	–	–	(6,659)	–
Reclassify to investment properties (note 13)	(87,712)	–	–	–	–	–	–	(87,712)
Disposals	–	(3,088)	(1,559)	(846)	(2,832)	(589)	–	(8,914)
Exchange adjustment	–	(55)	–	–	(24)	(7)	–	(86)
At 31 December 2017 and 1 January 2018	127,616	48,894	66,551	10,672	31,137	8,265	278,611	571,746
Additions	–	6,598	9,836	2,726	5,217	152	269,125	293,654
Transfer from construction in progress	105,582	4,649	4,545	–	–	–	(114,776)	–
Disposals	–	–	(627)	(1,822)	(612)	(46)	–	(3,107)
Exchange adjustment	–	37	–	–	17	5	–	59
At 31 December 2018	233,198	60,178	80,305	11,576	35,759	8,376	432,960	862,352
Accumulated depreciation:								
At 1 January 2017	33,560	39,505	25,350	4,492	26,577	7,845	–	137,329
Charge for the year	4,147	5,959	6,453	1,161	2,909	527	–	21,156
Reclassify to investment properties (note 13)	(9,074)	–	–	–	–	–	–	(9,074)
Written back on disposals	–	(2,937)	(1,028)	(606)	(2,415)	(540)	–	(7,526)
Exchange adjustment	–	(55)	–	–	(22)	(7)	–	(84)
At 31 December 2017 and 1 January 2018	28,633	42,472	30,775	5,047	27,049	7,825	–	141,801
Charge for the year	3,588	6,335	8,829	1,091	3,504	183	–	23,530
Written back on disposals	–	–	(587)	(943)	(586)	(44)	–	(2,160)
Exchange adjustment	–	37	–	–	15	5	–	57
At 31 December 2018	32,221	48,844	39,017	5,195	29,982	7,969	–	163,228
Net book value:								
At 31 December 2018	200,977	11,334	41,288	6,381	5,777	407	432,960	699,124
At 31 December 2017	98,983	6,422	35,776	5,625	4,088	440	278,611	429,945

Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the end of the respective reporting periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

13 INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**118,062**	30,350
Reclassify from property, plant and equipment (note 12)	**—**	87,712
At 31 December	**118,062**	118,062
Accumulated depreciation:		
At 1 January	**16,513**	5,205
Reclassify from property, plant and equipment (note 12)	**—**	9,074
Charge for the year	**2,738**	2,234
At 31 December	**19,251**	16,513
Net book value:		
At 31 December	**98,811**	101,549

Investment properties represent two retail outlets that are leased to distributors for the operation as "LILANZ" stores. As at 31 December 2018, the total fair value of the investment properties as determined by the Directors of the Company by reference to the market price of similar properties in the respective area amounted to RMB144,800,000 (2017: RMB158,700,000).

14 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January and 31 December	**117,566**	117,566
Accumulated amortisation:		
At 1 January	**12,417**	10,033
Charge for the year	**2,383**	2,384
At 31 December	**14,800**	12,417
Net book value:		
At 31 December	**102,766**	105,149

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2018, the remaining periods of the land use rights range from 37 to 48 years.

(Expressed in Renminbi)

15 INTANGIBLE ASSETS

	2018 **RMB'000**	2017 RMB'000
Cost:		
At 1 January	**23,642**	20,916
Additions	**3,851**	2,726
At 31 December	**27,493**	23,642
Accumulated amortisation:		
At 1 January	**18,027**	15,571
Charge for the year	**2,714**	2,456
At 31 December	**20,741**	18,027
Net book value:		
At 31 December	**6,752**	5,615

Intangible assets represent the enterprise resource planning and information technology system software.

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

16 DEPOSITS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

	2018 **RMB'000**	2017 RMB'000
Deposit for property	**—**	94,464
Deposit for plant and equipment	**11,860**	3,122
	11,860	97,586

The deposit for property as at 31 December 2017 represented the cost of the purchase of a property being used as office premises in Shanghai and was transferred to property, plant and equipment during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Raw materials	**181,989**	104,056
Work-in-progress	**118,097**	82,927
Finished goods	**376,325**	136,350
	676,411	323,333

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**1,869,820**	1, 427,240

18 TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**830,064**	696,000
Less: Loss allowance	**(9,154)**	(75,903)
	820,910	620,097
Bills receivable	**1,630**	16,900
Trade and bills receivables, net of loss allowance	**822,540**	636,997
Prepayments to suppliers	**5,875**	17,792
Prepaid advertising expenses	**2,844**	2,974
VAT deductible	**109,413**	36,353
Other deposits, prepayments and receivables	**11,948**	14,151
	952,620	708,267

All of the trade and other receivables (net of loss allowance) are expected to be recovered or recognised as expense within one year.

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

An ageing analysis of the trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	754,191	582,713
Over 3 months but within 6 months	68,349	30,848
Over 6 months but within 1 year	—	23,436
	822,540	636,997

Trade receivables are due within 60-240 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in note 28(a).

The movement in the loss allowance account for trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	75,903	80,700
Uncollectible amounts written off	(66,749)	(4,797)
At 31 December	9,154	75,903

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

19 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 22). The pledged bank deposits will be released upon the settlement of the relevant bills payable.

20 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents and fixed deposits held at banks comprise:

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows		
— cash at bank and in hand	**1,842,850**	1,823,281
Fixed deposits with banks with more than three months to maturity when placed	**—**	188,000
	1,842,850	2,011,281

At 31 December 2018, cash and cash equivalents and fixed deposits with banks in the mainland China amounted to RMB1,806,243,000 (2017: RMB1,937,891,000). Remittance of funds out of the mainland China is subject to exchange restrictions imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

20 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS HELD AT BANKS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 RMB'000	2017 RMB'000
Profit before taxation		**945,239**	721,489
Adjustments for:			
— Depreciation	6(b)	**26,268**	23,390
— Amortisation of lease prepayments	6(b)	**2,383**	2,384
— Amortisation of intangible assets	6(b)	**2,714**	2,456
— (Gain)/loss on disposal of property, plant and equipment	6(b)	**(103)**	745
— Interest on bank borrowings	5	**5,930**	6,028
— Interest income	5	**(69,360)**	(65,940)
— Unrealised foreign exchange (gain)/loss		**(4,419)**	4,156
Changes in working capital:			
— Increase in inventories		**(353,078)**	(28,948)
— (Increase)/decrease in trade and other receivables		**(246,556)**	625
— (Increase)/decrease in pledged bank deposits		**(8,370)**	2,076
— Increase in trade and other payables		**281,178**	9,211
— Increase in contract liabilities		**20,166**	—
Cash generated from operations		**601,992**	677,672

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans (note 21)	
	2018 RMB'000	2017 RMB'000
At 1 January	**—**	493,528
Changes from financing cash flows:		
Proceeds from bank loans	**578,285**	345,740
Repayment of bank loans	**(578,285)**	(839,268)
Total changes from financing cash flows	**—**	(493,528)
At 31 December	**—**	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

21 BANK LOANS AND FACILITIES

As at 31 December 2018 and 2017, there were no outstanding bank loans.

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2018 RMB'000	2017 RMB'000
Facility amount	**1,431,320**	1,505,596
Utilised facility amount in respect of:		
— Bills payable (note 22)	**50,670**	22,770
— Letter of credit	**—**	3,354

22 TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**556,473**	313,753
Bills payable	**50,670**	22,770
Trade and bills payables	**607,143**	336,523
Receipts in advance (note (i))	**—**	20,562
Accrued salaries and wages	**33,215**	27,690
Payables for purchase of property, plant and equipment	**73,173**	51,107
Retirement benefit contribution payable	**25,524**	25,524
VAT payables	**1,198**	2,994
Other payables and accruals	**77,164**	70,335
	817,417	534,735

Note (i): As a result of the adoption of IFRS 15, receipts in advance are included in contract liabilities (see note 2(ii)).

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Bills payable were secured by pledged bank deposits as disclosed in note 19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

22 TRADE AND OTHER PAYABLES (CONTINUED)

An ageing analysis of trade and bills payables based on the invoice date is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**556,082**	283,220
Over 3 months but within 6 months	**33,549**	33,403
Over 6 months but within 1 year	**2,726**	2,218
Over 1 year	**14,786**	17,682
	607,143	336,523

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000
At 1 January	**83,981**	165,253
Provision for PRC Corporate Income Tax (note 7(a))	**206,848**	110,186
	290,829	275,439
PRC Corporate Income Tax paid	**(156,344)**	(191,458)
At 31 December	**134,485**	83,981

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax assets/(liabilities) arising from			
	Accrued expenses and others RMB'000	Impairment of inventories and trade receivables RMB'000	Undistributed profits of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2017	7,209	13,214	(46,868)	(26,445)
Charged to consolidated statement of profit or loss and other comprehensive income	(34)	(10,926)	(21,210)	(32,170)
Effect of change in tax rate	(2,603)	(855)	—	(3,458)
Released upon distribution of dividends	—	—	35,364	35,364
At 31 December 2017 and 1 January 2018	**4,572**	**1,433**	**(32,714)**	**(26,709)**
Credited/(charged) to consolidated statement of profit or loss and other comprehensive income	**11**	**—**	**(26,180)**	**(26,169)**
Released upon distribution of dividends	**—**	**—**	**38,972**	**38,972**
At 31 December 2018	**4,583**	**1,433**	**(19,922)**	**(13,906)**

Reconciliation to the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**6,016**	6,005
Deferred tax liabilities	**(19,922)**	(32,714)
	(13,906)	(26,709)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax liabilities not recognised

The Group is subject to 5% withholding tax on dividends receivable from its PRC subsidiaries in respect of their profits generated since 1 January 2008. As at 31 December 2018, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB1,984,097,000 (2017: RMB1,729,524,000) were not recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that those profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities not provided for as at 31 December 2018 and 2017.

24 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		**139,600**	132,845
Current assets			
Amount due from a subsidiary		**437,744**	148,768
Prepayments and other receivables		**207**	183
Cash and cash equivalents		**5,182**	29,108
		443,133	178,059
Current liabilities			
Amount due to a subsidiary		**2,229**	2,122
Other payables and accruals		**162**	29
		2,391	2,151
Net current assets		**440,742**	175,908
Net assets		**580,342**	308,753
Capital and reserves	25(b)		
Share capital	25(a)	**105,517**	105,492
Reserves		**474,825**	203,261
Total equity		**580,342**	308,753

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2018 HK$'000	2017 HK$'000
Authorised:		
100,000,000,000 shares of HK$0.10 each	**10,000,000**	10,000,000

Movements in the Company's issued share capital are as follows:

	Note	Number of shares '000	Nominal value of ordinary shares HK$'000	RMB'000
Issued and fully paid:				
At 1 January 2017		1,208,874	120,887	106,467
Buy-back and cancellation of issued shares	(i)	(11,660)	(1,166)	(975)
At 31 December 2017 and 1 January 2018		**1,197,214**	**119,721**	**105,492**
Cancellation of shares bought back	(i)	**(259)**	**(26)**	**(21)**
Issues of shares on exercise of share options	(ii)	**530**	**53**	**46**
At 31 December 2018		**1,197,485**	**119,748**	**105,517**

(i) Cancellation of shares bought back

During the year ended 31 December 2017, the Company bought back 11,919,000 of its own issued shares on the Stock Exchange for a total consideration (including expenses) of HK$72,754,000 which was made wholly out of retained profits.

As at 31 December 2017, 11,660,000 shares bought back were cancelled. The remaining 259,000 shares were cancelled on 10 January 2018.

(ii) Issues of shares on exercise of share options

During the year, pursuant to the Company's Share Option Scheme (note 27), options were exercised to subscribe for 530,000 ordinary shares (2017: nil shares) in the Company at a consideration of RMB3,086,000 of which RMB46,000 was credited to share capital and the balance of RMB3,040,000 was credited to the share premium account. RMB1,275,000 has also been transferred from the capital reserve to the share premium account in accordance with the policy set out in note 1(p)(ii).

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital (note 25(a)) RMB'000	Share premium (note 25(d)(i)) RMB'000	Capital reserve (note 25(d)(iii)) RMB'000	Exchange reserve (note 25(d)(iv)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2017		106,467	27,096	1,275	(30,684)	193,194	297,348
Changes in equity for 2017:							
Total comprehensive income for the year		–	–	–	(21,904)	513,929	492,025
Buy-back and cancellation of issued shares	25(a)(i)	(975)	–	975	–	(60,224)	(60,224)
Dividends approved in respect of the previous year	25(c)	–	–	–	–	(232,974)	(232,974)
Dividends declared in respect of the current year	25(c)	–	–	–	–	(187,422)	(187,422)
At 31 December 2017 and 1 January 2018		**105,492**	**27,096**	**2,250**	**(52,588)**	**226,503**	**308,753**
Changes in equity for 2018:							
Total comprehensive income for the year		**–**	**–**	**–**	**23,719**	**739,349**	**763,068**
Cancellation of shares bought back	25(a)(i)	**(21)**	**–**	**21**	**–**	**–**	**–**
Shares issued under share option scheme	25(a)(ii)	**46**	**4,315**	**(1,275)**	**–**	**–**	**3,086**
Dividends approved in respect of the previous year	25(c)	**–**	**–**	**–**	**–**	**(252,712)**	**(252,712)**
Dividends declared in respect of the current year	25(c)	**–**	**–**	**–**	**–**	**(241,853)**	**(241,853)**
At 31 December 2018		**105,517**	**31,411**	**996**	**(28,869)**	**471,287**	**580,342**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of HK16 cents (2017: HK13 cents) per share	**168,246**	135,360
Special interim dividend declared and paid of HK7 cents (2017: HK5 cents) per share	**73,607**	52,062
Final dividend proposed after the end of the reporting period of HK21 cents (2017: HK18 cents) per share	**220,868**	174,954
Special final dividend proposed after the end of the reporting period of HK10 cents (2017: HK8 cents) per share	**105,175**	77,758
	567,896	440,134

The final dividend and special final dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year of HK18 cents (2017: HK16 cents) per share	**174,954**	169,436
Special final dividend in respect of the previous financial year of HK8 cents (2017: HK6 cents) per share	**77,758**	63,538
	252,712	232,974

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in the PRC are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase paid-in capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iii) Capital reserve

The capital reserve comprises the following:

(i) Fair value of design consultancy services contributed by the then shareholders and fair rental value of properties owned by the then shareholders but occupied by the Group prior to the listing of the Company's shares on the Main Board of the Stock Exchange amounting to RMB1,143,000.

(ii) The excess of net asset value of subsidiaries acquired over the nominal amount of shares issued upon the group reorganisation in 2007.

(iii) The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(p)(ii).

(iv) The nominal amount of the shares repurchased.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 1(t).

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$539,816,000 (2017: HK$246,928,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

25 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 20% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

(Expressed in Renminbi)

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted a Share Option Scheme on 4 September 2009.

Pursuant to the Share Option Scheme, the Directors of the Company may invite, at their discretion, eligible participants, including employees and Directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 120,000,000 shares.

On 29 November 2011 (the "Date of Offer"), options were offered by the Company, which were accepted by the employees in December 2011, to subscribe for 1,130,000 shares of the Company under the Share Option Scheme at an exercise price of HK$6.63. The closing prices of the Company's shares immediately before the Date of Offer and on the Date of Offer were HK$6.01 and HK$6.63 respectively. The options have vesting periods of 1 year to 5 years commencing from the Date of Offer and have a contractual life of 7 years.

Details of movements of the share options during the year are as follows:

	2018	2017
Outstanding at 1 January	530,000	530,000
Exercised during the year	(530,000)	—
Outstanding at 31 December	—	530,000
Exercisable at 31 December	—	530,000

The weighted average closing price at the date on which share options were exercised during the year was HK$11.00.

There were no share options outstanding under the Share Option Scheme as at 31 December 2018.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and bills receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and fixed deposits held at banks with maturity over three months is limited because the counterparties are banks for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade and bills receivables

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60 to 240 days from the date of billing. The Group will also obtain deposits from customers prior to delivery of goods when credit limits granted are temporarily exceeded.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 5.6% (2017: 5.2%) and 15.4% (2017: 13.8%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.6%	825,526	5,073
Less than 3 months past due	16.5%	2,499	412
Past due over 3 months	100.0%	3,669	3,669

The Group keeps assessing the expected loss rates based on the Group's historical credit loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

There was no material impact on trade receivables for the initial application of the new impairment requirements under IFRS 9.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(a) Credit risk (Continued)

Trade and bills receivables (Continued)

At 31 December 2018, the Group had endorsed bank acceptance bills to its suppliers totalling RMB329,440,000 (2017: RMB289,495,000), which were derecognised as financial assets. The transferees have recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. Because these bank acceptance bills mature within six months from issue, the Group's maximum loss in case of default is RMB329,440,000 (2017: RMB289,495,000) before these bills mature by 30 June 2019.

The Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

(b) Liquidity risk

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables present the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period) and the earliest date the Group can be required to pay.

	2018		2017	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount at 31 Dec RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount at 31 Dec RMB'000
Trade and other payables	**817,417**	**817,417**	534,735	534,735

(c) Currency risk

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management consider the Group's exposure to currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

(d) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

29 COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment, and computer system and software outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	55,247	123,602
Authorised but not contracted for	346,079	164,453
	401,326	288,055

(b) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within one year	1,836	640
After one year but within two years	503	—
	2,339	640

During the years ended 31 December 2018 and 2017, the Group entered into lease agreements for properties in Hong Kong and mainland China. The leases typically run for an initial period of one to five years, certain leases could be terminated by one to three months written notice during the term, and with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTION

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transaction.

On 19 December 2016, the Group entered into a three year lease in respect of certain leasehold properties with Jinlang (Fujian) Investments Co., Ltd. which is wholly owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing, three of the Executive Directors and controlling shareholders of the Company. During the year ended 31 December 2018, total rental paid or payable by the Group under the tenancy agreement amounted to RMB3,240,000 (2017: RMB3,240,000).

The above related party transaction constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transaction" of the Report of the Directors.

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the Directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Intangible assets except for those with indefinite lives are amortised on straight line basis over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any, based on the Group's experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimation.

(b) Impairments for non-current assets

The Group reviews the carrying amounts of the non-current assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cashflow to assess the differences between the carrying amount and value in use and provide for impairment loss. Any change in the assumption adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's net asset value.

An increase or decrease in the above impairment loss would affect the net profit in the year and in future years.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits.

(d) Net realisable value of inventories

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analysis, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

31 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Loss allowance for trade receivables

The Group estimates the loss allowances for trade receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

(f) Bank acceptance bills

As set out in note 28(a), the Group considers that the credit risk associated with bank acceptance bills issued by major banks in the PRC to be insignificant. The Group monitors the credit risk of issuing banks. The judgement to derecognise bank acceptance bills upon discounting or endorsement is reviewed when the credit risk of issuing banks deteriorates significantly.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

IFRS 16, *Leases*

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 29(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB2,339,000 for properties, which is payable within 2 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will all be adjusted to RMB2,030,000, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have an impact on the Group's financial statement from 2019 onwards.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

33 SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operation	Particular of issued and fully paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Lilang Holdings Limited	BVI	US$20,000	100%	100%	–	Investment holding
Lilang (Hong Kong) International Co., Limited	Hong Kong	HK$20,000	100%	–	100%	Trading, investment holding and provision of management services
Lilang (Fujian) Garment Co., Ltd.	The PRC	HK$20,000,000	100%	–	100%	Wholesaling of menswear and accessories
Lilang (China) Co., Ltd.	The PRC	HK$315,000,000	100%	–	100%	Manufacturing and wholesaling of menswear and accessories
Lilang (Xiamen) Garment Co., Ltd. ("Lilang Xiamen") (note d)	The PRC	US$3,000,000	100%	–	100%	Wholesaling of menswear and accessories
Lilang (Shanghai) Co., Ltd.	The PRC	HK$120,000,000	100%	–	100%	Sales of menswear and accessories
Lilang (Jiangxi) Garment Co., Ltd.	The PRC	HK$10,000,000	100%	–	100%	Wholesaling of menswear and accessories
Xizang Lilang Garment Co., Ltd. ("Xizang Lilang") (note b)	The PRC	RMBNil	100%	–	100%	Wholesaling of menswear and accessories
Xizang Ling Shang Garment Co., Ltd. ("Xizang Ling Shang") (note b)	The PRC	HK$Nil	100%	–	100%	Wholesaling of menswear and accessories
Lilang (Fujian) Testing Technology Co., Ltd. ("Lilang Testing") (note c)	The PRC	RMBNil	100%	–	100%	Dormant
Bujiandan (Xiamen) Garment CO., Ltd. ("Bujiandan") (note d)	The PRC	US$27,000,000	100%	–	100%	Dormant

Notes:

(a) Except for Xizang Lilang and Lilang Testing, all entities established in the PRC are wholly foreign owned enterprises. Xizang Lilang and Lilang Testing are limited liability companies established in the PRC.

(b) The registered capital of Xizang Lilang and Xizang Ling Shang are RMB20,000,000 and HK$50,000,000 respectively which were yet to be contributed by the Group at 31 December 2018. There is no particular requirement on the timing of the contribution.

(c) As at 31 December 2018, Lilang Testing was dormant and no contribution to the registered capital of RMB10,000,000 had been made by the Group. Lilang Testing had commenced de-registration procedures in December 2018.

(d) During the year ended 31 December 2018, Lilang Xiamen underwent a re-organisation whereby Bujiandan was formed by splitting the original registered capital of Lilang Xiamen.

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the Directors consider the immediate and ultimate controlling party of the Group to be Xiao Sheng International Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

FIVE YEARS SUMMARY

(Expressed in Renminbi)

	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	2,432,956	2,689,093	2,411,638	2,441,057	**3,167,872**
Profit from operations	680,760	794,143	663,353	668,946	**881,863**
Net finance income	85,912	69,441	83,423	52,543	**63,376**
Profit before taxation	766,672	863,584	746,776	721,489	**945,239**
Income tax	(211,764)	(238,419)	(206,912)	(110,450)	**(194,045)**
Profit for the year	554,908	625,165	539,864	611,039	**751,194**
Earnings per share					
Basic (cents)	46.17	51.83	44.66	50.71	**62.74**
Diluted (cents)	46.06	51.77	44.66	50.71	**62.74**
Assets and liabilities					
Non-current assets	414,014	411,455	553,346	745,849	**925,329**
Net current assets	2,350,124	2,538,461	2,507,484	2,430,996	**2,494,452**
Total assets less current liabilities	2,764,138	2,949,916	3,060,830	3,176,845	**3,419,781**
Non-current liabilities	66,269	38,718	49,268	35,114	**19,922**
Net asset	2,697,869	2,911,198	3,011,562	3,141,731	**3,399,859**
Capital and reserves					
Share capital	106,049	106,458	106,467	105,492	**105,517**
Reserves	2,591,820	2,804,740	2,905,095	3,036,239	**3,294,342**
Total equity	2,697,869	2,911,198	3,011,562	3,141,731	**3,399,859**

REVIEW OF ANNUAL RESULTS

The results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2018 Annual Report of the Company will be dispatched to shareholders and published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.lilanz.com in due course. This announcement can also be accessed on the above websites.

GENERAL

As at the date of this announcement, the Board comprises:

Executive Directors:
Mr. Wang Dong Xing *(Chairman)*
Mr. Wang Liang Xing
(Chief Executive Officer)
Mr. Wang Cong Xing
Mr. Cai Rong Hua
Mr. Hu Cheng Chu
Mr. Pan Rong Bin

Independent Non-executive Directors:
Dr. Lu Hong Te
Mr. Nie Xing
Mr. Lai Shixian

By order of the Board
China Lilang Limited
Ko Yuk Lan
Company Secretary

Hong Kong, 13 March 2019