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 2019

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 2019. This announcement, containing the full text of the 2019 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.

About

# CHINA LILANG

China Lilang is one of the leading PRC menswear enterprises. As an integrated fashion enterprise, the Group designs, sources and manufactures high-quality business and casual apparel for men and sells under the LILANZ brand across an extensive distribution network, covering 31 provinces, autonomous regions and municipalities in the PRC.

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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*
*(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)*

## PRINCIPAL BANKERS

Industrial Bank Co. Ltd.
China Minsheng Bank Corp., Ltd.
Bank of China (Hong Kong) Limited

# FINANCIAL HIGHLIGHTS

| | Year ended 31 December 2019 (RMB million) | 2018 (RMB million) | Changes (%) |
|---|---|---|---|
| Revenue | **3,658.5** | 3,167.9 | +15.5 |
| Gross profit | **1,403.2** | 1,298.1 | +8.1 |
| Profit from operations | **979.8** | 881.9 | +11.1 |
| Profit for the year | **812.2** | 751.2 | +8.1 |
| | **(RMB cents)** | (RMB cents) | (%) |
| Earnings per share | | | |
| — Basic | **67.82** | 62.74 | +8.1 |
| — Diluted | **67.82** | 62.74 | +8.1 |
| Shareholders' equity per share | **301.2** | 283.9 | +6.1 |
| Interim dividend per share | **HK18 cents** | HK16 cents | +12.5 |
| Special interim dividend per share | **HK8 cents** | HK7 cents | +14.3 |
| Final dividend per share | **HK21 cents** | HK21 cents | — |
| Special final dividend per share | **HK10 cents** | HK10 cents | — |
| | **(%)** | (%) | (% points) |
| Gross profit margin | **38.4** | 41.0 | -2.6 |
| Operating profit margin | **26.8** | 27.8 | -1.0 |
| Net profit margin | **22.2** | 23.7 | -1.5 |
| Return on average shareholders' equity[1] | **23.2** | 23.0 | +0.2 |
| Effective tax rate | **20.7** | 20.5 | +0.2 |
| Advertising and promotional expenses and renovation subsidies (as a percentage of revenue) | **9.3** | 10.4 | -1.1 |

| | Year ended 31 December 2019 | 2018 | Six months ended 30 June 2019 |
|---|---|---|---|
| Average inventory turnover days[2] | **111** | 98 | 129 |
| Average trade receivables turnover days[3] | **78** | 72 | 87 |
| Average trade payables turnover days[4] | **91** | 92 | 102 |

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 adhered to the strategy of providing products with excellent value-for-money during the year and recorded stable business growth by improving retail management and propelling channels transformation. In view of various uncertainties in the market, the Group will adopt a prudent approach and focus on the optimization of the store network and retail management to enhance store efficiency. The Group is confident that it will continue to outperform other industry peers and will further consolidate its leading position in the menswear industry in China.


To all shareholders,

In 2019, the trade dispute between China and the United States weakened the growth momentum of the global economy. In the face of various uncertainties, the Chinese Government has implemented large scale measures to cut taxes and levies and maintained steady economic growth. However, as the transformation of retail channels continued during the year, the increasing number of shopping malls has dispersed consumer traffic. In addition, the unseasonably warm weather nationwide in the fourth quarter of the year, the traditional peak season for the retail sector, added more challenges to the apparel industry.

# CHAIRMAN'S STATEMENT

Under such a challenging business environment, China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries known as the "Group") adhered to the strategy of providing products with excellent value-for-money during the year and recorded stable business growth by improving retail management, propelling channels transformation and opening stores at quality locations within shopping malls in a more selective manner.

For the year ended 31 December 2019, revenue increased by 15.5% year-on-year to RMB3.66 billion and net profit increased by 8.1% to RMB812.2 million.

During the year, the Group maintained a healthy financial position with sufficient cash flows. The Board of Directors resolved to pay a final dividend of HK21 cents per share and a special final dividend of HK10 cents per share, once again maintaining a relatively high payout ratio for the full year.

By the end of 2019, there were a total of 2,815 LILANZ stores, a total of 145 stores were added during the year. Although the number was below the target set earlier, more stringent criteria had been adopted in selecting locations and stores were opened only at quality locations within shopping malls or in prime commercial areas for better store efficiency. The number of stores in shopping malls increased to about 780, and the floor area of all stores in malls accounted for about 31% of the total retail floor area. Affected by the mild winter, the average same-store sales growth of stores operated by distributors for 18 consecutive months slowed down from a high single-digit in the first half of the year to a low single-digit in the fourth quarter, and the average same-store sales for the full year recorded a mid-single digit growth. The channel inventory level at the end of 2019 was slightly higher than its target, but remained under control.

As for new retail business, during the year, the Group's efforts in boosting customer flows through various promotional activities has proven to be highly effective. Online sales for the year has notably increased, and this provided an effective means to support distributors destocking.

Looking into 2020, even though China and the United States have concluded the first-stage trade agreement, various uncertainties remain in the business environment. The continuous increase in the number of shopping malls is expected to further disperse consumer traffic and the current outbreak of the COVID-19 epidemic ("Epidemic") also has some impact on the retail market in the first half of the year. The industry consolidation is expected to accelerate and companies with competitive edges will stand out. The Group is confident that it will continue to outperform other industry peers.

In 2020, the Group will develop the market in a prudent manner and focus on the optimization of the store network. The primary consideration for the opening of new stores is location and shopping centres in prime locations will be preferred. However, as certain underperforming distributors or low efficiency street stores will be closed, it is expected that the total number of stores will remain at a level similar to the end of 2019.

The Group will continue to enhance its retail management in different aspects. In addition to encouraging distributors of the core collection to operate more direct-retail stores, the Group plans to replace the current consignment model of the smart casual collection with a direct-retail model in the autumn of 2020. This change is aimed to strengthen controls over inventory management, market expansion, brand marketing and training of retail personnel and expected to increase the profit contribution of the smart casual collection to the Group in the medium-to-long-term.

Various measures will also be adopted by the Group to reinforce inventory management. The percentage of pre-orders for the smart casual collection has been reduced since the 2019 fall trade fair. The Group also plans to revamp the trade fair system for the core collection starting from the 2020 fall trade fair by reducing its pre-order levels and preparing sufficient production capacity for replenishment orders in order to improve inventory control. In addition to selling accumulated inventories from previous seasons online and during the special sales event held at year-end at its headquarters, the Group also plans to open more stores within department stores and outlet malls so as to clear channel inventories in a more timely manner.

New retail business remains one of the priorities of the Group for its future development. In addition to using online stores as a channel for inventory clearance, the Group will continue to boost customer traffic through various brand promotion activities to further drive the growth of e-commerce sales. The first batch of IP crossover products for the 2020 spring and summer collections has been launched and the corresponding promotional activities are underway.

Besides, the Group will continue to emphasize the original design concepts and value-for-money of its products. While the strategy of "providing products with excellent value-for-money" will be continued, the Group plans to enhance the fashion elements of the smart casual collection moderately but tastefully so as to improve its pricing structure and profitability.

The outbreak of the Epidemic has hit the retail industry hard. Despite a strong run before the Chinese New Year in January, total retail sales of LILANZ products for the first quarter is expected to decline by over 40% year-on-year. However, the Group believes that the impact of the Epidemic on its business will be temporary and expects business will resume normal operations by autumn and winter at the soonest, which are the peak seasons for the apparel retail sector. By enhancing retail management and optimizing the store network, target total retail sales growth of LILANZ products for the second half of the year is set at no less than mid single-digit.

As an enterprise with due consideration for its social responsibility, the Group donated RMB3.0 million to China Charity Federation in January to support those infected and their families. The Group was also one of the first group of enterprises contributing its manufacturing resources and produced a total of 20,000 sets of protective outfits for supporting medical staff on the frontlines.

The renovation work of the Group's new headquarters in Fujian is in progress and it is expected to begin operation by the end of the year. Construction of the new logistics park commenced in December 2019 and Phase I is targeted to open by the end of 2021.

In the medium- to long-term, the Group will continue to "focus on the core collection, cultivate the smart casual collection, advance the new retail business, broaden its collections portfolio and develop multiple brands". It will actively strengthen its product competitiveness and improve the originality and fashion elements of its designs. This strategic direction aims to further consolidate the leading position of China Lilang in the menswear industry in China and realize sustainable long-term growth in order to reward its shareholders, staff and customers for their support to the Group.

**Wang Dong Xing**
*Chairman*

19 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

In 2019, the trade dispute between China and the United States put downward pressure on the global economy and China's economic growth also showed signs of a slowdown. According to the National Bureau of Statistics of China, the country's gross domestic product (GDP) grew by 6.0% during the third and fourth quarters of 2019 respectively, and by 6.1% for the full year, in line with the expectation of 6.0% to 6.5%. The employment of China continued to expand in 2019, adding more than 13 million jobs in urban cities for the seventh consecutive year. The consumer price index was stable, posting a year-on-year growth of 2.9%. Resident income grew broadly in line with economic growth. The total retail sales of consumer goods rose 8.0% year-on-year, among which, the total retail sales of apparel, footwear, headwear and knitwear increased by 2.9% year-on-year.

The transformation of retail channels continued during the year. The increasing number of shopping malls has dispersed consumer traffic. In addition, the higher-than-normal temperatures nationwide in the fourth quarter of the year, the traditional peak season for the retail sector, added more challenges to the apparel industry. Brand and product competitiveness, retail management and shop location have become increasingly important for operating efficiency.

# MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, China Lilang pragmatically expanded and maintained stable business growth. For the year ended 31 December 2019, revenue was up by 15.5% year-on-year to RMB3,658.5 million, while net profit was up by 8.1% to RMB812.2 million. Earnings per share were RMB67.82 cents, up by 8.1%.

The Group adhered to the strategy of providing products with better value-for-money and continued to enhance the fashion elements and design of products in order to stand out from its peers and improve its overall brand competitiveness. Besides, the Group has actively promoted the e-commerce business and more efforts were made to attract customer flows and to increase online marketing, and the online retail sales of the Group grew at a faster pace during the year as result. In addition, the Group continued with its channel transformation and was more selective in opening stores in quality locations within shopping malls in order to optimize the existing retail network and to improve store performance.

During the year, the Group maintained a healthy financial position with sufficient cash flows. 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. Together with its interim dividend and special interim dividend, the total dividend for the year would be HK57 cents per share, once again maintaining a relatively high payout ratio.

## FINANCIAL REVIEW

### Revenue

The Group's revenue for the year increased by 15.5% to RMB3,658.5 million. This included the sales of all 2018 inventories of the smart casual collection to distributors at a small gross profit margin and was after the provision of sales rebates to distributors. Impacted by the mild winter, average same-store sales growth of stores operated by distributors for 18 consecutive months slowed down from a high single-digit in the first half of the year to a low single-digit in the fourth quarter. In order to relieve distributors from pressure of the fall and winter inventories, sales rebates were provided by the Group to them as incentive to offering discount clearance sales. Provision for such rebates was made in 2019 and deducted from revenue.

By product category, tops remained the major contributor to sales, accounting for 60.3% of LILANZ revenue (2018: 61.8%), with a 15.8% growth in sales. As for footwear products on which the Group had stepped up its research and development efforts during recent years, sales for the year increased by over 60% and accounted for more than 10% of the revenue of LILANZ, up from about 7% in 2018.

### Revenue by Region

Other than the North-Eastern China region, all other regions continued to benefit from the Group's store expansion in 2018 and 2019 and also the growth in same-store sales for the year, and recorded sales growth. In particular, sales in the Eastern China region had the most notable sales performance increasing by 22.4%, primarily attributable to the sales growth of the smart casual collection.

Sales of the core collection in the North-Western China, Northern China and Central and Southern China regions recorded over 10% growth. Together with the increase in sales of the smart casual collection, sales in these regions increased by 21.6%, 19.5% and 17.6% respectively. However, affected by continuous population outflow, the North-Eastern China region was the only region with net store closures in both 2018 and 2019, and sales in that region for the year decreased by 7.1%.

The Eastern China and Central and Southern China regions remained the top geographical contributors to revenue, together accounting for 61.3% (2018: 59.1%) of total revenue. The number of retail stores in these two regions accounted for 54.1% (2018: 54.0%) of the total number of stores.

Revenue by region for the year is set out below:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | | 2018 | | Changes |
| Region | **RMB million** | **% of revenue** | RMB million | % of revenue | % |
| Northern China [1] | **290.7** | **7.9%** | 243.3 | 7.7% | 19.5% |
| North-Eastern China [2] | **156.3** | **4.3%** | 168.2 | 5.3% | -7.1% |
| Eastern China [3] | **1,279.7** | **35.0%** | 1,045.7 | 33.2% | 22.4% |
| Central and Southern China [4] | **960.6** | **26.3%** | 816.5 | 25.9% | 17.6% |
| South-Western China [5] | **647.8** | **17.7%** | 615.1 | 19.5% | 5.3% |
| North-Western China [6] | **323.4** | **8.8%** | 265.9 | 8.4% | 21.6% |
| **Subtotal of LILANZ** | **3,658.5** | **100.0%** | 3,154.7 | 100.0% | 16.0% |
| Others | **—** | | 13.2 | | |
| **Total of the Group** | **3,658.5** | | 3,167.9 | | 15.5% |

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

Cost of sales increased by 20.6% to RMB2,255.3 million year-on-year. As sales increased, subcontracting charges was up by 48.8% to RMB461.9 million.

Gross profit margin was 38.4%, down by 2.6 percentage points year-on-year. This was primarily due to the rebates provided to distributors for the clearance of the fall and winter inventories and the sales of the 2018 inventories of the smart casual collection at a small gross profit margin. Gross profit margin of the core collection, before rebates, was similar to that of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Other Net Income

Other net income amounted to RMB115.8 million, mainly comprising government grants of RMB83.2 million (2018: RMB74.4 million) and adjustments of amounts payable to suppliers due to quality or delivery issues. The Group's eligibility for the government grants was unconditional and at the discretion of relevant authorities.

### Selling and Distribution Expenses

Selling and distribution expenses increased by 3.4% to RMB409.7 million, accounting for 11.2% of the total revenue, down by 1.3 percentage points. Advertising expenses and renovation subsidies increased by RMB8.6 million to RMB339.3 million, accounting for 9.3% (2018: 10.4%) of the total revenue, primarily due to the increase in advertising expenses. Despite more stores being allocated display shelves for footwear products during the year, total renovation subsidies decreased as there were fewer new store openings. As for other selling and distribution expenses, more transportation and courier expenses were incurred as the online business and the business of the smart casual collection expanded.

### Administrative Expenses

Administrative expenses amounted to RMB103.9 million, up by RMB11.7 million over last year, primarily due to the commencement of the operation center for the smart casual collection in Shanghai since the fourth quarter of 2018 and the additional expenses to improve the meal benefits for staff. The expenses accounted for 2.8% (2018: 2.9%) of revenue.

### Other Operating Expenses

Other operating expenses mainly comprised charitable donations of RMB25.2 million (2018: RMB12.7 million).

### Profit from Operations

Profit from operations increased by 11.1% to RMB979.8 million, which was mainly driven by the increase in sales. Operating margin decreased by 1.0 percentage point to 26.8% as gross profit margin dropped.

### Net Finance Income

Net finance income decreased by RMB19.2 million to RMB44.2 million year-on-year. Both the cash balance and bank deposit interest rate decreased during the year.

### Income Tax

The effective income tax rate was 20.7% for 2019, similar to that of last year. The "Advanced and New Technology Enterprise" status of one of the Group's PRC subsidiaries expired at the end of 2018 and was approved for renewal in 2019 for another three years up to 2021.

### Net Profit

Net profit was RMB812.2 million for the year, up by 8.1%, which was mainly driven by the increase in sales. Net profit margin declined by 1.5 percentage points to 22.2%.

### Earnings per Share

Earnings per share were RMB67.82 cents, up by 8.1%.

### Final Dividend

The Board recommended the payment of a final dividend of HK21 cents (2018: HK21 cents) per ordinary share and a special final dividend of HK10 cents (2018: HK10 cents) per ordinary share in respect of this financial year, making the total dividend payment of approximately HK$371.2 million (equivalent to approximately RMB332.8 million). The final dividend and special final dividend will be paid in cash on or around 20 May 2020 to shareholders whose names appear on the register of members of the Company on 8 May 2020.

## BUSINESS REVIEW

### Sales Channel Management

Through LILANZ retail stores operated by distributors, the Group has established a distinctive brand image and provides professional and attentive retail services and an outstanding shopping experience so as to boost sales. At present, the Group adopts a wholesale model to sell its core collection to distributors, and a consignment model for the sales of its smart casual collection.

During the year, the Group continued to expand its sales network, and pragmatically supported distributors in opening new stores or relocating existing stores to better locations. More stores were opened in the shopping malls located in provincial capitals and prefectural level cities. With more comprehensive facilities, shopping malls can better cater for the shopping need of consumers, gathering larger customer flows and attracting increased consumption, resulting to better store performance there.

The number of stores in shopping malls increased to about 780 by the end of December 2019 (31 December 2018: 680), accounting for nearly 28% of total store count and approximately 31% of total retail floor area.

By the end of December 2019, there was a total of 2,815 LILANZ retail stores nationwide, representing a net increase of 145 stores during the year; the total retail floor area increased by 7.0% as compared with the end of 2018 to about 406,400 square meters (31 December 2018: 379,900 square meters). Of these, specialty stores for the smart casual collection increased by 78 to 290.

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

| | Number of stores | | | |
|---|---|---|---|---|
| **Region** | **As at 1 January 2019** | **Opened during the year** | **Closed during the year** | **As at 31 December 2019** |
| Northern China | 278 | 50 | 29 | **299** |
| North-Eastern China | 207 | 24 | 32 | **199** |
| Eastern China | 764 | 158 | 112 | **810** |
| Central and Southern China | 677 | 79 | 42 | **714** |
| South-Western China | 482 | 65 | 42 | **505** |
| North-Western China | 262 | 49 | 23 | **288** |
| Total | 2,670 | 425 | 280 | **2,815** |

To further enhance the brand image of LILANZ and the shopping experience of consumers, the Group has launched the seventh-generation store image for the core collection on a pilot basis at its newly-opened stores in the second half of the year. Consistent with the previous practice, the Group provided materials for the seventh-generation store renovation to ensure a consistent store image and at the same time showcase a more fashionable and fresher brand image to attract more customers. The Group also continued to assist distributors in upgrading in-store product displays and retail services, and monitored store sales and inventory via the enterprise resources planning (ERP) system. The inventory level at the end of 2019 was slightly higher than its target, but remained under control.

To ensure the highest quality of management and service at its stores, the Group continued to provide training to distributors. In July 2019, the Group organized a large-scale training seminar in Suzhou for distributors to deepen their understanding of new retail development and sharpen their inventory and sales personnel management and customer care service skills.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group has established stable relations with distributors. All the core collection distributors have maintained business relationships with the Group for over a decade. As at 31 December 2019, LILANZ had 78 distributors and 768 sub-distributors. As distributors of the core collection opened more direct-retail stores while some sub-distributors closed stores with sub-stardard management, and given that all stores of the smart casual collection are operated by distributors, the number of stores operated by distributors increased to 1,663. The related percentage to total store count has also kept rising, reflecting the Group's growing foothold in first- and second-tier markets and improving retail management.

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Number of distributors** | **Number of stores** | Number of distributors | Number of stores |
| Self-operated store | **—** | **1** | — | 1 |
| Distributors | **78** | **1,663** | 77 | 1,470 |
| Sub-distributors | **768** | **1,151** | 808 | 1,199 |
| Total Number of Stores | | **2,815** | | 2,670 |
| Street Stores and Stores in Shopping Malls | | **2,509** | | 2,354 |
| Shop-in-shops in Department Stores | | **306** | | 316 |
| Total Number of Stores | | **2,815** | | 2,670 |

## New Retail Development

New retail remains one of the Group's top priorities for future business development. The Group promotes the business of its LILANZ core collection and smart casual collection by actively integrating online services with offline in-store experiences while optimizing its logistics services.

Online stores have been set up on major online sales platforms for both the LILANZ core collection and smart casual collection. The Group also provides customer relations management services via the WeChat platform. During the year, the Group has spent more efforts in driving the growth of online customer flows and organized various promotional activities, including the launch of limited edition products online, commissioning influencers to promote products, placing advertisements on renowned web portals and collaborating with Baidu to boost customer flows. In particular, a special promotion has been held on the Double Eleven Online Shopping Festival, and sales on that day increased significantly over last year. This has not only helped distributors to destock, but also boosted customer flows.

## Product Design, Development and Supply Chain Management

The Group continued to enhance the personality-themed and original design of its products to provide better value-for-money and differentiate itself from its peers. The proportion of originally-designed products maintained at the target level of about 70% among products available for sale in 2019. Of these, the proportion of products utilizing proprietary fabrics developed by the Group rose nearer to the target of 50%.

In response to increasing concern about environment protection, the Group has endeavored to save energy and reduce waste during the product design and production process. Subsequent to the introduction of bamboo fiber, an environmentally-friendly material, for shirt production, the Group will launch an environmentally-friendly jeans collection in its 2020 spring and summer collections. Such jeans are made with blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles. On average, each pair of jeans uses seven plastic bottles, an effective way to dispose and recycle a quantity of plastics. Besides, the Group has also adopted the latest washing technology in the washing process of some of the jeans products to save labor and energy consumption, which reduces water consumption by about 20%.

In addition, the Group has increased the proportion of season-neutral products such as lightweight down jackets, jeans and shirts to further reduce the impact of extreme weather on sales and improve overall sales performance. Among these items, the sales performance of footwear products has been particularly outstanding.

The Group's international and local research and development teams have continued to keep abreast of the popular trends in the international market. With the objective of meeting fashion needs of mainland China's consumers, the teams design value-for-money menswear products that are simple yet fashionable in style targeting different market segments of the core and smart casual collections. There are currently about 440 staff members in the Group's research and development department engaged in areas such as product design, material development and sample creation, all striving to increase the overall competitiveness of its products.

### 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. "LESS IS MORE" has been added to the store logo of the smart casual collection for identification purposes. The core collection, principally targeting consumers between the ages of 25 and 45, has been well-received in traditional third- and fourth-tier city markets and is gradually expanding into first- and second-tier city markets. The smart casual collection, targeting consumers between the ages of 20 and 30 in first- and second-tier city markets, comprises more classicly-styled products than the core collection.

The Group's brand management mainly focuses on products and store image to promote brand image. During the year, the Group launched the seventh-generation store image for the core collection on a pilot basis in its newly-opened stores. Using higher quality materials and with a more fashionable decoration and design, the upgrade aims to create a simple and comfortable shopping environment and highlight the distinguished fashion style of the brand. Meanwhile, the Group continued to launch targeted brand advertising and promotion campaigns, including placing advertisements on the Beijing-Shanghai High Speed Railway and soft advertisements in traditional print media and web portals, as well as sharing mix-and-match fashion tips and introducing new seasonal products on the WeChat platform to attract followers.

During 2019, the Group worked with the Academy Award of Advertising Festival of Chinese College Students to solicit publicity plans and ideas for its brand and products from college students. The Group received more than 200,000 submissions in two soliciting activities. In the theme of "LESS IS MORE", the registered brand slogan, the spring event successfully promoted its brand philosophy of "LESS IS MORE" to college students. By encouraging students to exercise creativity to design print, video and text ads for several IP crossover products to be released by the Group in 2020, the autumn event helped the Group to further establish a sound brand awareness among the young consumer demographic.

In addition, the Group has commissioned celebrities to shoot product photos and influencers for product advertisements used in traditional print media and web portals. Special edition products were also launched on the "June 18 Shopping Festival" to increase customer flows and enhance its brand exposure online.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Awards

During the year, the Group ranked among the "Top 500 Brands in China" at the Third China Brand Innovation Conference (第三屆中國品牌創新大會) and garnered the "China (Industry) Quality Evaluation Gold Award 2019" (二零一九中國(行業)質量評鑒金獎).

In addition, LILANZ was granted the "Better Living — Fashion Culture Contribution Award" (優化生活 • 服飾文化貢獻獎) by the New Weekly (《新週刊》). The Group also won the "Alifish Innovative Marketing Pioneer Award" (阿里魚創新營銷先鋒獎) in respect of its promotion campaign for the The Longest Day In Chang'an (長安十二時辰) crossover products that it launched.

## PROSPECTS

Looking into 2020, even though China and the United States have reached the first-stage trade agreement, uncertainties over the tariffs of the two countries have not been eliminated. Besides, there are still concerns over China's economic slowdown and also the transformation of retail channel is expected to continue. The increasing number of shopping malls disperses consumer flows, making the operating environment of the retail sector more challenging. The industry consolidation is therefore expected to speed up. Consequently, the weaker players will die out and the stronger will survive, enabling competitive brands to stand out. As a well-established menswear enterprise, China Lilang has distinctive advantages in both original designs and value-for-money of its products. The Group is confident that it will continue to outperform other industry peers.

The outbreak of the Epidemic has halted much of the economic activity in China since late January. In response to the guidelines and requirements made by relevant local government departments and to ensure the health and safety of employees, distributors and customers, most of the LILANZ stores participated in epidemic controls and temporarily closed. As there are growing signs that the Epidemic is under control and economic activity is gradually resuming, about 70% of LILANZ stores have resumed operation by mid-March based on local health conditions and in accordance with government policies. Despite a strong run before the Chinese New Year in January, total retail sales of LILANZ products for the first quarter is expected to decline by over 40% year-on-year.

The outbreak of the Epidemic has hit the retail industry hard and retail sales of the 2020 spring products have been materially affected as a result. The Group will reduce the production of the 2020 fall products to facilitate the destocking of the spring channel inventories. The Group will also consider granting sales rebates to distributors who are most affected as subsidies for discount clearance sales of the spring products. The Group estimates that the financial performance for the first half of the year will be adversely affected.

However, the Group believes that the impact of the Epidemic on its business will be temporary and expects business will resume normal operations by autumn and winter at the soonest, which are the peak seasons for the apparel retail sector. Although the retail operations in the first quarter and possibly the second quarter are expected to be severely affected by the Epidemic, the target total retail sales growth of LILANZ products for the second half of the year is set at no less than mid single-digit.

As an enterprise with due consideration for its social responsibility, the Group donated RMB3.0 million to China Charity Federation in January to support those infected and their families. The Group was also one of the first group of enterprises contributing its manufacturing resources and produced a total of 20,000 sets of protective outfits for supporting medical staff on the frontlines.

Against the above backdrop, in 2020, China Lilang will adopt a prudent strategy and focus on the optimization of the existing store network, the improvement of retail management and store performance. The Group will continue to facilitate distributors to open stores in quality shopping centers for better store efficiency. However, considering that certain underperformed distributors or low efficiency street stores will be closed, the target store count remains at a level similar to the end of 2019.

For the core collection, the Group will continue to encourage distributors to operate more direct-retail stores and further improve channel management. For the smart casual collection, the Group plans to replace the current consignment model with a direct-retail model in autumn 2020 to strengthen various management areas such as inventory, market expansion, brand marketing and training of retail personnel. In the medium-to-long-term, operating the smart casual collection employing the direct-retail model is expected to improve the Group's profitability.

In 2020, the Group will continue to expand its smart casual collection into provincial capitals, such as Zhengzhou, Xi'an, Hefei, Changsha, Guiyang and Nanchang. Whereas in Hangzhou, Wenzhou, Suzhou, Nanjing, Qingdao and Tianjin, stores will only be opened in key shopping areas. In Beijing, Shanghai and other first-tier cities, instead of opening new stores, the Group will focus on brand promotion to support business development in other markets.

For better inventory management, the Group has reduced the percentage of pre-orders for the smart casual collection since the 2019 fall trade fair. This measure will be extended to the core collection starting from the 2020 fall trade fair. While reducing pre-order levels, sufficient production capacity will be prepared for replenishment orders. Under this new pre-order system, the Group also plans to release quarterly reports on retail performance instead of trade fair data in 2020 to better reflect its overall business performance. In addition to adjusting the pre-order level to reduce inventory risk, the Group also plans to open more stores in outlet malls and department stores starting in 2020 to facilitate the cleaning up of channel inventories in a more timely manner.

Regarding the new retail business, the Group will continue to drive online sales by further boosting customer flows, increasing online marketing and launching online special editions and IP crossover products. The first batch of IP crossover products for the 2020 spring and summer collections has been launched and corresponding marketing activities are underway.

As for brand publicity, the Group will organize a range of activities through various channels to promote its brand, in addition to continuous brand promotion through Baidu, MicroBlog and Tik Tok. Meanwhile, the seventh-generation store image for the core collection will be rolled out to 100-200 existing stores, using different decorative materials, subject to different market position of the stores, to achieve better cost efficiency.

As for product positioning, while the strategy of providing products of excellent value-for-money will be continued, the Group plans to enhance the fashion and design elements of the smart casual collection to improve the pricing structure of the collection. These initiatives will not only ensure the product quality in order to gain customers' favor, but will also help to improve the profitability of the brand.

The construction of the new headquarters in Fujian has been completed and the renovation work is in progress. It is expected to begin operation by the year-end. Construction of the new logistics park commenced in December 2019 and Phase I is targeted to open by the end of 2021.

In the long run, China Lilang will retain its multi-brand strategy, as it endeavors to strengthen its product competitiveness and value-for-money to further consolidate its leading position in the menswear industry in China and realize sustainable long-term growth to reward its shareholders, staff and customers for their support.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash and Bank Balances and Cash Flows

| | As at 31 December | |
|---|---|---|
| | **2019** **RMB million** | 2018 RMB million |
| Amounts pledged as security for bills payable | **8.9** | 15.2 |
| Cash and cash equivalents | **1,750.6** | 1,842.9 |
| Total cash and bank balance | **1,759.5** | 1,858.1 |

As at 31 December 2019, the Group's total cash and bank balance was mainly denominated in Renminbi (97.7%) and Hong Kong Dollars (1.4%). There were no bank loans outstanding as at 31 December 2019 and 2018.

Cash and cash equivalents balance decreased by RMB92.3 million. Major cash flow movements during the year were as follows:

— Net cash generated from operating activities amounting to RMB609.2 million. The major reconciling items between the net amount of operating cash inflow and the net profit for the year of RMB812.2 million were increase in trade and bills receivables by RMB134.8 million and decrease in trade and bills payables by RMB89.4 million over the year. The increase in trade and bills receivables was largely due to the increase in revenue for the year. As for the balance of trade and bills payables, while credit terms with suppliers remained similar as in 2018, the large balance at the end of 2018, due to the increase of consignment inventories of the smart casual collection in the fourth quarter, was settled during the year.

— Net cash used in investing activities amounting to RMB85.2 million, comprising mainly capital expenditure totalling RMB136.9 million, less interest income of RMB51.7 million received during the year.

— Net cash outflows from financing activities amounting to RMB616.9 million, comprising mainly the payments of final dividends in respect of the financial year 2018 and the interim dividends for the year totalling RMB611.6 million.

### Trade Working Capital Turnover Days

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Average inventory turnover days | **111** | 98 |
| Average trade receivables turnover days | **78** | 72 |
| Average trade payables turnover days | **91** | 92 |

#### *Inventory turnover days*

The Group's average inventory turnover days was 111 days.

Inventory balance slightly increased by RMB12.8 million, about 1.9%, to RMB689.2 million. Control over consignment inventories for the smart casual collection has improved since the Group reduced its percentage of pre-orders starting from the 2019 fall trade fair. Excessive inventories brought forward from 2018 had been sold during the year for clearance sales online and also in discount stores operated by distributors.

#### *Trade receivables turnover days*

The Group's average trade and bills receivables turnover days was 78 days. This compared to 72 days for 2018.

Trade and bills receivables balance increased by 16.4% to RMB957.3 million as revenue increased by 15.5% for the year. Repayments from certain distributors in the fourth quarter had been slightly affected by the slower than expected retail sales due to the mild winter.

#### *Trade payables turnover days*

The Group's average trade and bills payables turnover days was 91 days. The turnover days based on the year end balance was 84 days.

Trade and bills payables balance dropped by RMB89.4 million to RMB517.7 million. While credit terms with suppliers remained similar as in 2018, the large trade and bills payables balance at the end of 2018, due to the increase of consignment inventories of the smart casual collection in the last quarter, was settled during the year.

## 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 2019, deposits with certain banks totalling RMB8.9 million (2018: RMB15.2 million) were pledged as securities for bills payable. The pledged bank deposits will be released upon the settlement of relevant bills payable.

## CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2019, the Group had total capital commitments of RMB422.1 million, primarily related to the construction of the new headquarters and the logistics centre, which are expected to be completed in 2020 and 2021 respectively.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## 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 41 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 and also the recent outbreak of the COVID-19 epidemic |

## 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 2019, the Group had 2,570 staff. Total staff costs for the year amounted to approximately RMB230.7 million (2018: RMB193.7 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 Friday, 24 April 2020 to Wednesday, 29 April 2020 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the 2020 annual general meeting ("2020 AGM"). In order to qualify for attending and voting at the 2020 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 Thursday, 23 April 2020.

In addition, subject to the approval of the proposed final dividend and the special final dividend by the shareholders at the 2020 AGM, the register of members will be closed from Thursday, 7 May 2020 to Friday, 8 May 2020 (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 Wednesday, 6 May 2020.

# 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 is 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 generate 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 2019** |
|---|---|---|
| A1.1 | Type of emissions and respective emissions data | Total air emissions (particulates, NOx and $SO_2$) of the boiler (note 1) were 0.34 tonnes (2018: 0.32 tonnes) for the year. The intensity (based on the total annual production cost of the Wuli Plant (note 2)) is negligible. 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 359.47 tonnes (2018: 345.56 tonnes); intensity of 0.83 Kg/RMB'000 (2018: 0.87 Kg/RMB'000). The intensity reduced as fabric costs as a percentage of manufacturing costs reduced for the year. |
| 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 2019 |
|---|---|---|
| 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.<br><br>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, 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 | |
|---|---|---|---|
| | | **2019** | 2018 |
| Electricity | Consumption quantity | **4,121,000 units** | 3,204,000 units |
| | Intensity (based on the total annual production cost of the Wuli Plant (note 1)) | **9.48 units/RMB'000** | 8.08 units/RMB'000 |
| Natural gas | Consumption quantity | **380,000 $m^3$** | 377,000 $m^3$ |
| | Intensity (based on the total annual production cost of the Wuli Plant (note 1)) | **0.88 $m^3$/RMB'000** | 0.95 $m^3$/RMB'000 |
| Water | Consumption quantity | **75,000 $m^3$** | 66,000 $m^3$ |
| | 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) | **2,186.10 tonnes** | 2,158.82 tonnes |
| | Intensity (based on annual sales) | **0.60 Kg/RMB'000** | 0.68 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 also 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 17.3% during the year as more electronic production equipments have been added since mid 2018. In particular, more high electricity consumption equipments have been added for the production lines of leisure footwear in 2019. As for packaging materials, the decrease in intensity based on annual sales mainly reflected the cancellation of individual packaging of certain products during the 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 | |
|---|---|---|---|
| | | **2019** | 2018 |
| Electricity | Consumption quantity | **4,882,000 units** | 5,330,000 units |
| | Intensity (based on annual sales) | **1.33 units/RMB'000** | 1.69 units/RMB'000 |
| Water | Consumption quantity | **38,000 $m^3$** | 58,000 $m^3$ |
| | Intensity (based on annual sales) | **0.01 $m^3$/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 2019 |
|---|---|---|
| A2.1 | Electricity consumption and intensity (based on the total annual production cost of the Wuli Plant or annual sales) | 9,003,000 units (2018: 8,534,000 units); intensity of 10.81 units/RMB'000 (2018: 9.77 units/RMB'000). The intensity increased as more production machineries and equipment were added in Wuli Plant since mid 2018. In particular, more high electricity consumption equipments have been added for the production lines of leisure footwear in 2019. |
| | Natural gas consumption and intensity (based on the total annual production cost of the Wuli Plant) | 380,000 $m^3$ (2018: 377,000 $m^3$); intensity of 0.88 $m^3$/RMB'000 (2018: 0.95 $m^3$/RMB'000). The Group started using natural gas to replace coal for the boiler since September 2017 to reduce air emissions. |
| A2.2 | Water consumption and intensity (based on the total annual production cost of the Wuli Plant or annual sales) | 113,000 $m^3$ (2018: 124,000 $m^3$); intensity of 0.18 $m^3$/RMB'000 (2018: 0.19 $m^3$/RMB'000). |

| KPIs | | For the year ended 31 December 2019 |
|---|---|---|
| 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.<br><br>The consumption of natural gas and electricity in the Wuli Plant varies depending on the types of products, nature of fabrics, production processes, types of manufacturing equipment employed 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) | 2,186.10 tonnes (2018: 2,158.82 tonnes); intensity of 0.60 KG/RMB'000 (2018: 0.68 KG/RMB'000).<br><br>The intensity of the weight of packaging materials purchased has reduced mainly due to the cancellation of individual packaging of certain products during the 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 environmentally-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 still low.

As another initiative to promote sustainable fashion, starting from the 2020 spring and summer collections, the Group has launched a new environmentally-friendly jeans collection. The first batch of products under this collection is made with blended fabrics of cotton yarn and polyester yarn extracted from recycled plastic bottles; each pair of jeans on average uses about seven plastic bottles, an effective way to dispose and recycle a quantity of plastics. In addition, hangtag and other accessory materials for this collection are sourced from suppliers engaged in sustainable practices. The Group is also exploring the possibilities of replacing cotton by more environmentally-friendly and natural fibre such as organic cotton without compromising on cost competitiveness.

To reduce the use of other resources in the production of jeans, the Group has adopted the latest washing technology in the washing process of some of its jeans products, which reduces water consumption by about 20% on average and also saves labor and energy consumption.

## (B) SOCIAL

### Aspect B1: Employment

As at 31 December 2019, the Group had 2,570 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.

### 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 2019, there were no severe injuries or fatalities of the employees of the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

## 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. During 2015 to 2018, the Group also 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 in order to further enhance its design capabilities and craftsmanship.

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, industry 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.

## Aspect B5: Supply Chain Management

As at 31 December 2019, the Group had about 500 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 2019, 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 2019, 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.

### 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 2019, 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 2019, donations totaling RMB25.2 million were made by the Group to The World Middle School Games to be held in Jinjiang in October 2020, and other charitable associations approved by the local government to support services for the elderly, schools and hospitals.


In the fourth quarter of 2019, the Group organized a charitable sales event together with about 1,000 participating LILANZ Stores and its online stores for donations to Adream Foundation in Shanghai (上海真愛夢想公益基金會), a charitable organization dedicated to children education of the underprivileged sectors. Donations for the whole event were about RMB1.2 million.

# 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 2019.

## (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 42 to 46 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 2019.

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 2019, 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 2019 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 | B |
| Mr. Lai Shixian | B |

Notes:

A: Attending courses/seminars on business management, and/or corporate governance.

B: Viewing director training webcasts on independent non-executive directors' roles in corporate governance and ESG governance and reporting.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## 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 2019. During the meetings, the Audit Committee had considered internal control review findings, the annual report of the Group for the year ended 31 December 2018 and the interim report of the Group for the six months ended 30 June 2019, 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 2019, 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 2018 and salary adjustments (if any) for the year ended 31 December 2019 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.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year ended 31 December 2019, 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 2019 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. No candidate had been nominated for appointment as additional Director during the year.

### *(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 2019, 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.

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, Annual General Meeting and Extraordinary General Meeting held during the year ended 31 December 2019 are set out below:

| | Board Meetings | Audit Committee Meetings | Remuneration Committee Meeting | Nomination Committee Meeting | Risk Management Committee Meeting | 2019 Annual General Meeting | Extraordinary General Meeting |
|---|---|---|---|---|---|---|---|
| No. of meetings held during the year ended 31 December 2019 | 8 | 2 | 1 | 1 | 1 | 1 | 1 |
| Executive Directors | | | | | | | |
| Mr. Wang Dong Xing | 8 | N/A | N/A | 1 | 1 | 1 | 1 |
| Mr. Wang Liang Xing | 5 | N/A | N/A | N/A | N/A | – | – |
| Mr. Wang Cong Xing | 8 | N/A | 1 | N/A | 1 | 1 | 1 |
| Mr. Cai Rong Hua | 6 | N/A | N/A | N/A | N/A | – | – |
| Mr. Hu Cheng Chu | 6 | N/A | N/A | N/A | N/A | 1 | 1 |
| Mr. Pan Rong Bin | 5 | N/A | N/A | N/A | 1 | – | – |
| Independent Non-executive Directors | | | | | | | |
| Dr. Lu Hong Te | 5 | 2 | N/A | 1 | N/A | 1 | 1 |
| Mr. Nie Xing | 5 | 2 | 1 | 1 | N/A | 1 | 1 |
| Mr. Lai Shixian | 5 | 1 | 1 | N/A | N/A | 1 | 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.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

### 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 42 to 46 of the Annual Report.

## (B) FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROL

### Financial Reporting

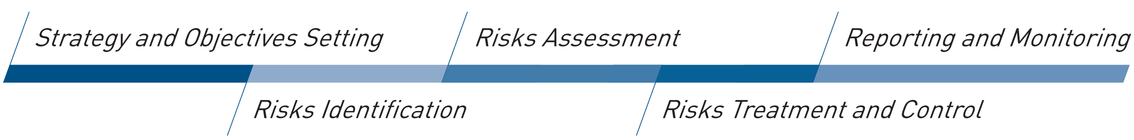
The Board acknowledges its responsibility to prepare the Company's accounts which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, 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 RMB485,000.

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.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

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 and extraordinary 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 59, 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 30 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 57, 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 30 years of manufacturing and management experience in the menswear industry in the PRC.

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 51, 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 30 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 51, 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 75, 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), 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) and the honorary chairman of Fujian Micro Electronic Commerce Industry Association (福建省微電商行業協會). He was honoured as Jinjiang City Honorable Citizen (晉江市榮譽市民) in 2012 and 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.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Mr. Pan Rong Bin (潘榮彬先生)**, aged 46, 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 20 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.

## Independent Non-executive Directors

**Dr. Lu Hong Te (呂鴻德博士)**, aged 59, 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 55, 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 Luxxu Group Limited (勵時集團有限公司) (formerly known as 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 45, 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 58, 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 43, 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 49, 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Mr. Zhuang Zhi Han (莊志函先生)**, aged 50, 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.

**Mr. Chen Wei Jin (陳維進先生)**, aged 50, 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 44, 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 for head of finance (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 for higher education of adults (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 2019.

## 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 35 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:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Percentage of the Group's Total** | | Percentage of the Group's Total | |
| | **Sales** | **Purchases** | Sales | Purchases |
| The largest customer | **3.7%** | | 4.0% | |
| Five largest customers in aggregate | **15.8%** | | 16.0% | |
| The largest supplier | | **4.8%** | | 3.0% |
| Five largest suppliers in aggregate | | **19.1%** | | 13.4% |

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 2019 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 62 to 117 of the Annual Report.

# REPORT OF THE DIRECTORS (CONTINUED)

## TRANSFER TO RESERVES

Profit for the year, before dividends, of RMB812,180,000 (2018: RMB751,194,000) 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 HK18 cents (2018: HK16 cents) per ordinary share and a special interim dividend of HK8 cents (2018: HK7 cents) per ordinary share were paid on 13 September 2019. The Directors now recommend the payment of a final dividend of HK21 cents (2018: HK21 cents) per ordinary share and a special final dividend of HK10 cents (2018: HK10 cents) per ordinary share in respect of the year ended 31 December 2019.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB25,185,000 (2018: RMB12,700,000).

## NON-CURRENT ASSETS

Details of acquisitions and other movements of non-current assets (including property, plant and equipment, investment properties, right-of-use assets and intangible assets) are set out in notes 12 to 15 to the consolidated financial statements.

## BANK FACILITIES

Particulars of bank facilities of the Group as at 31 December 2019 are set out in note 20 to the consolidated financial statements. All bank loans were fully repaid as at 31 December 2018 and 2019.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26(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 2019 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 2019.

## 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 42 to 46 of the Annual Report.

In accordance with article 105(a) of the Company's articles of association, Mr. Wang Liang Xing, Dr. Lu Hong Te and Mr. Nie Xing 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.

# REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2019, 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% |
| 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% |

| 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. Hu Cheng Chu | The Company | Settlor of a discretionary trust (Note 4) | 4,500,000 shares (L) | 0.376% |
| | Xiao Sheng International (Note 2) | Settlor of a discretionary trust (Note 4) | 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 Luxuriant Treasure Global Limited (note 4), 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. 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.

4. The interests of Mr. Hu Cheng Chu in 4,500,000 shares of the Company and 500 shares of Xiao Sheng International is held through Luxuriant Treasure Global Limited ("LTGL"). The entire issued share capital of LTGL is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Hu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2019, 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.

# REPORT OF THE DIRECTORS (CONTINUED)

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, 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 Luxuriant Treasure Global Limited (note 6), 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 Luxuriant Treasure Global Limited (note 6), 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 was 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. 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.

(6) The entire issued share capital of Luxuriant Treasure Global Limited is held by Vistra Trust (Singapore) Pte. Limited in its capacity as the trustee of an irrevocable discretionary trust set up by Mr. Hu Cheng Chu as the settlor. The beneficiaries under the trust are Mr. Hu and his family members. Mr. Hu is deemed to be interested in these shares as the settlor of the discretionary trust.

Save as disclosed above, as at 31 December 2019, 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 AND CONNECTED TRANSACTION

The related party transactions for the year as disclosed in note 31 to the consolidated financial statements also constituted continuing connected transaction and/or connected transaction under the Listing Rules, which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Details of such continuing connected transaction and 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 2019, 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 continuing connected 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)

### New Tenancy Agreement

The Group entered into a new tenancy agreement ("New Tenancy Agreement") with Jinlang Fujian for the lease of the Premises on 16 December 2019 for a term commencing from 1 January 2020 to 30 June 2021 at a monthly rent of RMB286,000. Pursuant to the New Tenancy Agreement, the Group may terminate the New Tenancy Agreement at any time during the term of the New Tenancy Agreement by serving not less than one month prior written notice to Jinlang Fujian. Assuming that the early termination option will not be exercised, the present value of the rent payable for the entire term under the New Tenancy Agreement to be recognised as a right-of-use asset by the Group pursuant to IFRS 16 amounts to approximately RMB4,979,000. The tenancy arrangement contemplated under the New Tenancy Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Details of the New Tenancy Agreement were disclosed in the Company's announcement dated 16 December 2019.

## 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 And Connected Transaction" above and in note 31 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 31 to the consolidated financial statements and in the paragraph headed "Continuing Connected Transaction And 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 2019.

## EQUITY-SETTLED SHARE BASED PAYMENTS

The Company adopted a share option scheme on 4 September 2009 (the "2009 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the Group. The 2009 Share Option Scheme expired on 3 September 2019 and there was no share option outstanding thereunder during the year ended 31 December 2019.

The Company has adopted a new share option scheme (the "2019 Share Option Scheme") pursuant to an ordinary resolution passed by the Shareholders in the extraordinary general meeting on 23 April 2019.

Eligible participants of the 2019 Share Option Scheme include (i) any employee (whether full time or part time, including any executive director but excluding any non-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 design, 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 2019 Share Option Scheme in accordance with the rules thereof, the 2019 Share Option Scheme shall remain in force for a period of ten years commencing on 23 April 2019.

The maximum number of shares issuable upon the exercise of options granted under the 2019 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.

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 2019 Share Option Scheme and any share option scheme of the Group must not in aggregate exceed 119,748,491 shares, representing 10% of the shares of the Company in issue as at 23 April 2019 (the date of approval of the 2019 Share Option Scheme) and as at the end of reporting period and the date of approval of this report. The maximum number of shares which may fall to be issued upon exercise of the options to be granted under the 2019 Share Option Scheme and the options granted under any other share option scheme of the Group (including both exercised and outstanding options) to be granted by the Company or any other member of the Group in any given financial year of the Company shall not exceed 5% of the Shares in issue as at the beginning of such financial year. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2019 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.

# REPORT OF THE DIRECTORS (CONTINUED)

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.

As at 31 December 2019, no share option had been granted under the 2019 Share Option Scheme.

## 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 27 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, 19 March 2020

**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 62 to 117, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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)

<table>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td colspan="2">Refer to note 3 to the consolidated financial statements and the accounting policies on page 85</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Revenue principally comprises sales of menswear goods, including tops, pants and accessories to distributors and through consignees.<br><br>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.<br><br>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.<br><br>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.<br><br>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.</td><td>Our audit procedures to assess the recognition of revenue included the following:<br><br>• assessing the design, implementation and operating effectiveness of management's key internal controls over revenue recognition;<br><br>• inspecting agreements with distributors and consignees, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, rebate and sales return to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards;<br><br>• 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;<br><br>• 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;<br><br>• obtaining external confirmations of the value of sales transactions for the year ended 31 December 2019 and outstanding trade receivable balances as at that date directly from distributors and consignees, on a sample basis;<br><br>• 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; and<br><br>• 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.</td></tr>
</table>

## 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.

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

19 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Renminbi)

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Revenue** | 3 | 3,658,471 | 3,167,872 |
| Cost of sales | | (2,255,300) | (1,869,820) |
| **Gross profit** | | 1,403,171 | 1,298,052 |
| Other net income | 4 | 115,822 | 87,027 |
| Selling and distribution expenses | | (409,707) | (396,348) |
| Administrative expenses | | (103,902) | (92,150) |
| Other operating expenses | | (25,589) | (14,718) |
| **Profit from operations** | | 979,795 | 881,863 |
| Net finance income | 5 | 44,168 | 63,376 |
| **Profit before taxation** | 6 | 1,023,963 | 945,239 |
| Income tax | 7(a) | (211,783) | (194,045) |
| **Profit for the year** | | 812,180 | 751,194 |
| **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") | | 5,792 | (1,587) |
| **Total comprehensive income for the year** | | 817,972 | 749,607 |
| **Earnings per share** | 11 | | |
| Basic (cents) | | 67.82 | 62.74 |
| Diluted (cents) | | 67.82 | 62.74 |

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 62 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 26(c).

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019
(Expressed in Renminbi)

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **713,892** | 699,124 |
| Investment properties | 13 | **142,403** | 98,811 |
| Lease prepayments | 2, 14 | **—** | 102,766 |
| Right-of-use assets | 2, 14 | **139,506** | — |
| Intangible assets | 15 | **7,776** | 6,752 |
| Deposits for purchases of plant and equipment | | **8,280** | 11,860 |
| Deferred tax assets | 24(b) | **20,823** | 6,016 |
| | | **1,032,680** | 925,329 |
| **Current assets** | | | |
| Inventories | 16 | **689,243** | 676,411 |
| Trade and other receivables | 17 | **1,081,849** | 952,620 |
| Pledged bank deposits | 18 | **8,946** | 15,201 |
| Cash and cash equivalents | 19(a) | **1,750,609** | 1,842,850 |
| | | **3,530,647** | 3,487,082 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **755,828** | 817,417 |
| Lease liabilities | 22 | **537** | — |
| Contract liabilities | 23 | **26,724** | 40,728 |
| Current tax payable | 24(a) | **152,156** | 134,485 |
| | | **935,245** | 992,630 |
| **Net current assets** | | **2,595,402** | 2,494,452 |
| **Total assets less current liabilities** | | **3,628,082** | 3,419,781 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 24(b) | **21,803** | 19,922 |
| **Net assets** | | **3,606,279** | 3,399,859 |
| **Capital and reserves** | | | |
| Share capital | 26(a) | **105,517** | 105,517 |
| Reserves | | **3,500,762** | 3,294,342 |
| **Total equity** | | **3,606,279** | 3,399,859 |

Approved and authorised for issue by the board of directors on 19 March 2020.

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

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 62 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019
(Expressed in Renminbi)

| | Note | Share capital (note 26(a)) RMB'000 | Share premium (note 26(d)(i)) RMB'000 | Statutory reserve (note 26(d)(ii)) RMB'000 | Capital reserve (note 26(d)(iii)) RMB'000 | Exchange reserve (note 26(d)(iv)) RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 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 | | (21) | – | – | 21 | – | – | – |
| Shares issued under share option scheme | | 46 | 4,315 | – | (1,275) | – | – | 3,086 |
| Dividends approved in respect of the previous year | 26(c) | – | – | – | – | – | (252,712) | (252,712) |
| Dividends declared in respect of the current year | 26(c) | – | – | – | – | – | (241,853) | (241,853) |
| Appropriation to statutory reserve | | – | – | 5,042 | – | – | (5,042) | – |
| At 31 December 2018 and 1 January 2019 | | **105,517** | **31,411** | **257,038** | **23,176** | **(43,161)** | **3,025,878** | **3,399,859** |
| Changes in equity for 2019: | | | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **812,180** | **812,180** |
| Other comprehensive income for the year | | **–** | **–** | **–** | **–** | **5,792** | **–** | **5,792** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **5,792** | **812,180** | **817,972** |
| Dividends approved in respect of the previous year | 26(c) | **–** | **–** | **–** | **–** | **–** | **(328,196)** | **(328,196)** |
| Dividends declared in respect of the current year | 26(c) | **–** | **–** | **–** | **–** | **–** | **(283,356)** | **(283,356)** |
| Appropriation to statutory reserve | | **–** | **–** | **6,429** | **–** | **–** | **(6,429)** | **–** |
| At 31 December 2019 | | **105,517** | **31,411** | **263,467** | **23,176** | **(37,369)** | **3,220,077** | **3,606,279** |

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 62 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019
(Expressed in Renminbi)

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 19(b) | **816,235** | 601,992 |
| Tax paid | 24(a) | **(207,038)** | (156,344) |
| **Net cash generated from operating activities** | | **609,197** | 445,648 |
| **Investing activities** | | | |
| Payments for purchases of property, plant and equipment | | **(93,894)** | (188,264) |
| Payments for purchases of land use rights | | **(38,851)** | — |
| Payments for purchases of intangible assets | | **(4,194)** | (3,851) |
| Proceeds from disposal of property, plant and equipment | | **95** | 1,050 |
| Interest income received | | **51,685** | 71,563 |
| Decrease in fixed deposits held at banks with maturity over three months | | **—** | 188,000 |
| **Net cash (used in)/generated from investing activities** | | **(85,159)** | 68,498 |
| **Financing activities** | | | |
| Capital element of lease rentals paid | 19(c) | **(1,526)** | — |
| Proceeds from bank loans | 19(c) | **508,838** | 578,285 |
| Repayment of bank loans | 19(c) | **(508,838)** | (578,285) |
| Proceeds from issue of shares under share option scheme | | **—** | 3,086 |
| Interest element of lease rentals paid | 19(c) | **(56)** | — |
| Interest expense paid on bank borrowings | | **(3,749)** | (5,930) |
| Dividends paid | 26(c) | **(611,552)** | (494,565) |
| **Net cash used in financing activities** | | **(616,883)** | (497,409) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(92,845)** | 16,737 |
| **Cash and cash equivalents at 1 January** | | **1,842,850** | 1,823,281 |
| **Effect of foreign exchange rate changes** | | **604** | 2,832 |
| **Cash and cash equivalents at 31 December** | 19(a) | **1,750,609** | 1,842,850 |

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated (see note 2).

The notes on pages 62 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 2019 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(v).

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 32.

## 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(h)(ii)).

### (d) Property, plant and equipment

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

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(h)(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) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### *(i) As a lessee*

(a) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Leased assets (Continued)

#### *(i) As a lessee (Continued)*

(a) Policy applicable from 1 January 2019 (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

Deprecation is calculated to write off the cost of items of right-of-use assets, using the straight-line method over the unexpired term of leases as follows:

| | | |
|---|---|---|
| — | Land use rights | 50 years |
| — | Properties leased for own use | 1-5 years |

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

(b) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Leased assets (Continued)

#### *(ii) As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(r)(iv).

### (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(h)(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) Credit losses and impairment of assets

#### *(i) Credit losses from financial assets*

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, 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.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Credit losses and impairment of assets (Continued)

#### *(i) Credit losses from financial assets (Continued)*

Measurement of ECLs *(Continued)*

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 receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade 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.

For all other financial instruments, 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Credit losses and impairment of assets (Continued)

#### *(i) Credit losses from financial assets (Continued)*

Significant increases in credit risk *(Continued)*

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.

ECLs are remeasured at each reporting date to reflect changes in the financial assets' 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(r)(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.

# 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (h) Credit losses and impairment of assets (Continued)

### *(i) Credit losses from financial assets (Continued)*

Basis of calculation of interest income *(Continued)*

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)

### (h) 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;
— right-of-use assets;
— 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 to reduce the carrying amount of the 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)

## (i) 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.

## (j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(r)). 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(k)).

## (k) 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(h)(i)).

## (l) 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(t)).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) 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.

### (n) 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(h)(i).

### (o) 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)

### (p) 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)

### (p) 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.

### (q) 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.

### (r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, or the leasee has the right to use the asset 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, rebates and goods returns.

# 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (r) 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.

### *(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 note 1(h)(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.

### *(iv) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

## (s) 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (s) Translation of foreign currencies (Continued)

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.

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.

### (t) 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.

### (u) 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.

### (v) 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.

### (w) 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.

# 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (w) 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.

## (x) 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 new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. Under the transition methods chosen, there is no significant cumulative effect of the initial application of IFRS 16 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### IFRS 16, *Leases* (Continued)

### *b. Lessee accounting and transitional impact*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. For an explanation of how the Group applies lessee accounting, see note 1(f)(i).

At the date of transition to IFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 30(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | **1 January 2019**<br>RMB'000 |
|---|---|
| Operating lease commitments at 31 December 2018 | 2,339 |
| Less: commitments relating to leases exempt from capitalization: | |
| — short term leases and other leases with remaining lease term ending on or before 31 December 2019 | (242) |
| Less: total future interest expenses | (67) |
| Lease liabilities recognised at 1 January 2019 | 2,030 |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### IFRS 16, *Leases* (Continued)

### *b. Lessee accounting and transitional impact (Continued)*

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

| | Carrying amount at 31 December 2018 RMB'000 | Reclassification from lease prepayments (Note) RMB'000 | Capitalisation of operating lease contracts RMB'000 | Carrying amount at 1 January 2019 RMB'000 |
|---|---|---|---|---|
| **Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:** | | | | |
| Lease prepayments | 102,766 | (102,766) | — | — |
| Right-of-use assets | — | 102,766 | 2,030 | 104,796 |
| **Total non-current assets** | 925,329 | — | 2,030 | 927,359 |
| Lease liabilities (current) | — | — | 1,526 | 1,526 |
| **Current liabilities** | 992,630 | — | 1,526 | 994,156 |
| **Net current assets** | 2,494,452 | — | (1,526) | 2,492,926 |
| **Total assets less current liabilities** | 3,419,781 | — | 504 | 3,420,285 |
| Lease liabilities (non-current) | — | — | 504 | 504 |
| **Total non-current liabilities** | 19,922 | — | 504 | 20,426 |
| **Net assets** | 3,399,859 | — | — | 3,399,859 |

Note: Lease prepayments represent prepayments of land use rights on leasehold land located in the PRC. The Group is granted land use rights for a period of 50 years. The net carrying amount of lease prepayments was reclassified as right-of-use assets at the date of initial application of IFRS 16. Also, there were no ongoing payment obligations under the terms of the land lease, so no lease liabilities were recognised at the date of initial application of IFRS 16.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### IFRS 16, *Leases* (Continued)

#### *c. Impact on the financial results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses or amortisation of lease prepayments incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 19(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows (see note 19(d)).

The impact of adoption of IFRS 16 on the Group's financial results and cash flows was not significant for the year ended 31 December 2019.

#### *d. Lessor accounting*

The Group leases out two retail outlets and two office premises as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

## 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, rebates and value added taxes ("VAT").

During the years ended 31 December 2019 and 2018, 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 29(a).

## 4 OTHER NET INCOME

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Government grants | **83,218** | 74,387 |
| Rental income from investment properties | **4,117** | 2,700 |
| Compensation income from suppliers' default | **18,681** | 1,781 |
| Others | **9,806** | 8,159 |
| | **115,822** | 87,027 |

Government grants of RMB83,218,000 (2018: RMB74,387,000) 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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Interest income on financial assets measured at amortised cost | **51,685** | 69,360 |
| Net foreign exchange loss | **(3,712)** | (54) |
| Interest on lease liabilities (Note) | **(56)** | — |
| Interest on bank borrowings | **(3,749)** | (5,930) |
| | **44,168** | 63,376 |

Note: The Group has initially applied IFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated (see note 2).

## 6 PROFIT BEFORE TAXATION

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **(a) Staff costs:** | | |
| Salaries, wages and other benefits | **225,457** | 189,494 |
| Contributions to defined contribution retirement plans (note 27) | **5,250** | 4,196 |
| | **230,707** | 193,690 |
| **(b) Other items:** | | |
| Amortisation of lease prepayments (note (i)) | **—** | 2,383 |
| Amortisation of intangible assets | **3,170** | 2,714 |
| Depreciation | | |
| — owned property, plant and equipment | **32,517** | 26,268 |
| — right-of-use assets (note (i)) | **4,174** | — |
| Short term lease rental expenses (note (i)) | **3,288** | — |
| Auditor's remuneration | **2,700** | 2,700 |
| Cost of inventories (note (ii)) | **2,255,300** | 1,869,820 |
| Loss/(gain) on disposal of property, plant and equipment | **147** | (103) |
| Operating lease charges in respect of properties previously classified as operating leases under IAS 17 (note (i)) | **—** | 4,620 |
| Research and development costs | **137,138** | 106,853 |
| Subcontracting charges (note (iii)) | **461,919** | 310,420 |

Notes:

(i) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses or amortisation of lease prepayments incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (see note 2).

(ii) Cost of inventories sold includes research and development costs, subcontracting charges, related staff costs, depreciation and lease expenses totalling RMB696,448,000 (2018: RMB491,905,000) included in items disclosed above.

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

(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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Current tax — PRC Corporate Income Tax (note 24(a)) | **224,709** | 206,848 |
| Deferred tax | **(12,926)** | (12,803) |
| | **211,783** | 194,045 |

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 2019 and 2018.

(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 and 2019. 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% for 2018 and 2019.

(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 RMB30,450,000 provided for the year (2018: RMB26,180,000).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Profit before taxation** | **1,023,963** | 945,239 |
| Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned | **258,047** | 233,410 |
| Tax effect of non-deductible expenses | **3,947** | 2,389 |
| Tax effect of non-taxable income | **(86)** | (1,094) |
| Tax effect of tax concessions (note 7(a)(iii)) | **(83,120)** | (63,990) |
| Under/(over)-provision in prior year | **2,545** | (2,850) |
| Withholding tax effect of undistributed profits retained by PRC subsidiaries (note 24(b)) | **30,450** | 26,180 |
| **Actual tax expense** | **211,783** | 194,045 |

## 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 | 2019 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 | 163 | 1,216 |
| **Independent Non-executive Directors** | | | | | |
| Lu Hong Te | 200 | — | — | — | 200 |
| Nie Xing | 200 | — | — | — | 200 |
| Lai Shixian | 200 | — | — | — | 200 |
| **Total** | 600 | 5,330 | 65 | 163 | 6,158 |

## 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 | 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 |

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 (2018: four) are Directors whose emoluments are disclosed in note 8. The emoluments in respect of the remaining one (2018: one) individual are as follows:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Salaries and other benefits | **1,431** | 1,370 |
| Discretionary bonuses | **493** | 483 |
| Contributions to retirement benefit schemes | **16** | 15 |
| | **1,940** | 1,868 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Salaries and other benefits | **2,907** | 2,853 |
| Discretionary bonuses | **1,036** | 1,057 |
| Contributions to retirement benefit schemes | **48** | 45 |
| | **3,991** | 3,955 |

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

| | 2019<br>Number of<br>individuals | 2018<br>Number of<br>individuals |
|---|---|---|
| Nil to HK$1,000,000 (Nil to RMB897,000) | **5** | 5 |
| HK$2,000,001 to HK$2,500,000 (RMB1,793,001 to RMB2,241,000) | **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 RMB812,180,000 (2018: RMB751,194,000) and the weighted average number of ordinary shares in issue of 1,197,485,000 (2018: 1,197,247,000).

#### *Weighted average number of ordinary shares*

| | 2019<br>'000 | 2018<br>'000 |
|---|---|---|
| Issued ordinary shares at 1 January | **1,197,485** | 1,197,214 |
| Cancellation of shares bought back | **—** | (259) |
| Effect of share options exercised | **—** | 292 |
| Weighted average number of ordinary shares | **1,197,485** | 1,197,247 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of RMB812,180,000 (2018: RMB751,194,000) 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)*

| | 2019<br>'000 | 2018<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares | **1,197,485** | 1,197,247 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | **—** | 48 |
| Weighted average number of ordinary shares (diluted) | **1,197,485** | 1,197,295 |

# 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 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 and 1 January 2019 | **233,198** | **60,178** | **80,305** | **11,576** | **35,759** | **8,376** | **432,960** | **862,352** |
| Additions | **–** | **1,964** | **9,572** | **152** | **5,308** | **17** | **74,097** | **91,110** |
| Transfer from construction in progress | **25,375** | **1,384** | **5,888** | **–** | **–** | **–** | **(32,647)** | **–** |
| Reclassify to investment properties (note 13) | **(47,018)** | **–** | **–** | **–** | **–** | **–** | **–** | **(47,018)** |
| Disposals | **–** | **–** | **(730)** | **(37)** | **(506)** | **(8)** | **–** | **(1,281)** |
| Exchange adjustment | **–** | **15** | **–** | **–** | **8** | **2** | **–** | **25** |
| At 31 December 2019 | **211,555** | **63,541** | **95,035** | **11,691** | **40,569** | **8,387** | **474,410** | **905,188** |
| **Accumulated depreciation:** | | | | | | | | |
| At 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 and 1 January 2019 | **32,221** | **48,844** | **39,017** | **5,195** | **29,982** | **7,969** | **–** | **163,228** |
| Charge for the year | **5,249** | **6,758** | **10,844** | **1,086** | **5,102** | **183** | **–** | **29,222** |
| Reclassify to investment properties (note 13) | **(131)** | **–** | **–** | **–** | **–** | **–** | **–** | **(131)** |
| Written back on disposals | **–** | **–** | **(529)** | **(20)** | **(485)** | **(5)** | **–** | **(1,039)** |
| Exchange adjustment | **–** | **7** | **–** | **–** | **7** | **2** | **–** | **16** |
| At 31 December 2019 | **37,339** | **55,609** | **49,332** | **6,261** | **34,606** | **8,149** | **–** | **191,296** |
| **Net book value:** | | | | | | | | |
| At 31 December 2019 | **174,216** | **7,932** | **45,703** | **5,430** | **5,963** | **238** | **474,410** | **713,892** |
| At 31 December 2018 | 200,977 | 11,334 | 41,288 | 6,381 | 5,777 | 407 | 432,960 | 699,124 |

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

## 13 INVESTMENT PROPERTIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **118,062** | 118,062 |
| Reclassify from property, plant and equipment (note 12) | **47,018** | — |
| At 31 December | **165,080** | 118,062 |
| **Accumulated depreciation:** | | |
| At 1 January | **19,251** | 16,513 |
| Reclassify from property, plant and equipment (note 12) | **131** | — |
| Charge for the year | **3,295** | 2,738 |
| At 31 December | **22,677** | 19,251 |
| **Net book value:** | | |
| At 31 December | **142,403** | 98,811 |

Investment properties represent retail outlets and office premises that are leased to distributors. As at 31 December 2019, 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 RMB218,100,000 (2018: RMB144,800,000).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 14 LEASE PREPAYMENTS AND RIGHT-OF-USE ASSETS

| | Land use rights RMB'000 | Properties leased for own use RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 31 December 2018 | — | — | — |
| Impact of initial application of IFRS 16 (Note) | | | |
| — Reclassification from lease prepayments | 117,566 | — | 117,566 |
| — Capitalisation of operating lease contracts | — | 2,030 | 2,030 |
| At 1 January 2019 | **117,566** | **2,030** | **119,596** |
| Additions | **38,851** | **18** | **38,869** |
| Exchange adjustment | **—** | **35** | **35** |
| At 31 December 2019 | **156,417** | **2,083** | **158,500** |
| **Accumulated depreciation:** | | | |
| At 31 December 2018 | — | — | — |
| Impact of initial application of IFRS 16 (Note) | | | |
| — Reclassification from lease prepayments | 14,800 | — | 14,800 |
| At 1 January 2019 | **14,800** | **—** | **14,800** |
| Charge for the year | **2,607** | **1,567** | **4,174** |
| Exchange adjustment | — | **20** | **20** |
| At 31 December 2019 | **17,407** | **1,587** | **18,994** |
| **Net book value:** | | | |
| At 31 December 2019 | **139,010** | **496** | **139,506** |
| At 1 January 2019 | 102,766 | 2,030 | 104,796 |

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses or amortisation of lease prepayments incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (see note 2).

The Group's right-of-use assets contain the land use rights and properties leased for own use. The interest of land use rights in the PRC are prepaid upon acquisition. The leases related to properties are typically run for an initial period of one to five years. Some leases include an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes variable lease payments. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and restrictions.

## 15 INTANGIBLE ASSETS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **27,493** | 23,642 |
| Additions | **4,194** | 3,851 |
| At 31 December | **31,687** | 27,493 |
| **Accumulated amortisation:** | | |
| At 1 January | **20,741** | 18,027 |
| Charge for the year | **3,170** | 2,714 |
| At 31 December | **23,911** | 20,741 |
| **Net book value:** | | |
| At 31 December | **7,776** | 6,752 |

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 16 INVENTORIES

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Raw materials | 137,739 | 181,989 |
| Work-in-progress | 69,551 | 118,097 |
| Finished goods | 481,953 | 376,325 |
| | 689,243 | 676,411 |

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | 2,255,300 | 1,869,820 |

## 17 TRADE AND OTHER RECEIVABLES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Trade receivables | 965,872 | 830,064 |
| Less: Loss allowance | (9,154) | (9,154) |
| | 956,718 | 820,910 |
| Bills receivable | 600 | 1,630 |
| Trade and bills receivables, net of loss allowance | 957,318 | 822,540 |
| Prepayments to suppliers | 6,420 | 5,875 |
| Prepaid advertising expenses | 6,868 | 2,844 |
| Rental prepayment to a related party (note 31) | 3,432 | — |
| VAT deductible | 94,719 | 109,413 |
| Other deposits, prepayments and receivables | 13,092 | 11,948 |
| | 1,081,849 | 952,620 |

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

## 17 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within 3 months | **854,708** | 754,191 |
| Over 3 months but within 6 months | **96,993** | 68,349 |
| Over 6 months but within 1 year | **5,617** | — |
| | **957,318** | 822,540 |

Trade receivables are due within 90-240 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 29(a).

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | **9,154** | 75,903 |
| Uncollectible amounts written off | **—** | (66,749) |
| At 31 December | **9,154** | 9,154 |

## 18 PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 21). The pledged bank deposits will be released upon the settlement of the relevant bills payable.

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows<br>— cash at bank and on hand | **1,750,609** | 1,842,850 |

At 31 December 2019, cash and cash equivalents held in the mainland China amounted to RMB1,710,560,000 (2018: RMB1,806,243,000). 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)

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

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

| | Note | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| Profit before taxation | | **1,023,963** | 945,239 |
| Adjustments for: | | | |
| — Depreciation | 6(b) | **36,691** | 26,268 |
| — Amortisation of lease prepayments | 6(b) | **—** | 2,383 |
| — Amortisation of intangible assets | 6(b) | **3,170** | 2,714 |
| — Loss/(gain) on disposal of property, plant and equipment | 6(b) | **147** | (103) |
| — Interest on bank borrowings | 5 | **3,749** | 5,930 |
| — Interest on lease liabilities | 5 | **56** | — |
| — Interest income | 5 | **(51,685)** | (69,360) |
| — Unrealised foreign exchange loss/(gain) | | **5,179** | (4,419) |
| Changes in working capital: | | | |
| — Increase in inventories | | **(12,832)** | (353,078) |
| — Increase in trade and other receivables | | **(129,229)** | (246,556) |
| — Decrease/(increase) in pledged bank deposits | | **6,255** | (8,370) |
| — (Decrease)/increase in trade and other payables | | **(55,225)** | 281,178 |
| — (Decrease)/increase in contract liabilities | | **(14,004)** | 20,166 |
| Cash generated from operations | | **816,235** | 601,992 |

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases. Previously, cash payments under operating leases made by the Group as a lessee of RMB4,620,000 were classified as operating activities in the consolidated statement of cash flows. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 19(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2.

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

### (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 RMB'000 (Note 20) | Lease liabilities RMB'000 (Note 22) | Total RMB'000 |
|---|---|---|---|
| **At 31 December 2018** | — | — | — |
| Impact of initial application of IFRS 16 (Note) | — | 2,030 | 2,030 |
| **At 1 January 2019** | **—** | **2,030** | **2,030** |
| **Changes from financing cash flows:** | | | |
| Proceeds from new bank loans | **508,838** | **—** | **508,838** |
| Repayment of bank loans | **(508,838)** | **—** | **(508,838)** |
| Capital element of lease rentals paid | **—** | **(1,526)** | **(1,526)** |
| Interest element of lease rentals paid | **—** | **(56)** | **(56)** |
| Total changes from financing cash flows | **—** | **(1,582)** | **(1,582)** |
| **Other changes:** | | | |
| Increase in lease liabilities | **—** | **18** | **18** |
| Interest expenses on lease liabilities (note 5) | **—** | **56** | **56** |
| Exchange adjustments | **—** | **15** | **15** |
| Total other changes | **—** | **89** | **89** |
| **At 31 December 2019** | **—** | **537** | **537** |

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases (see notes 2 and 19(b)).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

### (d) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within operating cash flows | 3,288 | 4,620 |
| Within investing cash flows | 38,851 | — |
| Within financing cash flows | 1,582 | — |
| | 43,721 | 4,620 |

These amounts relate to the following:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Leases rentals paid | 4,870 | 4,620 |
| Payments for purchase of land use rights | 38,851 | — |
| | 43,721 | 4,620 |

Note: As explained in note 19(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

## 20 BANK LOANS AND FACILITIES

As at 31 December 2019 and 2018, 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:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Facility amount | 1,158,600 | 1,431,320 |
| Utilised facility amount in respect of: | | |
| — Bills payable (note 21) | 29,820 | 50,670 |
| — Bank guarantee | 35 | — |

## 21 TRADE AND OTHER PAYABLES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Trade payables | **487,899** | 556,473 |
| Bills payable | **29,820** | 50,670 |
| Trade and bills payables | **517,719** | 607,143 |
| Accrued salaries and wages | **37,088** | 33,215 |
| Payables for purchase of property, plant and equipment | **66,809** | 73,173 |
| Retirement benefit contribution payable | **25,524** | 25,524 |
| VAT payables | **228** | 1,198 |
| Other payables and accruals | **108,460** | 77,164 |
| | **755,828** | 817,417 |

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 18.

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 3 months | **464,589** | 556,082 |
| Over 3 months but within 6 months | **37,912** | 33,549 |
| Over 6 months but within 1 year | **3,550** | 2,726 |
| Over 1 year | **11,668** | 14,786 |
| | **517,719** | 607,143 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 22 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to IFRS 16:

| | **31 December 2019** | | 1 January 2019 (Note) | |
|---|---|---|---|---|
| | **Present value of the minimum lease payments RMB'000** | **Total minimum lease payments RMB'000** | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Within 1 year | **537** | **548** | 1,526 | 1,562 |
| After 1 year but within 2 years | **—** | **—** | 504 | 535 |
| | **537** | **548** | 2,030 | 2,097 |
| Less: total future interest expenses | | **(11)** | | (67) |
| Present value of lease liabilities | | **537** | | 2,030 |

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to IFRS 16 are set out in note 2.

## 23 CONTRACT LIABILITIES

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 2019 is expected to be recognised as revenue within one year.

## 24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| At 1 January | **134,485** | 83,981 |
| Provision for PRC Corporate Income Tax (note 7(a)) | **224,709** | 206,848 |
| | **359,194** | 290,829 |
| PRC Corporate Income Tax paid | **(207,038)** | (156,344) |
| At 31 December | **152,156** | 134,485 |

## 24 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 trade receivables RMB'000 | Undistributed profits of PRC subsidiaries RMB'000 | Total RMB'000 |
| At 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 and 1 January 2019 | **4,583** | **1,433** | **(19,922)** | **(13,906)** |
| Credited/(charged) to consolidated statement of profit or loss and other comprehensive income | **14,807** | **—** | **(30,450)** | **(15,643)** |
| Released upon distribution of dividends | **—** | **—** | **28,569** | **28,569** |
| At 31 December 2019 | **19,390** | **1,433** | **(21,803)** | **(980)** |

Reconciliation to the consolidated statement of financial position:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Deferred tax assets | **20,823** | 6,016 |
| Deferred tax liabilities | **(21,803)** | (19,922) |
| | **(980)** | (13,906) |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 24 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 2019, deferred tax liabilities in respect of temporary differences relating to such undistributed profits of RMB2,227,267,000 (2018: RMB1,984,097,000) 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 2019 and 2018.

## 25 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **142,492** | 139,600 |
| **Current assets** | | | |
| Amount due from a subsidiary | | **186,138** | 437,744 |
| Prepayments and other receivables | | **198** | 207 |
| Cash and cash equivalents | | **4,603** | 5,182 |
| | | **190,939** | 443,133 |
| **Current liabilities** | | | |
| Amount due to a subsidiary | | **2,275** | 2,229 |
| Other payables and accruals | | **80** | 162 |
| | | **2,355** | 2,391 |
| **Net current assets** | | **188,584** | 440,742 |
| **Net assets** | | **331,076** | 580,342 |
| **Capital and reserves** | 26(b) | | |
| Share capital | 26(a) | **105,517** | 105,517 |
| Reserves | | **225,559** | 474,825 |
| **Total equity** | | **331,076** | 580,342 |

## 26 CAPITAL, RESERVES AND DIVIDENDS

### (a) Share capital

| | 2019<br>HK$'000 | 2018<br>HK$'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:

| | Number of shares<br>'000 | Nominal value of ordinary shares<br>HK$'000 | RMB'000 |
|---|---|---|---|
| Issued and fully paid: | | | |
| At 1 January 2018 | 1,197,214 | 119,721 | 105,492 |
| Cancellation of shares bought back | (259) | (26) | (21) |
| Issues of shares on exercise of share options | 530 | 53 | 46 |
| At 31 December 2018, 1 January 2019 and 31 December 2019 | **1,197,485** | **119,748** | **105,517** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 26 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 26(a)) RMB'000 | Share premium (note 26(d)(i)) RMB'000 | Capital reserve (note 26(d)(iii)) RMB'000 | Exchange reserve (note 26(d)(iv)) RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| At 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 | | (21) | – | 21 | – | – | – |
| Shares issued under share option scheme | | 46 | 4,315 | (1,275) | – | – | 3,086 |
| Dividends approved in respect of the previous year | 26(c) | – | – | – | – | (252,712) | (252,712) |
| Dividends declared in respect of the current year | 26(c) | – | – | – | – | (241,853) | (241,853) |
| At 31 December 2018 and 1 January 2019 | | **105,517** | **31,411** | **996** | **(28,869)** | **471,287** | **580,342** |
| Changes in equity for 2019: | | | | | | | |
| Total comprehensive income for the year | | **–** | **–** | **–** | **16,780** | **345,506** | **362,286** |
| Dividends approved in respect of the previous year | 26(c) | **–** | **–** | **–** | **–** | **(328,196)** | **(328,196)** |
| Dividends declared in respect of the current year | 26(c) | **–** | **–** | **–** | **–** | **(283,356)** | **(283,356)** |
| At 31 December 2019 | | **105,517** | **31,411** | **996** | **(12,089)** | **205,241** | **331,076** |

## 26 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (c) Dividends

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Interim dividend declared and paid of HK18 cents (2018: HK16 cents) per share | **196,170** | 168,246 |
| Special interim dividend declared and paid of HK8 cents (2018: HK7 cents) per share | **87,186** | 73,607 |
| Final dividend proposed after the end of the reporting period of HK21 cents (2018: HK21 cents) per share | **225,444** | 222,326 |
| Special final dividend proposed after the end of the reporting period of HK10 cents (2018: HK10 cents) per share | **107,355** | 105,870 |
| | **616,155** | 570,049 |

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:*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year of HK21 cents (2018: HK18 cents) per share | **222,326** | 174,954 |
| Special final dividend in respect of the previous financial year of HK10 cents (2018: HK8 cents) per share | **105,870** | 77,758 |
| | **328,196** | 252,712 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 26 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(o)(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(s).

### (e) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$248,358,000, equivalent to approximately RMB236,652,000 (2018: HK$539,816,000, equivalent to approximately RMB502,698,000).

## 26 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.

## 27 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The share option scheme adopted by the Company on 4 September 2009 expired on 3 September 2019 and there was no share option outstanding thereunder during the year ended 31 December 2019.

The Company has adopted a new share option scheme (the "2019 Share Option Scheme") pursuant to an ordinary resolution passed by the shareholders in the extraordinary general meeting on 23 April 2019. Pursuant to the 2019 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 119,748,491 shares.

No share options had been granted under the 2019 Share Option Scheme during the year ended 31 December 2019.

## 29 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 and pledged bank deposits 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.

#### *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 90 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, 4.6% (2018: 5.6%) and 15.7% (2018: 15.4%) 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.

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

### (a) Credit risk (Continued)

***Trade and bills receivables (Continued)***

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

| | 2019<br>Expected loss rate<br>% | 2019<br>Gross carrying amount<br>RMB'000 | 2019<br>Loss allowance<br>RMB'000 |
|---|---|---|---|
| Current (not past due) | **0.5%** | **951,701** | **4,610** |
| Less than 3 months or equal to 3 months past due | **7.9%** | **9,335** | **739** |
| Past due over 3 months | **70.0%** | **5,436** | **3,805** |
| | | **966,472** | **9,154** |

| | 2018<br>Expected loss rate<br>% | 2018<br>Gross carrying amount<br>RMB'000 | 2018<br>Loss allowance<br>RMB'000 |
|---|---|---|---|
| Current (not past due) | 0.6% | 825,526 | 5,073 |
| Less than 3 months or equal to 3 months past due | 16.5% | 2,499 | 412 |
| Past due over 3 months | 100.0% | 3,669 | 3,669 |
| | | 831,694 | 9,154 |

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.

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

At 31 December 2019, the Group had endorsed bank acceptance bills to its suppliers totalling RMB325,668,000 (2018: RMB329,440,000), 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 RMB325,668,000 (2018: RMB329,440,000) before these bills mature by 30 June 2020.

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

### (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.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **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 | **755,828** | **755,828** | 817,417 | 817,417 |
| Lease liabilities (note) | **548** | **537** | — | — |
| | **756,376** | **756,365** | 817,417 | 817,417 |

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17 other than those short-term leases. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated (see note 2).

### (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 2019 and 2018.

## 30 COMMITMENTS

**(a)** Capital commitments of the Group in respect of property, plant and equipment, and computer system and software outstanding at 31 December 2019 not provided for in the financial statements were as follows:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Contracted for | **104,016** | 55,247 |
| Authorised but not contracted for | **318,062** | 346,079 |
| | **422,078** | 401,326 |

**(b)** At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | Properties RMB'000 |
|---|---|
| Within one year | 1,836 |
| After one year but within two years | 503 |
| | 2,339 |

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases except short-term leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(f), and the details regarding the Group's future lease payments are disclosed in note 22.

## 31 MATERIAL RELATED PARTY TRANSACTIONS

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

On 19 December 2016, the Group entered into a three year lease in respect of certain leasehold properties with Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian") 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 2019, total rental paid or payable by the Group under the tenancy agreement amounted to RMB3,240,000 (2018: RMB3,240,000). This related party transaction constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 31 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

On 16 December 2019, the Group entered into a new tenancy agreement ("New Tenancy Agreement") with Jinlang Fujian for the lease of the premises for a term from 1 January 2020 to 30 June 2021 at a monthly rent of RMB286,000. Pursuant to the New Tenancy Agreement, the Group may terminate the New Tenancy Agreement at any time during the term of the New Tenancy Agreement by serving not less than one month prior written notice to Jinlang Fujian. Assuming that the early termination option will not be exercised, the present value of the rent payable for the entire term under the New Tenancy Agreement to be recognised as a right-of-use asset by the Group pursuant to IFRS 16 amounts to approximately RMB4,979,000. The tenancy arrangement contemplated under the New Tenancy Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transaction and Connected Transaction" of the Report of the Directors.

As at 31 December 2019, the rental prepayment to Jinlang Fujian amounted to RMB3,432,000.

## 32 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.

## 32 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (c) Income taxes (Continued)

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.

### (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 29(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.

## 33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: assessing our suppliers' readiness; communicating with distributors to follow closely their sales performance; reduce the production of the 2020 fall products to facilitate the destocking of the spring channel inventories. The Group will keep our contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak has adversely impacted the sales, some debtors' repayment abilities and turnover of inventory. As the extent to which the coronavirus outbreak will continue is uncertain, it is not practicable to estimate the full financial effect that the coronavirus outbreak may have on the Group's businesses as at the date when the financial statement is authorised to issue.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi)

## 34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to IFRS 3, *Definition of a business* | 1 January 2020 |
| Amendments to IAS 1 and IAS 8, *Definition of material* | 1 January 2020 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## 35 SUBSIDIARIES

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of company | Place of incorporation/ establishment and operation | Particular of issued and fully paid-up capital | 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. | 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 |

(Expressed in Renminbi)

## 35 SUBSIDIARIES (CONTINUED)

| Name of company | Place of incorporation/ establishment and operation | Particular of issued and fully paid-up capital | Proportion of ownership interest | | | Principal activities |
|---|---|---|---|---|---|---|
| | | | Group's effective interest | Held by the Company | Held by a subsidiary | |
| 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 |
| Bujiandan (Xiamen) Garment CO., Ltd. | The PRC | US$27,000,000 | 100% | – | 100% | Wholesaling of menswear and accessories |

Notes:

(a) Except for Xizang Lilang, all entities established in the PRC are wholly foreign owned enterprises. Xizang Lilang is a limited liability company 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 2019. There is no particular requirement on the timing of the contribution.

## 36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, 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)

| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000 | **2019<br>RMB'000** |
|---|---|---|---|---|---|
| **Revenue** | 2,689,093 | 2,411,638 | 2,441,057 | 3,167,872 | **3,658,471** |
| Profit from operations | 794,143 | 663,353 | 668,946 | 881,863 | **979,795** |
| Net finance income | 69,441 | 83,423 | 52,543 | 63,376 | **44,168** |
| Profit before taxation | 863,584 | 746,776 | 721,489 | 945,239 | **1,023,963** |
| Income tax | (238,419) | (206,912) | (110,450) | (194,045) | **(211,783)** |
| **Profit for the year** | 625,165 | 539,864 | 611,039 | 751,194 | **812,180** |
| **Earnings per share** | | | | | |
| Basic (cents) | 51.83 | 44.66 | 50.71 | 62.74 | **67.82** |
| Diluted (cents) | 51.77 | 44.66 | 50.71 | 62.74 | **67.82** |
| **Assets and liabilities** | | | | | |
| Non-current assets | 411,455 | 553,346 | 745,849 | 925,329 | **1,032,680** |
| Net current assets | 2,538,461 | 2,507,484 | 2,430,996 | 2,494,452 | **2,595,402** |
| Total assets less current liabilities | 2,949,916 | 3,060,830 | 3,176,845 | 3,419,781 | **3,628,082** |
| Non-current liabilities | 38,718 | 49,268 | 35,114 | 19,922 | **21,803** |
| **Net asset** | 2,911,198 | 3,011,562 | 3,141,731 | 3,399,859 | **3,606,279** |
| **Capital and reserves** | | | | | |
| Share capital | 106,458 | 106,467 | 105,492 | 105,517 | **105,517** |
| Reserves | 2,804,740 | 2,905,095 | 3,036,239 | 3,294,342 | **3,500,762** |
| **Total equity** | 2,911,198 | 3,011,562 | 3,141,731 | 3,399,859 | **3,606,279** |

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated. See note 2 to the consolidated financial statements.

## REVIEW OF ANNUAL RESULTS

The results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The 2019 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, 19 March 2020