CHINA LILANG LIMITED
中國利郎有限公司

Stock Code:1234

2018

INTERIM
REPORT

LILANZ

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018 (RMB million)	2017 (RMB million)	Changes (%)
Revenue	**1,293.1**	1,022.3	+26.5
Gross profit	**541.9**	436.3	+24.2
Profit from operations	**381.4**	296.6	+28.6
Profit for the period	**340.7**	270.6	+25.9
	(RMB cents)	(RMB cents)	(%)
Earnings per share			
— Basic	**28.5**	22.4	+27.2
— Diluted	**28.5**	22.4	+27.2
Interim dividend per share	**HK16 cents**	HK13 cents	+23.1
Special interim dividend per share	**HK7 cents**	HK5 cents	+40.0
	(%)	(%)	(% points)
Gross profit margin	**41.9**	42.7	-0.8
Operating profit margin	**29.5**	29.0	+0.5
Net profit margin	**26.3**	26.5	-0.2
Return on average shareholders' equity[(1)]	**10.7**	8.9	+1.8
Effective tax rate	**19.1**	15.6	+3.5
Advertising and promotional expenses and renovation subsidies (as percentage of revenue)	**9.5**	9.7	-0.2
	Six months ended 30 June 2018	Year ended 31 December 2017	Six months ended 30 June 2017
Average inventory turnover days[(2)]	**78**	79	80
Average trade receivables turnover days[(3)]	**85**	83	99
Average trade payables turnover days[(4)]	**81**	87	90

Notes:

(1) Return on average shareholders' equity is equal to profit for the period 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 relevant period.

(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 relevant period.

(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 relevant period.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The global economy grew steadily during the first half of 2018. However, escalating trade friction from rising protectionism, coupled with gradual monetary tightening, have precipitated uncertainties in the economic outlook. During the period, the economy in China maintained steady expansion. Specifically, the country registered GDP growths of 6.8% and 6.7% for the first and second quarter, respectively, and of 6.8% for the first half of the year. Employment continued to improve, and consumer prices increased modestly. Urban and rural residents experienced relatively rapid income growth.

Consumer confidence in China strengthened as consumption upgrades continued. Total retail sales of consumer goods rose 9.4% year on year during the first half of the year. Total retail sales of apparel, footwear, headwear and knitwear increased by 9.2% year on year, faster than that for the full year of 2017. For the first five months of this year, the consumer confidence index stood at 122.9, 16.1 points higher than the average over the years since 2012. Of which, the consumer satisfaction index, which measures consumers' perceptions of current consumption momentum, stood at 118.1, 16.7 points higher than the average over the years since 2012. In terms of the constituent indices, the consumer income confidence index, the employment confidence index and the consumption sentiment index stood at 120.9, 126.4 and 114.3, respectively, all at relatively high levels historically.

China Lilang Limited (the "Company" or "China Lilang", together with its subsidiaries, the "Group") achieved all-round improvements in its performances amid recovery of the consumer market. For the first half ended 30 June 2018, revenue was up by 26.5% year on year to RMB1,293.1 million, while net profit was up by 25.9% to RMB340.7 million. The improvements primarily reflected the continuing outperformance of retail sales of "LILANZ" over the industry peers, and channel inventory maintained at a healthy level. This boosted confidence among distributors, resulting in satisfactory growths of trade fair orders and sales for the Group. Net

profit margin shrank slightly by 0.2 percentage point to 26.3%. Earnings per share were RMB28.5 cents, up by 27.2%.

The operations of the Group continued to improve during the period. The retail channel was upgraded further, the store count increased and store operating efficiency enhanced. For the first half of the year, retail stores in operation for more than 18 months recorded high single-digit same-store sales growth. The Group implemented its market expansion plan as scheduled and added 102 stores during the first half of the year, optimized the store networks in the existing markets as well as expanded to new markets. During the first half of 2018, the core collection was launched in new markets in Jiaodong Peninsula and Southern Jiangsu through distributors. The smart casual collection was introduced in new regions including Nanjing and Suzhou. In addition, the smart casual collection has adopted in full starting from the first half of 2018 a consignment model to facilitate rapid expansion of the retail network. The preparation work for the new retail business has been in progress and online stores for the smart casual collection have started trial operation.

During the period, the Group remained financially robust with healthy cash flows. The Board of Directors has resolved to distribute payment of an interim dividend of HK16 cents per share and a special interim dividend of HK7 cents per share, thereby maintaining a relatively high payout.

FINANCIAL REVIEW

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Revenue for the period increased by 26.5% to RMB1,293.1 million. Revenue of "LILANZ" increased by 27.0% to RMB1,279.9 million, primarily reflecting strong growth in trade fair orders for the 2018 spring/summer and fall collections. Sales of the stores operated by distributors performed well. For the first half of the year, stores in operation for more than 18 months recorded high single-digit same-store sales growth. In addition, the new stores and the retail floor space added also contributed to the sales growth.

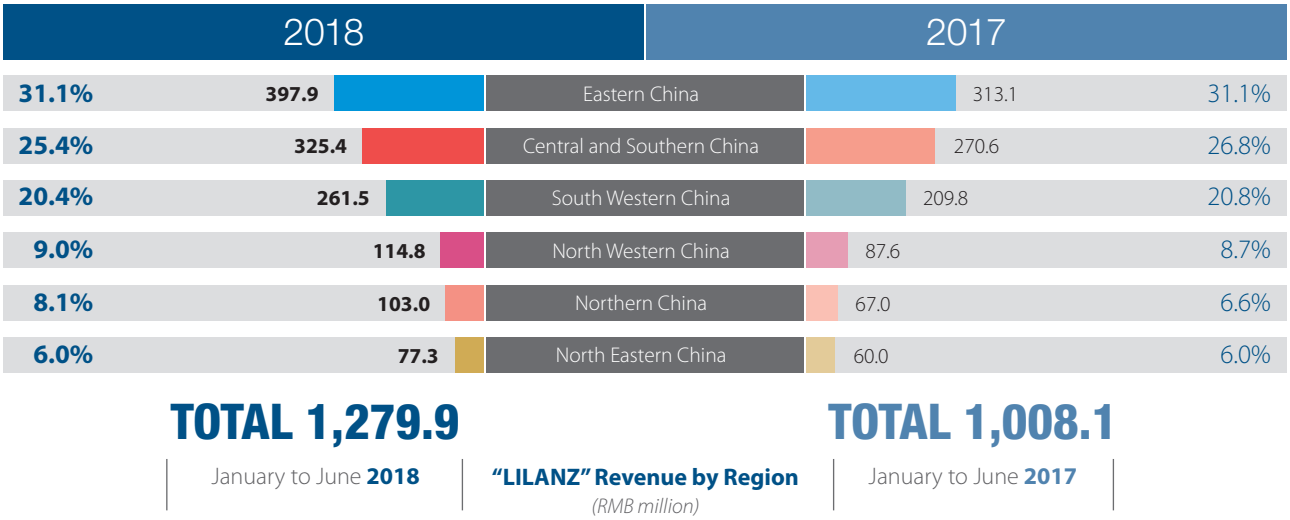
By product category, tops remained the major sales contributor, accounting for 52.7% of the revenue of "LILANZ", with a 18.3% growth in sales.

Sales of accessories experienced significant growth and comprised over 15.0% of the revenue of "LILANZ", with more than 70% came from footwear and innerwear products. Over the years, the Group has been stepping up its effort in research and development of footwear and innerwear products. Products launched are well received by the market and sales continue to grow. As these two product categories are less susceptible to seasonality, the majority of the new products for the fall collection were shipped in June and hit retail shelves in July, resulting in a significant increase in sales of accessories during the period.

Revenue by region for the period was set out below:

	For the six months ended 30 June				
	2018		2017		Changes
Region	**RMB million**	**% of revenue**	RMB million	% of revenue	%
Northern China [1]	**103.0**	**8.1%**	67.0	6.6%	53.7%
North Eastern China [2]	**77.3**	**6.0%**	60.0	6.0%	28.8%
Eastern China [3]	**397.9**	**31.1%**	313.1	31.1%	27.1%
Central and Southern China [4]	**325.4**	**25.4%**	270.6	26.8%	20.3%
South Western China [5]	**261.5**	**20.4%**	209.8	20.8%	24.6%
North Western China [6]	**114.8**	**9.0%**	87.6	8.7%	31.1%
Sub-total of "LILANZ"	**1,279.9**	**100.0%**	1,008.1	100.0%	27.0%
"L2"	**13.2**		14.2		
Total of the Group	**1,293.1**		1,022.3		26.5%

(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 28.2% to RMB751.2 million. As sales increased, subcontracting charges rose 50.0% to RMB111.3 million during the first half of the year.

Gross profit margin stood at 41.9%, down by 0.8 percentage point. The Group's strategy is to offer consumers products of excellent value-for-the-money so as to gain market. Also, the gross profit margin of the smart casual collection was relatively lower.

Other Income

Other net income amounted to RMB42.1 million, which comprised mainly government grants of RMB37.8 million (first half of 2017: RMB36.2 million). The net income for the same period last year included a write-back of RMB7.7 million in relation to cleaning up of trade payables of "L2". The entitlements to the government grants were unconditional and under the discretion of relevant authorities.

Selling and Distribution Expenses

Selling and distribution expenses increased by 18.9% to RMB152.9 million, and accounted for 11.8% of the total revenue, down by 0.8 percentage point. Advertising expenses and renovation subsidies, the major component of selling and distribution expenses, increased by RMB24.0 million to RMB123.2 million during the period. This reflected higher advertising expenses and also increased renovation expenditure as 253 stores with larger floor areas on average were opened during the period. Advertising expenses and renovation subsidies accounted for 9.5% of the total revenue, down by 0.2 percentage point.

Administrative Expenses

Administrative expenses amounted to RMB46.7 million, down by RMB5.0 million year on year. Expenses for the same period of 2017 had included a provision for trade receivables of RMB9.2 million. Administrative expenses accounted for 3.6% of the total revenue, down by 1.5 percentage points.

Other Operating Expenses

Other operating expenses mainly comprised charitable donations of RMB2.7 million (first half of 2017: RMB3.0 million).

Profit from Operations

Profit from operations increased by 28.6% to RMB381.4 million, which was mainly driven by the increase in sales. Operating margin was up by 0.5 percentage point to 29.5%.

Finance Income

Net finance income was RMB39.5 million for the period, up by RMB15.6 million year on year. Excluding the exchange loss of RMB6.1 million incurred in the first half of 2017, net finance income would have increased by RMB9.5 million, reflecting the strong cash position of the Group and the higher bank deposit interest rate during the period.

Income Tax

The effective income tax rate was 19.1% for the period, up by 3.5 percentage points. The concessionary income tax rates enjoyed by two of the Group's PRC subsidiaries in their local domiciles were raised in 2018. In addition, one of the Group's PRC subsidiaries was granted the "Advanced and New Technology Enterprise" status and continued to enjoy a lower income tax rate for 2018.

Net profit was RMB340.7 million for the period, up by 25.9%. Net profit margin slightly declined by 0.2 percentage point to 26.3%.

Earnings per Share

Earnings per share were RMB28.5 cents, up by 27.2%.

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The Board has resolved to distribute payment of an interim dividend of HK16 cents (first half of 2017: HK13 cents) per ordinary share and a special interim dividend of HK7 cents (first half of 2017: HK5 cents) per ordinary share in respect of this financial year, making it a total dividend payment of approximately HK$275.4 million (equivalent to approximately RMB232.8 million). The interim dividend and special interim dividend will be paid in cash on or around 14 September 2018 to shareholders whose names appear on the register of members of the Company on 31 August 2018.

BUSINESS REVIEW

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Through "LILANZ" retail stores operated by distributors, the Group establishes a distinctive brand image, provides professional retail services, and raises consumers' spending desire so as to boost sales. The wholesale model has been adopted for the core collection while the consignment model has been adopted for the smart casual collection.

During the period, the Group continued to promote upgrading of its sales channel and worked with its distributors in planning of distribution, locations and store counts, and pragmatically supported distributors to optimizing their retail networks. Wherever necessary, stores were relocated to better locations to improve store efficiency. The Group continued to encourage distributors to open large-scale stores in shopping malls in provincial capitals and prefectural-level cities in response to new consumption patterns. The number of stores in shopping malls increased to more than 430 by the end of June 2018, accounting for over 17.1% of the total number of stores, and their sales performance was in line with expectations.

As at the end of June 2018, "LILANZ" had a total of 2,512 retail stores nationwide, adding 102 stores during the period, and the aggregate retail floor area increased by 11.4% as compared to the end of 2017 to about 344,900 square meters (31 December 2017: 309,600 square meters). Among them, there were 154 specialty stores for the smart casual collection, up by 65 stores.

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

	Number of stores			
Region	**As at 1 January 2018**	**Opened during the period**	**Closed during the period**	**As at 30 June 2018**
Northern China	245	30	18	**257**
North Eastern China	221	14	21	**214**
Eastern China	639	88	40	**687**
Central and Southern China	600	56	32	**624**
South Western China	470	31	25	**476**
North Western China	235	34	15	**254**
Total	2,410	253	151	**2,512**

In order to maintain a unified brand image in distribution network, renovation of all stores including designs and decoration materials is provided by the Group. Currently, all "LILANZ" stores have adopted the sixth-generation store image. Standards are also set for all aspects of daily operations in the stores. The Group is also committed to assisting distributors in upgrading of in-store product displays and retail services to improve shopping experiences of consumers. The Group continues to monitor channel sales and inventory through the ERP system, which connects to all standalone stores. Now the channels and inventory are healthy and retail discount rates are maintained at satisfactory levels.

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

The Group has established stable relationships with its distributors, and all distributors of "LILANZ" have maintained business relationships with the Group for over a decade. As at 30 June 2018, "LILANZ" had 74 distributors and 853 sub-distributors. The number of stores operated by distributors increased to 1,259, reflecting the Group's growing foothold in the first- and second-tier cities and an accomplishment from the upgrading of retail management promulgated by the Group, in which distributors are encouraged to increase their direct retail presences, phasing out selected sub-distributors with sub-optimal management standards.

	30 June 2018		31 December 2017	
	Number of distributors	**Number of stores**	Number of distributors	Number of stores
Self-operated stores	**—**	**1**	—	1
Distributors	**74**	**1,259**	72	1,109
Sub-distributors	**853**	**1,252**	898	1,300
Total number of stores		**2,512**		2,410
Street stores and stores in shopping malls		**2,182**		2,071
Shop-in-shops in department stores		**330**		339
Total number of stores		**2,512**		2,410

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The online shopping market in China has been developing rapidly. Meanwhile, consumers attach greater importance to retail services and shopping experiences. The Group continues to develop its new retail business, putting it on top priorities for future business development. Leveraging the brand competitiveness of "LILANZ", the positioning of the smart casual collection and its strong growth momentum bode well for development on the online platform. The Group is in the middle of preparing to launch its new retail business in the fourth quarter featuring the smart casual collection, and the online stores have commenced trial operation since July.

New retail refers to a new concept of running retail business by integrating online services with offline shopping experiences and logistics. The Group will develop its own new retail model along this direction featuring the smart casual collection and selling the same collections online at the same prices as in offline stores, while the purchases are delivered direct to homes or available for pick-ups at stores. This is expected to bring in sales growth in the coming three to five years.

The flagship store in "T-MALL" for the "LILANZ" core collection is open for business as usual. The Group also provides home delivery services to VIP customers who make purchases via a customer relationship management system operating on the WeChat platform. Except for off-season products, the products and prices offered online were the same as those in the bricks-and-mortar stores.

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The Group continues to enhance the personality-themed designs and the proportion of original design products in the total product mix, with an aim to offer better value-for-the-money of its products and differentiate better from its peers, thereby improving its competitiveness. Original design products are expected to account for close to the 70% target of the total product mix available for sale in 2018, of which the proportion utilizing fabrics proprietarily developed by the Group rose further to about 45%, which is close to the 50% target level.

Meanwhile, the international and domestic research and development teams of the Group continue to show their respective talents in designs of products for the core and smart casual collections that offer excellent value-for-the-money and meet consumers' preferences. There are currently about 300 staff members in the research and development department of the Group. They work in areas including product design, material development and production scheduling, seeking to increase the Group's competitiveness as a whole.

After several years of investments in research and development, the footwear and innerwear products of the Group are well received by the market. Sales of these products for the period grew remarkably and helped to reduce seasonal impacts of products on sales at retail stores. In June, the Group added a production line for leisure footwear in the Wuli Plant. This not only helps control production costs more effectively and facilitates application of patents for self-developed footwear products and therefore enhances product competitiveness, but will also increase flexibility of the supply chain to allow more rapid turnaround of production orders for the smart casual collection in the future when the business scale of the smart casual collection reaches a certain level.

The Group's new headquarters in Jinjiang, Fujian has gone through the topping out stage in terms of construction progress and is expected to commence operation upon completion of refurbishment works in the second half of 2019. The design and operation center in Shanghai for the smart casual collection is expected to commence operation in the second half of 2018 as scheduled.

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

The Group manages its brand mainly through focusing on its products and store image, and continues to enhance brand awareness by opening large-scale stores. Meanwhile, the Group continues to implement targeted brand advertising and promotion campaigns. During the period, the Group placed outdoor billboard advertisements in Electric Multiple Unit ("EMU") running the Beijing-Shanghai EMU line, at Wuyishan EMU Station, Nasdaq Tower in New York in the U.S. and Jingxin Square in Beijing. Meanwhile, the Group also continued to place feature product articles on the traditional print media and web portals. The Group also made use of the WeChat platform to share mix-and-match fashion tips and introduce new season products to entice followers. Furthermore, lucky draws for VIP shoppers were held during the World Cup in June to early July and 20 winners were awarded for free trips to Russia to watch the World Cup.

In May, "LILANZ", being a menswear brand with over three decades of history, was listed among the CCTV series "The Making of a Great Brand (大國品牌養成記)", advertising campaigns were also launched by the Group on the same topic.

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As retail sales of "LILANZ" continues to outperform other industry peers and channel inventory has been at a healthy level, the distributors have high confidence in the Group's products and the store count has returned to a growth trajectory. In the two trade fairs held during the period for 2018 fall and 2018 winter respectively, and together with the trade fair for 2018 spring and summer, "LILANZ" achieved strong order growth for three consecutive trade fairs.

Trade fairs	Total order value growth (based on wholesale prices)
2018 spring and summer	21%
2018 fall	31%
2018 winter	33%

The 2019 spring and summer trade fair will commence on 16 August 2018, the Group believes that this fair will achieve order growth of no less than that of the 2018 spring and summer.

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The Group was granted various awards in the first half of the year. In March, the Group was named a "Top 10 PRC Menswear Most Popular Brand in 2017" (2017年度中國男裝熱門品牌十強) by the Organizing Committee of China Garment Network Festival (中國服裝網絡盛典組委會) and www.efu.com.cn (中國服裝網). In April, the Group was accredited as the "Excellent Enterprise in Retail Industry" (零售業卓越企業) in the "Golden Coordinate" (金座標) award organized by winshang.com (贏商網) together with mainstream commercial real estate media in China. In May, the Group was named a "Top 500 Brands in China" (中國品牌500強) by www.asiabrand.cn (亞洲品牌網), and the "LILANZ" brand was also listed on the CCTV series "The Making of a Great Brand" (大國品牌養成記) as a menswear brand with 30 years of history.

PROSPECTS

Looking ahead into the second half of 2018, while the escalating trade friction will add uncertainties to the economic outlook, the economy in China is expected to maintain steady growth, with persistently strengthening consumption power and improving consumer confidence. The Group is cautiously optimistic about the prospects of the menswear industry and believes that stronger players will gather strength. As a menswear enterprise with strengths and competitive edges, China Lilang will continue to grow from strength to strength and gain a larger share in the market.

China Lilang will continue its market expansion plan in the second half of the year, aiming at adding a net total of no less than 200 stores for the whole year as planned. In particular, more stores will be added in shopping malls. For the core collection, in addition to expanding in current markets, the Group will continue to open stores in new markets such as Jiaodong Peninsula, Dalian area and Southern Jiangsu to capture the booming economic development in these regions. The smart casual collection will continue to adopt the consignment model to encourage distributors to speed up store openings in Beijing, Tianjin, Shanghai, Zhejiang, as well as in markets newly developed in the first half of the year such as Nanjing and Suzhou, and also gradually expand into first- and second-tier markets with great potential, such as Zhengzhou, Hefei, Xi'an, Jiangxi and Fujian area.

The Group will continue to develop its new retail business as planned. Leveraging the brand competitiveness of "LILANZ", the positioning of the smart casual collection and its strong business momentum that bode well for development on the online platform, the Group plans to launch its new retail business in the fourth quarter of 2018.

The strategy of "improving product quality without raising prices" adopted by the Group in the past few years has been successful. The original designs and offering of better value-for-the-money of the Group's products are very competitive, establishing a solid footing for further business expansion. In the second half of the year, China Lilang will continue its mission of offering customers products of excellent value-for-the-money, and spare no effort in improving product design, craftsmanship and materials. The Group will also continue to improve its product range and increase the proportion of season-neutral products to drive sales growth.

The Group is confident about ongoing improvement of its retail store efficiency and targets to achieve same-store sales growth of no less than high single-digit for the second half of 2018. The 2019 spring and summer trade fair will commence on 16 August 2018, and the Group is confident that the order growth will not be less than that of the 2018 spring and summer trade fair.

The design and operation centre for the smart casual collection in Shanghai and the new headquarters in Fujian will commence operation this and next year respectively. The entire operation of the Group from product research and development, design, production to sales will usher into a new era by then, thereby establishing a more robust footing for sustainable and faster growth of China Lilang.

In the long run, China Lilang will adhere to its multi-brand strategy and continue to proactively enhance the competitiveness and offering of better value-for-the-money of its products to further consolidate its leading position in the menswear industry, so as to sustain long-term growth and reward its shareholders, employees and customers for their support.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Bank Balance and Cash Flow

	As at 30 June 2018 RMB million	As at 31 December 2017 RMB million
Amounts pledged as security for bills payable	**1.2**	6.8
Fixed deposits held at banks with maturity over three months	**388.0**	188.0
Cash and cash equivalents	**1,484.9**	1,823.3
Total cash and bank balance	**1,874.1**	2,018.1

As at 30 June 2018, the Group's total cash and bank balance was mainly denominated in Renminbi (97.5%).

The decrease in cash and cash equivalents balance by RMB338.4 million during the period was mainly attributable to:

— Net cash generated from operating activities amounting to RMB196.3 million. The major reconciling item between net profit for the period of RMB340.7 million and the amount of operating cash inflow was the increase in trade receivables balance by RMB146.3 million over the period. The trade receivables balance increased by 22.3% as compared to the interim period last year as sales increased by 26.5% year on year. As in previous years, extended credit terms have been granted to distributors during the peak delivery period for the fall and winter collections from June to September.

— Net cash outflows from investing activities amounting to RMB282.0 million comprising mainly increase in fixed deposits with maturity over 3 months of RMB200.0 million and capital expenditure totalling RMB120.9 million, net of interest income received for the period.

— Net cash outflows from financing activities amounting to RMB253.5 million, mainly attributable to the payments of the final dividends totalling RMB252.7 million in respect of the year ended 31 December 2017.

The Group did not have any bank loans outstanding as at 30 June 2018 and 31 December 2017.

Working Capital and Liquidity Data

	Six months ended 30 June 2018	Year ended 31 December 2017	Six months ended 30 June 2017
Average inventory turnover days	**78**	79	80
Average trade receivables turnover days	**85**	83	99
Average trade payables turnover days	**81**	87	90

Inventory Turnover Days

The Group's average inventory turnover days was 78 days which was at a similar level as for last year.

The inventory balance increased by RMB101.8 million to RMB325.5 million compared to the interim period last year primarily reflecting the increase in trade fair orders for the autumn and winter collections. The inventory balance at 30 June 2018 also included consignment inventories of the smart casual collection.

As at 30 June 2018, all "L2" inventories had been cleared.

Trade Receivables Turnover Days

The Group's average trade and bills receivables turnover days was 85 days. This compared to 83 days for the year 2017 and 99 days for the interim period last year.

The trade and bills receivables balance increased by 22.3% as compared to the interim period last year. This reflected the increase in sales during the period. When compared to the balance at the end of 2017, trade receivables increased by RMB146.3 million to RMB783.3 million. As in previous years, extended credit terms have been granted to distributors during the peak delivery period for fall and winter products from June to September.

As at 30 June 2018, all "L2" trade receivables had been settled or written off against provision previously made.

Trade Payables Turnover Days

The Group's average trade and bills payables turnover days was 81 days. This compared to 87 days for the year 2017 and 90 days for the interim period last year.

During the period, early payments were made to some of the suppliers to secure better prices for raw materials for the winter collection.

PLEDGE OF ASSETS

As at 30 June 2018, deposits with banks totalling RMB1.2 million (31 December 2017: RMB6.8 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 30 June 2018, the Group had total capital commitments of RMB191.7 million, primarily related to the construction of the new headquarters which is expected to be completed in 2019.

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

As at 30 June 2018, the Group had no material contingent liabilities.

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 30 June 2018, the Group had 2,240 staff. Total staff costs for the period amounted to approximately RMB89.1 million (the first half of 2017: RMB71.3 million).

The Group places great emphasis on recruiting and training quality personnel. We recruit talents from universities and technical schools and provide pre-employment and on-going training and development opportunities to our staff members. Our training programs cover areas such as sales and production, customer service, quality control, trade fairs planning, workplace ethics and other areas relevant to the industry.

The Group offers competitive remuneration packages to our employees based on factors such as market rates, workload, responsibility, job complexity as well as the Group's performance. The Group has also adopted a share option scheme to recognize, reward and promote the contribution of the employees to the growth and development of the Group.

REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA LILANG LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 16 to 37 which comprises the consolidated statement of financial position of China Lilang Limited (the "Company") as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

13 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Revenue	3	**1,293,097**	1,022,335
Cost of sales		**(751,181)**	(586,015)
Gross profit		**541,916**	436,320
Other net income		**42,118**	44,352
Selling and distribution expenses		**(152,884)**	(128,629)
Administrative expenses		**(46,672)**	(51,693)
Other operating expenses		**(3,095)**	(3,737)
Profit from operations		**381,383**	296,613
Net finance income	4	**39,467**	23,884
Profit before taxation	5	**420,850**	320,497
Income tax	6	**(80,184)**	(49,886)
Profit for the period		**340,666**	270,611
Other comprehensive income for the period			
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")		**(842)**	(918)
Total comprehensive income for the period		**339,824**	269,693
Earnings per share	7		
Basic (cents)		**28.5**	22.4
Diluted (cents)		**28.5**	22.4

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

The notes on pages 21 to 37 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 15.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2018 RMB'000**	31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	8		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018 — unaudited
(Expressed in Renminbi)

	Note	**30 June 2018 RMB'000**	31 December 2017 RMB'000
Capital and reserves			
Share capital		**105,507**	105,492
Reserves		**3,125,745**	3,036,239
Total equity		**3,231,252**	3,141,731

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

The notes on pages 21 to 37 form part of this interim financial report.

Mr. Wang Dong Xing
Chairman

Mr. Wang Liang Xing
Chief Executive Officer

Mr. Wang Cong Xing
Executive Director

Hong Kong, 13 August 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 — unaudited
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 1 January 2017	106,467	27,096	220,171	23,455	(41,324)	2,675,697	3,011,562
Changes in equity for the six months ended 30 June 2017:							
Profit for the period	—	—	—	—	—	270,611	270,611
Other comprehensive income for the period	—	—	—	—	(918)	—	(918)
Total comprehensive income for the period	—	—	—	—	(918)	270,611	269,693
Dividends approved in respect of the previous year	—	—	—	—	—	(232,974)	(232,974)
As at 30 June 2017	106,467	27,096	220,171	23,455			

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**269,640**	257,793
Tax paid	**(73,324)**	(103,311)
Net cash generated from operating activities	**196,316**	154,482
Investing activities		
Payments for the purchases of property, plant and equipment, and intangible assets	**(120,865)**	(60,642)
Interest income received	**38,035**	22,470
Increase in fixed deposits held at banks with maturity over three months	**(200,000)**	—
Other cash inflows arising from investing activities	**829**	459
Net cash used in investing activities	**(282,001)**	(37,713)
Financing activities		
Proceeds from bank loans	**250,000**	87,010
Repayment of bank loans	**(250,000)**	(87,010)
Dividends paid	**(252,712)**	(232,974)
Interest expense paid	**(3,223)**	(3,646)
Net proceeds from shares issued under share option scheme	**2,409**	—
Net cash used in financing activities	**(253,526)**	(236,620)
Net decrease in cash and cash equivalents	**(339,211)**	(119,851)
Cash and cash equivalents at 1 January	**1,823,281**	1,613,658
Effect of foreign exchange rate changes	**798**	(3,050)
Cash and cash equivalents at 30 June	**1,484,868**	1,490,757

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

The notes on pages 21 to 37 form part of this interim financial report.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

( ) IF 9, F nanc a n n (c n n)

(i) Classification of financial assets and financial liabilities (continued)

— FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

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

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

The measurement categories for all financial liabilities remain the same.

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

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

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

( ) IF 9, F nanc a n n (c n n)

(ii) Credit losses

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

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

Measurement of ECLs

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

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

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

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

ECLs are measured on either of the following bases:

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

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

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

( ) IF 9, F narc a n n (c n n)

(ii) Credit losses (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, 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 instruments 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 instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

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

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

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

— significant financial difficulties of the debtor;

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

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

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

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

3. REVENUE

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

4. NET FINANCE INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest income	**42,584**	33,570
Interest on bank borrowings	**(3,223)**	(3,614)
Net foreign exchange gain/(loss)	**106**	(6,072)
	39,467	23,884

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Amortisation of lease prepayments	**1,191**	1,192
Amortisation of intangible assets	**1,275**	1,298
Depreciation	**13,254**	10,998
Research and development costs	**37,192**	36,544
Subcontracting charges (note (i))	**111,253**	74,200
Provision for doubtful debts	**—**	9,239

Note (i): Subcontracting charges include service charges and auxiliary raw material costs payable to subcontractors.

6. INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax — PRC Corporate Income Tax	**80,685**	50,163
Deferred tax	**(501)**	(277)
	80,184	49,886

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and 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 six months ended 30 June 2018 and 2017.

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

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

9. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Net book value, as at 1 January	**101,549**	25,145
Transfer from property, plant and equipment (note 8)	**—**	78,638
Depreciation charge for the period	**(1,369)**	(864)
Net book value, as at 30 June	**100,180**	102,919

The investment properties are located in the PRC under medium-term leases.

Investment properties are stated at cost less accumulated depreciation and impairment losses. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the shorter of the respective unexpired terms of the leases and their estimated useful lives, being no more than 40 years after the date of completion.

10. LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Net book value, as at 1 January	**105,149**	107,533
Amortisation for the period	**(1,191)**	(1,192)
Net book value, as at 30 June	**103,958**	106,341

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.

11. INVENTORIES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Raw materials	**127,226**	104,056
Work in progress	**80,626**	82,927
Finished goods	**117,665**	136,350
	325,517	323,333

12. TRADE AND OTHER RECEIVABLES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	**791,503**	696,000
Less: Provision for doubtful debts	**(9,154)**	(75,903)
	782,349	620,097
Bills receivable	**1,000**	16,900
Trade and bills receivables net of provision for doubtful debts	**783,349**	636,997
Prepayments to suppliers	**61,331**	17,792
Prepaid advertising expenses	**7,773**	2,974
VAT deductible	**10,447**	36,353
Other deposits, prepayments and receivables	**26,399**	14,151
	889,299	708,267

Trade and other receivables net of provision for doubtful debts are expected to be recovered or recognised as expense within one year.

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

An ageing analysis of the trade and bills receivables, based on the invoice date and net of provision for doubtful debts, is as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**688,523**	582,713
Over 3 months but within 6 months	**67,080**	30,848
Over 6 months but within 1 year	**27,746**	23,436
	783,349	636,997

The Group grants a credit period of 60 to 240 days to its customers.

13. PLEDGED BANK DEPOSITS

Bank deposits have been pledged as security for bills payable (see note 14). The pledged bank deposits will be released upon the settlement of the relevant bills payable.

14. TRADE AND OTHER PAYABLES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade payables	**330,910**	313,753
Bills payable	**4,070**	22,770
	334,980	336,523
Receipts in advance (note)	**—**	20,562
Accrued salaries and wages	**20,433**	27,690
Payables for purchase of property, plant and equipment	**61,933**	51,107
Retirement benefit contribution payable	**25,524**	25,524
VAT payables	**12,735**	2,994
Other payables and accruals	**105,905**	70,335
	561,510	534,735

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

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 (see note 13).

14. TRADE AND OTHER PAYABLES (CONTINUED)

An ageing analysis of the Group's trade and bills payable based on the invoice date is as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**298,381**	283,220
Over 3 months but within 6 months	**10,535**	33,403
Over 6 months but within 1 year	**10,531**	2,218
Over 1 year	**15,533**	17,682
	334,980	336,523

15. DIVIDENDS

Dividends payable to shareholders of the Company attributable to the period:

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Declared and payable after interim period:		
Interim dividend of HK16 cents per ordinary share (2017: HK13 cents per ordinary share)	**161,925**	135,360
Special interim dividend of HK7 cents per ordinary share (2017: HK5 cents per ordinary share)	**70,842**	52,062
	232,767	187,422

The interim dividend and special interim dividend have not been recognised as liabilities as at 30 June 2018.

Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the period:

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year of HK18 cents per ordinary share (2017: HK16 cents per ordinary share)	**174,954**	169,436
Special final dividend in respect of the previous financial year of HK8 cents per ordinary share (2017: HK6 cents per ordinary share)	**77,758**	63,538
	252,712	232,974

16. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted a Share Option Scheme (the "Scheme") on 4 September 2009. Details of the number and weighted average exercise price of share options granted under the Scheme during the period are as follows:

	Exercised price	No. of options
Outstanding at 1 January 2017 and 30 June 2017	HK$6.63	530,000
Outstanding at 1 January 2018	**HK$6.63**	**530,000**
Exercised during the period	**HK$6.63**	**(430,000)**
Outstanding at 30 June 2018	**HK$6.63**	**100,000**

The share options outstanding under the Scheme at 30 June 2018 had a weighted average remaining contractual life of 0.4 year.

17. CAPITAL COMMITMENTS

As at 30 June 2018, capital commitments not provided for in the interim financial report are as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Contracted for	**113,239**	123,602
Authorised but not contracted for	**78,440**	164,453
	191,679	288,055

18. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group for the period, including amounts paid to the Directors, was as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**3,652**	3,599
Contributions to defined contribution retirement benefit scheme	**54**	54
	3,706	3,653

(b) Transaction with related party

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Recurring transaction		
Lease of land and properties from Jinlang (Fujian) Investments Co., Ltd. ("Jinlang Fujian")	**1,620**	1,620

Jinlang Fujian is effectively 33.3%, 33.3% and 33.4% owned by Mr. Wang Dong Xing, Mr. Wang Liang Xing and Mr. Wang Cong Xing respectively, who are Directors and Controlling Shareholders of the Group, and therefore is considered a related party of the Group.

The Directors are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

19. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standard which may have a impact on the Group's consolidated financial statements.

IF 16, *Leases*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group is in the process of making a detailed assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group currently plans to adopt IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Save as discussed above, all new standards and other amendments to standards issued but not effective are not likely to have a significant impact on the consolidated financial statements.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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As at 30 June 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

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	9,010,000 shares (L)	0.752%
	Xiao Sheng International (Note 2)	Beneficial owner	800 shares of US$1.00 each (L)	8.247%
Mr. Hu Cheng Chu	The Company	Beneficial owner	4,500,000 shares (L)	0.376%
	Xiao Sheng International (Note 2)	Beneficial owner	500 shares of US$1.00 each (L)	5.155%
Mr. Pan Rong Bin	The Company	Beneficial owner	3,051,000 shares (L)	0.255%
	Xiao Sheng International (Note 2)	Beneficial owner	300 shares of US$1.00 each (L)	3.093%

Notes:

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

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

SHARE OPTION SCHEME

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

Details of the Share Option Scheme are set out in the 2017 Annual Report of the Company.

Details of movements of the options under the Share Option Scheme during the period are set out below:

	Options granted by the Company Number of underlying shares					
Name or category of participant	**As at 1 January 2018**	**Exercised**	**As at 30 June 2018**	**Exercise price per share**	**Date of grant**	**Exercise period**
Employee	530,000	(430,000)	100,000	HK$6.63	29 November 2011	Note 1

As at 30 June 2018, the number of shares to be issued upon the exercise of the outstanding options under the Share Option Scheme was 100,000, representing approximately 0.01% of the issued share capital of the Company as at that date.

Note:

1. The outstanding options at 30 June 2018 are exercisable by the grantee prior to the expiry of the exercise period on 29 November 2018, being the day falling seven years after the date of grant, failing which the options will lapse and no longer be exercisable.

CORPORATE GOVERNANCE

The Company had complied with all code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by Directors. The Company has made specific enquiries of all the Directors, who confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2018.

REVIEW OF INTERIM RESULTS

The Audit Committee comprises three independent non-executive Directors. The principal responsibilities of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The interim results of the Group for the six months ended 30 June 2018 have not been audited but they have been reviewed by KPMG, the auditor of the Company, and the Audit Committee.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

BOARD

E c D c

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

In n n- c D c

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

SHARE INFORMATION

Listing date: 25 September 2009
Board lot size: 1,000 shares
Number of shares in issue: 1,197,384,919 shares (as at 30 June 2018)

STOCK CODES:

Hong Kong Stock Exchange	1234
Reuters	1234.HK
Bloomberg	1234 HK

IR CONTACT

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